ANNUAL REPORT 2020

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

Contents

IMPORTANT MESSAGE

I The Board of Directors (the "Directors" or the "Board") and the Supervisory Committee of Sinopec Shanghai Petrochemical Company Limited (the "Company" or "SPC") as well as its Directors, Supervisors and senior management warrant the truthfulness, accuracy and completeness of the information contained in the 2020 annual report, and warrant that there are no false representations or misleading statements contained in, or material omissions from, the 2020 annual report of the Company, and severally and jointly accept responsibility.

II. Directors who have not attended the Board meeting for approving the 2020 annual report of the Company are:

Name of Director	Position	Reasons for Absence	Name of Proxy
Guan Zemin	Vice Chairman, Executive Director	Business Engagement	Wu Haijun
Xie Zhenglin	Non-Executive Director	Business Engagement	Wu Haijun
Peng Kun	Non-Executive Director	Business Engagement	Huang Fei
Gao Song	Independent Non-executive Director	Business Engagement	Yang Jun

III. The financial statements for the year ended 31 December 2020 (the "Reporting Period"), prepared under the People's Republic of China ("PRC" or "China")'s Accounting Standards ("CAS") as well as the International Financial Reporting Standards ("IFRS"), were audited by PricewaterhouseCoopers Zhong Tian LLP and PricewaterhouseCoopers, respectively, and both firms have issued unqualified opinions on the financial statements in their auditors' reports.

IV. Mr. Wu Haijun, Chairman and the responsible person of the Company; Mr. Du Jun, Vice President and Chief Financial Officer overseeing the accounting department; and Ms Yang Yating, person in charge of the Accounting Department (Accounting Chief) and Director of Finance Department hereby warrant the truthfulness and completeness of the financial statements contained in the 2020 annual report.

V. Plan for Profit Distribution or Capital Reserve Capitalisation reviewed by the Board

In 2020, the net profit attributable to equity shareholders of the Company amounted to RMB628,110 thousand under CAS (net profit of RMB645,072 thousand under IFRS). According to the 2020 profit distribution plan approved by the Board on 24 March 2021, the Board proposed to distribute a dividend of RMB0.1 per share (including tax) (the "Final Dividend") based on the total number of issued shares of the Company as at the record date for distributing dividend. The 2020 profit distribution plan will be implemented subject to approval of the Company's 2020 annual general meeting (the "AGM"). The date and time of the AGM and book closure arrangement will be announced later. The notice of the AGM will be announced separately in accordance with the provisions of the Articles of Association of the Company. The notice of the AGM, the accompanying circular and proxy form will be despatched to holders of H shares in accordance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Hong Kong Listing Rules").

Subject to the passing of the resolution by the shareholders of the Company at the AGM, the Final Dividend is expected to be distributed on or around Tuesday, 20 July 2021 to shareholders whose names appear on the Register of Members of the Company's H shares at the close of business on Monday, 28 June 2021. The Final Dividend is denominated and declared in Renminbi. The Final Dividend payable to the holders of the Company's A shares shall be paid in Renminbi while those payable to the holders of the Company's H shares shall be paid in Hong Kong dollars. The amount of Hong Kong dollars payable shall be calculated on the basis of the average closing exchange rates for Hong Kong dollars as announced by the Foreign Exchange Trading Centre of the PRC one calendar week prior to the approval of the Final Dividend at the AGM.

The Company is expected to close the Register of Members of the Company's H shares from Wednesday, 23 June 2021 to Monday, 28 June 2021 (both days inclusive), during which period no transfer of H shares will be registered in order to confirm the shareholders' entitlement to receive the Final Dividend. The holders of the Company's H shares who wish to receive the Final Dividend should lodge the transfer documents and relevant share certificates with the Company's H shares share registrar, Hong Kong Registrars Limited, at Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong on or before 4:30 p.m. on Tuesday, 22 June 2021.

The record date for dividend distribution, distribution procedures and time for the distribution of dividends applicable to holders of the Company's A shares will be announced separately.

VI. Declaration of Risks Involved in the Forward-looking Statements

Forward-looking statements such as future plans and development strategies contained in this report do not constitute any substantive commitments of the Company to investors. The Company has alerted investors on the relevant investment risks.

VII. There was no appropriation of funds by the controlling shareholder of the Company and its connected parties for non-operation purposes.

VIII. The Company did not provide any external guarantees in violation of the required decision-making procedures.

IX. Major Risk Warning

Potential risks are elaborated in this report. Please refer to Section II "Management Discussion and Analysis" under "Report of the Directors" for details of the potential risks arising from the future development of the Company.

X. The Annual Report is published in both Chinese and English. In the event of any discrepancy between the Chinese and English 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 "the 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
"Supervisor(s)"	the Supervisor(s) of the Company
"PRC" or "China" or "State"	the People's Republic of China
"Reporting Period"	the year ended 31 December 2020
"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
"HSSE"	Health, Safety, Security and Environment
"LDAR"	Leak Detection and Repair
"COD"	Chemical Oxygen Demand
"VOCs"	Volatile Organic Compounds
"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 A Share Option Incentive Scheme of the Company
"International auditors"	PricewaterhouseCoopers Certified Public Accountants Registered Public Interest Entity Auditor
"PRC auditors"	PricewaterhouseCoopers Zhong Tian LLP

Company Profile

As one of the major integrated petrochemical enterprises in China with an integrated refinery and petrochemical capacity, the Company possesses competitive business scale and strength, which have made it a major manufacturer of refined oil, intermediate petrochemical products, synthetic resins and synthetic fibres. It also has self-owned utilities and environmental protection systems, as well as sea transport, inland shipping, rail transport and road transport ancillary facilities.

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

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

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

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

Main Financial Indicators

(I) Financial information prepared under IFRS (for the past five years)

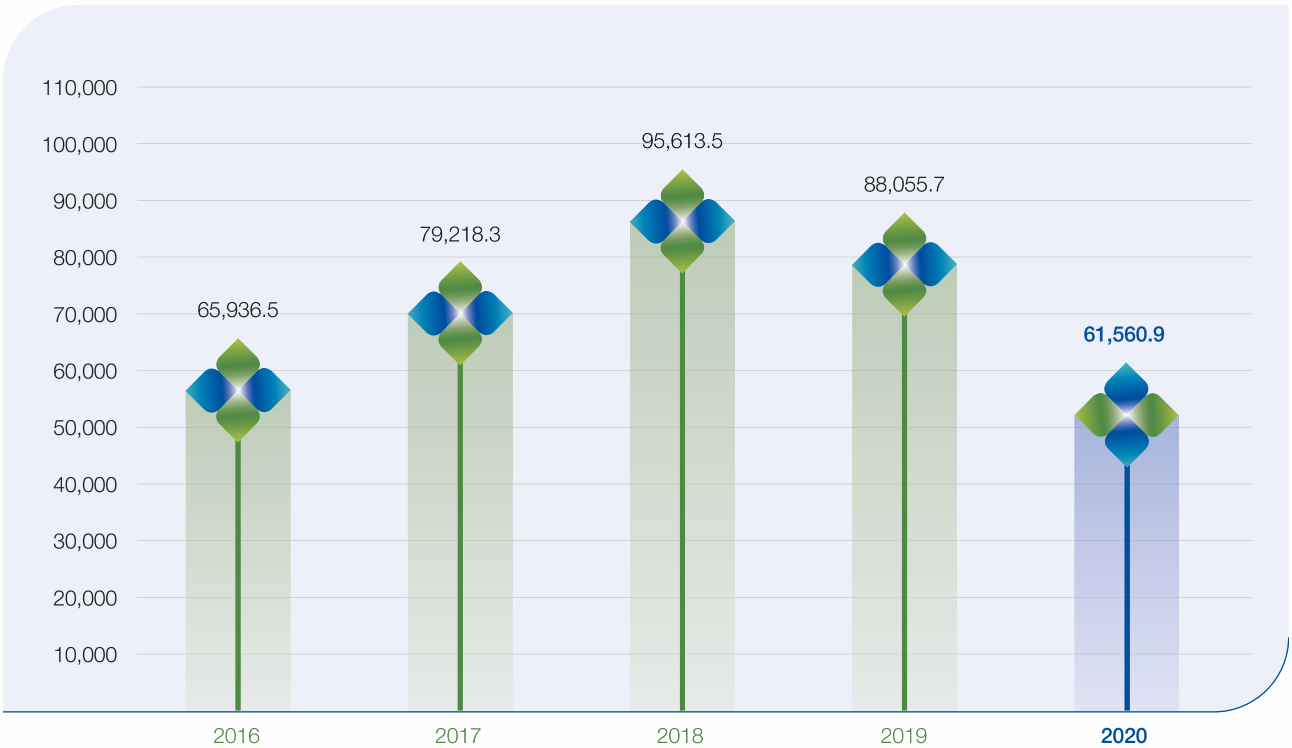
Unit: RMB million

Year ended 31 December	**2020**	2019	2018	2017	2016
Net sales	**61,560.9**	88,055.7	95,613.5	79,218.3	65,936.5
Profit before taxation	**590.8**	2,656.1	6,808.1	7,852.9	7,778.3
Profit after taxation	**656.4**	2,227.2	5,336.2	6,154.2	5,981.5
Profit attributable to equity shareholders of the Company	**645.1**	2,215.7	5,336.3	6,143.2	5,968.5
Basic earnings per share (RMB)	**0.060**	0.205	0.493	0.569	0.553
Diluted earnings per share (RMB)	**0.060**	0.205	0.493	0.568	0.552
Basic and diluted earnings per share (RMB) (restated)*	**N/A**	N/A	N/A	N/A	N/A
As at 31 December:					
Total equity attributable to equity shareholders of the Company	**29,198.0**	29,863.3	30,346.1	28,230.2	24,722.0
Total assets	**44,619.1**	45,494.1	44,385.9	39,443.5	33,945.6
Total liabilities	**15,284.2**	15,500.2	13,923.5	10,927.9	8,942.4

* After the implementation of capitalisation of the capital reserve in December 2013, the total number of issued shares of the Company increased from 7.2 billion shares to 10.8 billion shares.

The first tranche of the Company's Share Option Incentive Scheme was exercised in August 2017. As a result, the total number of issued shares of the Company increased by 14,176,600 shares.

The second tranche of the Company's Share Option Incentive Scheme was exercised in January 2018. As a result, the total number of issued shares of the Company increased by 9,636,900 shares.



(II) Main accounting data and financial indicators in the past three years (Prepared under CAS)

Unit: RMB'000

Major accounting data	2020	2019	Increase/ decrease compared to the previous year (%)	2018
Revenue	74,705,183	74,705,183	-25.55	107,764,908
Total profit	573,816	573,816	-78.38	6,748,976
Net profit attributable to equity shareholders of the Company	628,110	628,110	-71.63	5,277,186
Net profit attributable to equity shareholders of the Company excluding non-recurring items	493,350	493,350	-76.20	5,067,583
Net cash flow from operating activities	1,751,217	1,751,217	-65.80	6,695,099
	End of 2020	End of 2019	Increase/ decrease compared to the previous year (%)	End of 2018
Net assets attributable to equity shareholders of the Company	29,218,033	29,885,341	-2.23	30,370,126
Total assets	44,749,173	45,636,128	-1.94	44,539,960

Major financial indicators	**2020**	2019	Increase/ decrease compared to the previous year (%)	2018
Basic earnings per share (RMB/Share)	**0.058**	0.205	-71.71	0.488
Diluted earnings per share (RMB/Share)	**0.058**	0.205	-71.71	0.488
Basic earnings per share excluding non-recurring items (RMB/Share)	**0.047**	0.192	-75.52	0.468
Return on net assets (weighted average) (%)*	**2.127**	7.143	Decreased by 5.02 percentage points	16.211
Return on net assets excluding non-recurring items (weighted average) (%)*	**1.709**	6.726	Decreased by 5.02 percentage points	15.567
Net cash flow per share generated from operating activities (RMB/Share)	**0.162**	0.473	-65.75	0.619
	End of 2020	End of 2019	Increase/decrease compared to the previous year (%)	End of 2018
Net assets per share attributable to equity shareholders of the Company (RMB/ Share)*	**2.699**	2.761	-2.25	2.806
Gearing ratio (%)	**34.401**	34.228	Increased by 0.17 percentage points	31.553

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

(III) Differences between financial statements prepared under CAS and IFRS

Unit: RMB'000

	Net profit		Net asset	
	The Reporting Period	Corresponding period of the previous year	**The Reporting Period**	Corresponding period of the previous year
Prepared under CAS	**639,436**	2,225,153	**29,355,018**	30,015,901
Prepared under IFRS	**656,398**	2,227,165	**29,334,975**	29,993,848

For detailed differences between the financial statements prepared under CAS and IFRS, please refer to supplements to the financial statements prepared under CAS.

(IV) Major quarterly financial data in 2020 (Prepared under CAS)

Unit: RMB'000

	First Quarter (January to March)	Second Quarter (April to June)	Third Quarter (July to September)	Fourth Quarter (October to December)
Operating income	17,926,384	17,736,968	19,290,616	19,751,215
Net (loss)/profit attributable to equity shareholders of the Company	-1,202,367	-513,705	1,073,853	1,270,329
Net (loss)/profit attributable to equity shareholders of the Company excluding non-recurring items	-1,218,292	-569,868	964,783	1,316,727
Net cash flow (used in)/generated from operating activities	-3,880,619	976,398	789,432	3,866,006

(V) Non-recurring items (Prepared under CAS)

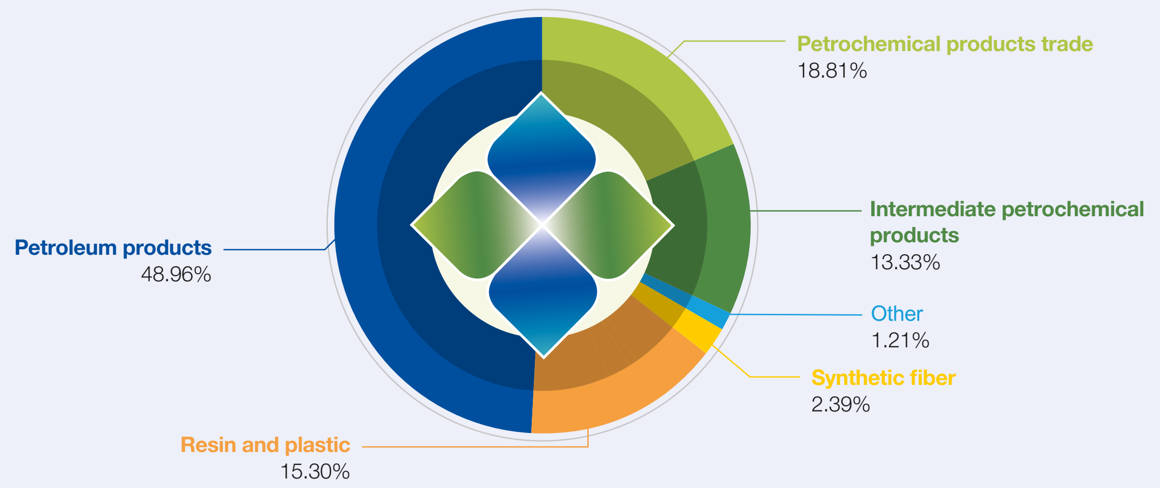
Unit: RMB'000

Non-recurring items	2020	2019	2018
Gains on disposal of non-current assets	72,296	158,551	172,508
(Losses)/gains on disposal of long-term equity	–	-60,951	1,622
Employee reduction expenses	-20,060	-45,394	-34,450
Government grants recognised through profit or loss (excluding government grants pursuant to the State's unified standard sum and quota closely related to the corporate business)	71,296	79,678	126,329
Income from external entrusted lendings	–	–	11
Net (losses)/gains on settlement of foreign exchange option and forward foreign exchange contracts	-912	-15,316	14,520
Income from structured deposit	132,690	86,848	–
Payments for sale of financial assets at fair value through other comprehensive income other comprehensive income	-9,513	-19,513	–
(Losses)/gains from derivative financial assets and fair value changes of liabilities	-17,871	1,597	–
Other non-revenue and expenses other than those mentioned above	-42,968	-42,322	-55,092
Effect on non-controlling interests (after tax)	1,141	3,515	-7,079
Tax effect for the above items	-51,339	-5,997	-8,766
Total	134,760	140,696	209,603

Principal Products

The Group produces more than 60 different products, including various specifications of synthetic fibers, resins and plastics, intermediate petrochemical products and petroleum products. The Company is a highly vertically integrated petrochemical company. Most of the petroleum products and intermediate petrochemical products produced by the Company are used in the production of the Company's downstream products.

The following table sets forth the net sales of the Group's major products in 2020 as a percentage of total net sales and their typical uses.



Major products sold by the Company	% of 2020 net sales	Typical use
Manufactured products		
Synthetic Fibres		
Polyester staple	0.22	Textiles and apparel
Acrylic staple	2.03	Cotton type fabrics, wool type fabrics
Others	0.14	
Subtotal:	2.39	

Major products sold by the Company	% of 2020 net sales	Typical use
Resins and Plastics		
Polyester chips	**2.06**	Polyester fibres, films and containers
PE pellets	**6.88**	Films, ground sheeting, wire and cable compound and other injection moulding products such as housewares and toys
PP pellets	**5.66**	Films or sheets, injection moulding products such as housewares, toys and household electrical appliances and automobile parts
PVA	**0.09**	PVA fibres, building coating materials and textile starch
Others	**0.61**	
Subtotal:	**15.30**	
Intermediate Petrochemical Products		
Ethylene	**–**	Feedstock for PE, EG, PVC and other intermediate petrochemical products which can be further processed into resins and plastics and synthetic fibre
Ethylene Oxide	**3.02**	Intermediate for chemical and pharmaceutical industry, dyes, detergents and adjuvant
Benzene	**1.81**	Intermediate petrochemical products, styrene, plastics, explosives, dyes, detergents, epoxies and polyamide fibre
PX	**2.95**	Intermediate petrochemical, polyester
Butadiene	**0.89**	Synthetic rubber and plastics
Ethylene Glycol	**0.73**	Fine chemicals
Others	**3.93**	
Subtotal:	**13.33**	
Petroleum Products		
Gasoline	**19.07**	Transportation fuels
Diesel	**18.41**	Transportation and agricultural machinery fuels
Jet fuel	**4.42**	Transportation fuels
Others	**7.06**	
Subtotal:	**48.96**	
Trading of petrochemical products	**18.81**	Import and export trade of petrochemical products (purchased from domestic and overseas suppliers)
Others	**1.21**	
TOTAL:	**100**	

Change in Share Capital of Ordinary Shares and Shareholders

(I) Changes in share capital of ordinary shares during the Reporting Period

1. Changes in share capital of ordinary shares during the Reporting Period

The Company had no changes in share capital of ordinary shares during the Reporting Period.

(II) Issue of shares

1. Issue of shares during the Reporting Period

The Company did not issue any shares during the Reporting Period.

2. Changes in the Company's total number of ordinary shares, shareholding structure and the Company's assets and liabilities

The Company had no changes in the Company's total number of ordinary shares, shareholding structure and the Company's assets and liabilities during the Reporting Period.

3. Employees shares

The Company had no employees shares as at the end of the Reporting Period.

(III) Shareholders and de facto controller

1. Total number of shareholders

Number of shareholders of ordinary shares as at the end of the Reporting Period	87,627
Number of shareholders of ordinary shares as at the end of the month immediately preceding the publication date of the annual report	86,305

2. Shareholding of the top ten shareholders as at the end of the Reporting Period

Shareholding of the top ten shareholders

Full name of shareholder	Class of shares	Increase/ decrease of shareholding during the Reporting Period (Shares)	Number of shares held at the end of the Reporting Period (Shares)	Percentage of shareholding (%)	Number of shares held with selling restrictions (Shares)	Pledged/Frozen Status of Shares	Pledged/Frozen Number of Shares	Nature of shareholder
China Petroleum & Chemical Corporation	A shares	0	5,460,000,000	50.44	0	None	0	State-owned legal person
HKSCC (Nominees) Limited	H shares	-802,717	3,453,881,030	31.91	0	Unknown	–	Overseas legal person
China Securities Finance Corporation Limited	A shares	-8,439,870	315,671,148	2.92	0	None	0	Others
Central Huijin Investment Ltd.	A shares	0	67,655,800	0.63	0	None	0	Others
HKSCC Limited	A shares	-13,275,420	64,401,715	0.60	0	None	0	Others
GF Fund – Agricultural Bank of China – GF CSI Financial Asset Management Plan	A shares	0	45,222,300	0.42	0	None	0	Others
Dacheng Fund – Agricultural Bank of China – Dacheng CSI Financial Asset Management Plan	A shares	0	43,531,469	0.40	0	None	0	Others
China Asset Fund – Agricultural Bank of China – China Asset CSI Financial Asset Management Plan	A shares	0	43,083,750	0.40	0	None	0	Others
Bosera Fund – Agricultural Bank of China – Bosera CSI Financial Asset Management Plan	A shares	0	43,083,750	0.40	0	None	0	Others
E Fund Fund– Agricultural Bank of China – E Fund CSI Financial Asset Management Plan	A shares	0	43,083,700	0.40	0	None	0	Others
Harvest Fund– Agricultural Bank of China – Harvest CSI Financial Asset Management Plan	A shares	0	43,083,700	0.40	0	None	0	Others
China EU Fund– Agricultural Bank of China – China EU CSI Financial Asset Management Plan	A shares	0	43,083,700	0.40	0	None	0	Others
Yinhua Fund– Agricultural Bank of China – Yinhua CSI Financial Asset Management Plan	A shares	0	43,083,700	0.40	0	None	0	Others
China Southern Fund– Agricultural Bank of China – China Southern CSI Financial Asset Management Plan	A shares	0	43,083,700	0.40	0	None	0	Others
China Southern Fund– Agricultural Bank of China – China Southern CSI Financial Asset Management Plan	A shares	0	43,083,700	0.40	0	None	0	Others
Note on connected relationship or acting in concert of the above shareholders:	Among the above-mentioned shareholders, China Petroleum & Chemical Corporation ("Sinopec Corp."), a State-owned legal person, does not have any connected relationship with the other shareholders, and does not constitute an act-in-concert party under the Administrative Measures on Acquisition of Listed Companies. Among the above-mentioned shareholders, HKSCC (Nominees) Limited is a nominee and HKSCC Limited is the nominal holder of the company's Shanghai-Hong Kong Stock Connect. Apart from the above, the Company is not aware of any connected relationships among the other shareholders, or whether any other shareholder constitutes an act-in-concert party under the Administrative Measures on Acquisition of Listed Companies.							

(IV) Details of the controlling shareholder and the de facto controller

1. Details of the controlling shareholder

(1) Legal person

Name	China Petroleum & Chemical Corporation		
Responsible person or legal representative	Zhang Yuzhuo		
Date of incorporation	25 February 2000		
Major business operations	Oil and natural gas exploration and extraction, pipeline transmission and sales; oil refining production, sales, storage and transportation of petrochemicals, chemical fibres, chemical fertilizers and other chemical products; import, export and import/export agency business of crude oil, natural gas, refined petroleum products, petrochemicals, chemicals, and other chemical products and other commodities and technologies; research, development and application of technology and information.		
Shareholdings in other domestic and overseas companies during the Reporting Period	Details of shareholding of Sinopec Corp. in other listed companies:		
	Company Name	Number of shares held	Percentage of shareholding
	Sinopec Shandong Taishan Petroleum Co., Ltd.	118,140,120	24.57%

2. Details of the de facto controller

(1) Legal person

Name	China Petrochemical Corporation
Responsible person or legal representative	Zhang Yuzhuo
Date of incorporation	24 July 1998
Major businesses operations	According to Sinopec Group's restructuring in 2000, China Petrochemical Corporation injected its main petrochemical business into Sinopec Corp. Sinopec Group continues to operate several petrochemical facilities and small refining plants. Its services include: provision of drilling, logging and downhole operation services, production and maintenance of manufacturing equipment; engineering construction service and water, electricity and other public utilities and social services.
Shareholdings in other domestic and overseas companies during the Reporting Period	Details of shareholding of Sinopec Group in other listed companies:

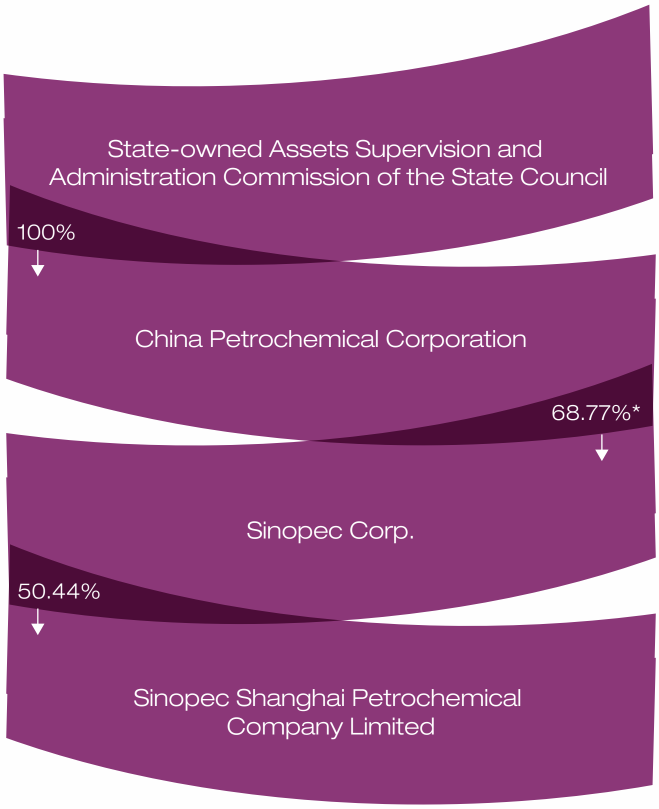
Details of shareholding of Sinopec Group in other listed companies:

Company Name	Number of shares held	Percentage of shareholding
China Petroleum & Chemical Corporation[note 1]	82,709,227,393	68.31%
Sinopec Engineering (Group) Co., Ltd.	2,907,856,000	65.67%
Sinopec Oilfield Service Corporation[note 2]	10,727,896,364	56.51%
Sinopec Oilfield Equipment Corporation	456,756,300	58.74%
China Merchants Energy Shipping Co., Ltd.	912,886,426	13.54%

Note 1: The 553,150,000 H shares held by Sinopec Century Bright Capital Investment Limited, an overseas wholly-owned subsidiary of Sinopec Group are included in the total number of shares held by HKSCC (Nominees) Limited.

Note 2: The 2,595,786,987 H shares held by Sinopec Century Bright Capital Investment Limited, an overseas wholly-owned subsidiary of Sinopec Group are included in the total number of shares held by HKSCC (Nominees) Limited.

3. Diagram of the ownership and controlling relationship between the Company and the controlling shareholder and the de facto controller



* Including 553,150,000 H shares in Sinopec Corp. held by Sinopec Century Bright Capital Investment Limited, an overseas wholly-owned subsidiary of Sinopec Group, through HKSCC (Nominees) Limited.

(V) Other legal person shareholders holding more than 10% of the Company's shares

As at 31 December 2020, HKSCC (Nominees) Limited held 3,454,683,747 H shares of the Company, representing 31.91% of the total number of issued shares of the Company.

(VI) Public float

Based on the public information available to the Board, as at 24 March 2021, the Company had a public float which is in compliance with the minimum requirement under the Hong Kong Listing Rules.

(VII) Interests and short positions of the substantial shareholders of the Company in shares and underlying shares of the Company

As at 31 December 2020, so far as was known to the Directors or chief executive of the Company, the interests and short positions of the Company's substantial shareholders (being 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) in the shares and underlying shares of the Company who are required to disclose their interests pursuant to Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance (the "SFO") or as recorded in the register of interests required to be kept under section 336 of the SFO were as set out below:

Interests in ordinary shares of the Company

Name of shareholders	Interests held or deemed as held (shares)	Note	Percentage of total issued shares of the Company (%)	Percentage of total issued shares of the relevant class (%)	Capacity
China Petroleum & Chemical	5,460,000,000A shares (L) Shares of legal person	(1)	50.44(L)	74.50(L)	Beneficial owner
The Bank of New York Mellon Corporation	384,086,171 H shares (L) 342,667,600 H shares (S) 40,660,167 H shares (P)	(2)	3.55(L) 3.17(S) 0.38(P)	10.99(L) 9.80(S) 1.16(P)	Interests of controlled corporation
BlackRock, Inc.	178,492,808 H shares (L) 9,998,000 H shares (S)	(3)	1.65(L) 0.09(S)	5.11(L) 0.29(S)	Interests of controlled corporation
Corn Capital Company Limited	211,008,000 H shares (L) 200,020,000 H shares (S)	(4)	1.95(L) 1.85(S)	6.04(L) 5.72(S)	Beneficial owner
Hung Hin Fai	211,008,000 H shares (L) 200,020,000 H shares (S)	(4)	1.95(L) 1.85(S)	6.04(L) 5.72(S)	Interests of controlled corporation
Yardley Finance Limited	200,020,000 H shares (L)	(5)	1.85(L)	5.72(L)	Secured equity holders
Chan Kin Sun	200,020,000 H shares (L)	(5)	1.85(L)	5.72(L)	Interests of controlled corporation
Citigroup Inc.	188,361,622 H shares (L) 6,360,015 H shares (S) 180,044,373 H shares (P)	(6)	1.74(L) 0.06(S) 1.66(P)	5.38(L) 0.18(S) 5.15(P)	Secured equity holders, Interests of controlled corporation, and approved lending agents
Wellington Management Group LLP	283,628,279 H shares (L) 271,892 H shares (S)	(7)	2.62(L) 0.01(S)	8.12(L) 0.01(S)	Investment manager

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

Note:

(1) Based on the information obtained by the Directors from the website of the Hong Kong Stock Exchange and as far as the Directors are aware, Sinopec Group directly and indirectly owned 68.77% of the issued share capital of Sinopec Corp. as at 31 December 2020. By virtue of such relationship, Sinopec Group is deemed to have an interest in the 5,460,000,000 A shares of the Company directly owned by Sinopec Corp.

(2) All the 384,086,171 H shares (long position) and 342,667,600 H shares (short position) are deemed to be held by The Bank of New York Mellon Corporation, due to control of multiple companies (among which 342,667,600 H shares (short position) are held through physical settlement unlisted derivatives). Below are the companies indirectly or wholly owned by The Bank of New York Mellon Corporation:

(2.1) All the 384,055,971 H shares (long position) and 342,667,600 H shares (short position) are held by The Bank of New York Mellon. Since The Bank of New York Mellon is wholly owned by The Bank of New York Mellon Corporation, The Bank of New York Mellon Corporation is deemed to have an interest in the 384,055,971 H shares (long position) and 342,667,600 H shares (short position) of the Company held by The Bank of New York Mellon.

(2.2) All the 30,200 H shares (long position) are held by BNY MELLON, NATIONAL ASSOCIATION. Since BNY MELLON, NATIONAL ASSOCIATION is wholly owned by The Bank of New York Mellon Corporation, The Bank of New York Mellon Corporation is deemed to have an interest in the 30,200 H shares (long position) of the Company held by BNY MELLON, NATIONAL ASSOCIATION.

(3) All the 178,492,808 H shares (long position) and 9,998,000 H shares (short position) (among which 186,000 H shares (short position) are held through cash settled unlisted derivatives) are deemed to be held by BlackRock, Inc., due to control of multiple companies. Below are the companies indirectly wholly owned by BlackRock, Inc:

(3.1) All the 8,924,700 H shares (long position) are held by BlackRock Financial Management, Inc. Since BlackRock Financial Management, Inc. is indirectly wholly owned by BlackRock, Inc., BlackRock, Inc. is deemed to have an interest in the 8,924,700 H shares (long position) of the Company held by BlackRock Financial Management, Inc. In addition, BlackRock Financial Management, Inc. is interested in the shares of the Company through the following companies:

(3.1.1) 8,800,000 H shares (long position) and 9,812,000 H shares (short position) are held by BlackRock Institutional Trust Company, National Association.

(3.1.2) 16,852,000 H shares (long position) are held by BlackRock Fund Advisors.

(3.2) 86% of interest in BR Jersey International Holdings L.P. are indirectly held by BlackRock, Inc. BR Jersey International Holdings L.P. is interested in the shares of the Company through the following companies:

(3.2.1) 12,276,553 H shares (long position) are held by BlackRock Japan Co., Ltd..

(3.2.2) 1,902,000 H shares (long position) are held by BlackRock Asset Management Canada Limited.

(3.2.3) 639,497 H shares (long position) are held by BlackRock Asset Management North Asia Limited.

(3.3) 90% of interest in BlackRock Group Limited is indirectly held by BR Jersey International Holdings L.P. (See (3.2) above). BlackRock Group Limited is interested in the shares of the Company through the following companies, which are directly or indirectly wholly owned by BlackRock Group Limited:

(3.3.1) 13,048,565 H shares (long position) are held by BlackRock Investment Management (UK) Limited.

(3.3.2) 14,149,493 H shares (long position) are held by BlackRock Fund Managers Limited.

(3.3.3) 256,000 H shares (long position) are held by BlackRock Life Limited.

(3.3.4) 91,824,000 H shares (long position) and 186,000 H shares (short position) are held by BLACKROCK (Luxembourg) S.A.

(3.3.5) 9,820,000 H shares (long position) are held by BlackRock Asset Management Ireland Limited.

(4) These shares were held by Corn Capital Company Limited. Hung Hin Fai held 100% interests in Corn Capital Company Limited. Pursuant to the SFO, Hung Hin Fai was deemed to be interested in the shares held by Corn Capital Company Limited.

(5) These shares were held by Yardley Finance Limited. Chan Kin Sun held 100% interests in Yardley Finance Limited. Pursuant to the SFO, Chan Kin Sun was deemed to be interested in the shares held by Yardley Finance Limited.

(6) Of the H shares (long position) held by Citigroup Inc., 5,423,200 H shares (long position) are held through physically settled listed derivatives, 2,943,931 H shares (long position) are held through physically settled unlisted derivatives, and 406,000 H shares (long position) are held through cash settled unlisted derivatives. Of the H shares (short position) held by Citigroup Inc., 4,790,000 H shares (short position) are held through cash settled unlisted derivatives. In addition, Citigroup Inc. is deemed to hold a total of 188,361,622 H shares (long position) and 6,360,015 H shares (short position) of the Company, due to control of multiple companies. The following companies are indirectly owned by Citigroup Inc.:

(6.1) All the 180,044,373 H shares (long position) are held by Citibank, N.A. Since Citibank, N.A. is indirectly wholly owned by Citigroup Inc., Citigroup Inc. is deemed to have an interest in the 180,044,373 H shares (long position) of the Company held by Citibank, N.A.

(6.2) All the 3,947,886 H shares (long position) and 1,003,955 H shares (short positions) are held by Citigroup Global Markets Hong Kong Limited. Since Citigroup Global Markets Hong Kong Limited is indirectly wholly owned by Citigroup Inc., Citigroup Inc. is deemed to have an interest in the 3,947,886 H shares (long position) and 1,003,955 H shares (short position) of the Company held by Citigroup Global Markets Hong Kong Limited.

(6.3) All the 10,300 H shares (long position) are held by Citigroup Global Markets Inc. Since Citigroup Global Markets Inc. is indirectly wholly owned by Citigroup Inc., Citigroup Inc. is deemed to have an interest in the 10,300 H shares (long position) of the Company held by Citigroup Global Markets Inc.

(6.4) All the 4,357,163 H shares (long position) and 5,356,060 H shares (short position) are held by Citigroup Global Markets Limited. Since Citigroup Global Markets Limited is indirectly wholly owned by Citigroup Inc., Citigroup Inc. is deemed to have an interest in the 4,357,163 H shares (long position) and 5,356,060 H shares (short position) of the Company held by Citigroup Global Markets Limited.

(6.5) All the 1,900 H shares (long position) are held by Citicorp Trust South Dakota. Since Citicorp Trust South Dakota is indirectly wholly owned by Citigroup Inc., Citigroup Inc. is deemed to have an interest in the 1,900 H shares (long position) of the Company held by Citicorp Trust South Dakota.

(7) Of the H shares (short position) held by Wellington Management Group LLP, 3,892 H shares (short position) are held through cash settled listed derivatives. In addition, Wellington Management Group LLP is deemed to hold a total of 283,628,279 H shares (long position) and 271,892 H shares (short position) of the Company, due to control of multiple companies. The following companies are indirectly owned by Wellington Management Group LLP:

(7.1) All the 8,085,097 H shares (long position) and 269,380 H shares (short position) are held by Wellington Management Company LLP. Since 99.99% of interest in Wellington Management Company LLP are directly held by Wellington Investment Advisors Holdings LLP, 99.99% of interest in Wellington Investment Advisors Holdings LLP are directly held by Wellington Group Holdings LLP, and 99.70% of interest in Wellington Group Holdings LLP are directly held by Wellington Management Group LLP, Wellington Management Group LLP is deemed to have an interest in the 8,085,097 H shares (long position) and 269,380 H shares (short position) of the Company held by Wellington Management Company LLP.

(7.2) All the 2,108 H shares (short position) are indirectly held by Wellington Management International Ltd. Since Wellington Management International Ltd is wholly owned by Wellington Management Global Holdings, Ltd., and Wellington Management Global Holdings, Ltd. is held by Wellington Investment Advisors Holdings LLP, Wellington Management Group LLP (see (7.1) above) is deemed to have an interest in the 2,108 H shares (short position) of the Company held by Wellington Management International Ltd.

(7.3) All the 275,543,182 H shares (long position) and 404 H shares (short position) are held by Wellington Management Singapore Pte. Ltd. Since Wellington Management Singapore Pte. Ltd. is wholly owned by Wellington Management Global Holdings, Ltd., and Wellington Management Global Holdings, Ltd. is held by Wellington Investment Advisors Holdings LLP, Wellington Management Group LLP (see (7.1) above) is deemed to have an interest in the 275,543,182 H shares (long position) and 404 H shares (short position) of the Company held by Wellington Management Singapore Pte. Ltd.

Save as disclosed above, as at 31 December 2020, the Directors have not been notified by any person (other than the Directors, chief executive and Supervisors) who had interests or short positions in the shares and 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 of interests required to be kept by the Company under section 336 of the SFO.

Report of the Directors

Section I Business Overview

(I) Description of the principal business, operating model and industry in which the Company operated during the Reporting Period

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

China's growing market demand for petrochemical products is the basis for our high quality development. The Company utilizes its highly integrated advantages to actively adjust the product structure, while constantly improving the quality and variety of existing products, optimize technology and improve the ability of key upstream devices.

For details on the industry in which the Company operates its business, please refer to Section III of this chapter "Analysis on Operational Information of the Chemical Industry".

(II) Analysis of core competitiveness during the Reporting Period

As one of the major integrated petrochemical enterprises in China with an integrated refinery and petrochemical capacity, the Company possesses competitive business scale and strength, which have made it a major manufacturer of refined oil, intermediate petrochemical products, synthetic resins and synthetic fibres. It also has self-owned utilities and environmental protection systems, as well as sea transport, inland shipping, rail transport and road transport ancillary facilities.

The Company's major competitive advantages include quality, geographical location and its vertically integrated production. The Company has 49 years of petrochemical production and management experience, and has accumulated extensive resources in the petrochemical industry, which has garnered multiple quality product awards from the central and local governments. Located at the core region of Yangtze River Delta, the most economically active region in China with a strong demand for petrochemical products, the Company built a comprehensive logistics system and supporting facilities to tap its geographic proximity with most of its clients and the convenient coastal and inland shipping. This gave it a competitive edge in terms of transportation costs and timely delivery. The Company has leveraged its advantages in integrated refinery and petrochemical capacity to actively strengthen product structure, while continuously improving products quality and variety. It has also improved production technology and boosted capacity of key upstream equipment to maximize the use and the efficiency in the utilisation of its corporate resources, and is therefore able to achieve strong and sustainable development.

Section II Management Discussion and Analysis

(I) Management Discussion and Analysis

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

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

In 2020, the global economy has been severely impacted while facing the most severe economic crisis since the Great Depression in the 1930s under the global COVID-19 pandemic situation. Major developed economies have experienced negative growth without exception, while emerging markets and developing economies have also in general experienced negative GDP growth. Facing a complicated domestic and global situation, especially under the wrath of the COVID-19 pandemic, China adhered closely to the grand principle of seeking progress while maintaining stability and coordinated epidemic prevention and control and economic and social development to guarantee the restoration of economic stability. Throughout 2020, China's Gross Domestic Product (GDP) saw a growth of 2.3%, a decrease of 3.8 pp year-on-year, yet China was the only global major economy that managed to achieve positive economic growth in the year. China's petrochemical faced enormous challenges especially in the first quarter. Price of major chemical products seen severe drop while both production and sales were in historic fall. Under the constraints of both resources and environment, the petrochemical industry was in short downward spiral. However with the gradual resumption of works and production in the second quarter, the petrochemical industry saw gradual rebound.

Given the global COVID-19 pandemic spread, a short-term historical plunge in international oil price and a sharp fall in market demand in 2020, the Group adhered closely to the grand principle of seeking progress while maintaining stability. The Group sought to ensure "Six-Sphere Stability" and "Six-Sphere Guarantees", and strove for the resumption of work and production at the same time with pandemic prevention. The Group focused its attention on main contradictions, system optimization, and pandemic prevention to transform potential crises into opportunities, to achieve a level of operation results as expectations with the joint efforts of all staff.

(i) *An effective and concrete line of defence against the pandemic*

Facing the sudden onslaught of COVID-19 pandemic, the Group took up the duties and the mission of a state-owned enterprise to participate in the national campaign against the pandemic with effective measures. The Group refined its leadership structure and established a counter-pandemic leadership task force. Its duties included the initiation of class-one responses to major public health emergencies and to ensure a "hand-in-hand and going firm" approach in managing both the pandemic situation and production and operations without any delay. The Group also fulfilled its duties in relevant locations. It made sure of its staff control and for smooth supply of pandemic-countering resources for joint epidemic prevention and control between the enterprises and the localities. The Group also supported location anti-pandemic effort to fulfill its social obligations. The Company managed to resolve production issues of high melt index polypropylene in only 12 days to provide for ease the shortages of materials for surgical masks. The Company implemented all pandemic prevention measures in daily operations to prevent import case while standing guard against domestic cases rebound. The Company implemented prevention measures day-by-day to ensure "Zero Imports, Zero Spread, Zero Blind Spots, Zero Dead Angle, Zero Infection".

(ii) *Reinforcement of safety and environmental management with an overall stable production*

In 2020, the Group focused on building up and implementing stable production as its top priority in production management, and implemented and consolidated its foundation in production operation while cementing safety management. The Company seeks to implement the HSSE management system and put into practice process safety management, and further enhance its ensure equipment integrity assurance regime. In addition, the Company vows to strictly enforce the "10 Major Measures to Step Up Management of Segments In Direct Work Process". Focusing on contractors and direct work process management, a safety marking system is to be implemented on all staff, while more emphasis will be imposed on change management, limitation management and advance warning management, etc. Moreover, the Company also expands its scope of work on areas such as safety management and job ticket management. Both safety and environment is well regulated overall. The Group also strictly controlled the "Three Smalls" (i.e. small fluctuations, small anomalies and small deviations) and put an end to the "Three Nons" (i.e. non-planned shutdown of divisions, non-planned shutdown of machine and non-planned shutdown of furnace). The Company have implemented a three-year plan for the prevention and control of work safety and carried out safety hazard management. The Company has carried out the development of green grass-roots level and environmental traceability management. Through the re-examination of Sinopec's green enterprise, the site environment was continued to improve and the concentration of VOCs at the boundary of the plant decreased. In 2020, there were 17 full-scale unplanned shutdowns in 2020, representing a decrease of 32%, the smoothness rate of equipment for the whole year is 98%, representing an increase of 0.36 percentage point. Among the 58 main technical and economic indicators included in the Company's 2020 assessment plan, 44 indicators reflected better performance then last year, with a year-on-year improvement rate of 75.86%.

In 2020, the Group's facilities were in generally stable operating conditions. The total volume of processing crude oil for the year was 14.6715 million tons, a year-on-year decrease of 3.47%; the volume of refined oil products produced was 8.3795 million tons, a year-on-year decrease of 8.84%; the total volume of goods within the main commodities categories was 13,957,600 tons, showing a growth of 0.34%. In 2020, the Group's turnover was RMB74.624 billion, a decrease of 25.58% from the previous year. The product sales rate was 100.11%, and the payment return rate was 100%. Product quality continued to be well maintained and stable.

(iii) Oil and petrochemical market was deeply affected by the epidemic with product prices adjusted downwards

In 2020, the country's petrochemical industry faced major challenges. The production and sales of petrochemical products dropped sharply in the first quarter and gradually return to normal after the second quarter with the prices of major petrochemical products were lower than last year. Demand for refined oil was slowing down, especially in the first half of the year while the competition was fierce among products. As of 31 December 2020, the weighted average prices (excluding tax) of the Group's synthetic fibers, resins and plastics, intermediate petrochemical products, and petroleum products had decreased by 19.84%, 10.65%, 19.49% and 30.48%, respectively as compared with the previous year.

(iv) Fluctuation in international crude oil price with a decline in yearly average price and a drop in the volume of crude oil processed

In 2020, the international crude oil market was fluctuated violently, with a huge overall decline. From the perspective of trend, prices fell sharply in the first quarter, bottomed out and rebounded in the second quarter. After entering the third quarter, the average price was relatively stable and rose significantly at the end of the year. The annual average price of West Texas Intermediate (WTI) crude oil was $39.51/barrel, a decrease 30.7% over the previous year; the average price of Brent crude oil was $41.74/barrel, a decrease of 35.1%; the average price of Dubai crude oil was $42.18/barrel, a decrease of 33.6%.

As of 31 December 2020, the Group had processed a total of 14.6715 million tons of crude oil (of which 402,400 tons were processed on order), indicating a year-on-year decrease of 3.47%. The cost of crude oil processing for the whole year of 2020 was RMB2,380.02/ton, representing a decrease of RMB950.61/ton or 28.54% from the same period last year. The annual crude oil processing total cost decreased by RMB13.117 billion from the same period last year or 27.86%, accounting for 54.86% of the total cost of sales.

(v) Further optimization of operation with precision to overcome difficulties and achieve effectiveness

In 2020, the Group emphasized effectiveness and focused on business optimization, and actively promoted further optimization of raw materials and product structures. Taking advantage of the plant's low-load operation during the pandemic, the Group completed the overhaul of 12 sets of oil refining plants. An adjustment was introduced into crude oil procurement strategy to combine with the change of crude oil market price. The Group increased the purchase volume of Kuwait crude oil, carried out crude oil financial derivatives and purchased Oman crude oil in the pricing mode of Dubai commercial exchange. Downstream equipment for externally procured resources such as ethylene, carbon four, carbon five, etc., was fully deployed. The Group also optimized the structure of ethylene feedstock, the operation of the residue hydrotreating unit and the control of catalytic feedstock, and at the same time processed low-sulfur crude oil and realized the full-load operation of the catalytic unit during the replenishing of single-series residue hydrotreating. Furthermore, 614,000 tons of jet fuel were produced, and there was an increase in output of asphalt by 219,600 tons year-on-year. The diesel-gasoline ratio reached 1.22; the Group also seen an increase in production of high-yield products such as butadiene and ethylene oxide, among which 312,900 tons of ethylene oxide were produced, represented a growth of 13.69%. There was also a rise in production of high-grade gasoline with the annual sales volume reaching 1.144 million tons, with high-grade gasoline accounted for 34.8% which was a record high; annual product sales rate reached 100.11%. The Group made full force in costs and expenses reduction under strict control and developed the 100-Day Breakthroughs campaign and the ongoing campaign. The Group also continued to explore cost-reduction potential in large-scale procurement and at the same time proactively promoted competitive procurement, open procurement, and the amendment and utilization of backlog materials. Through the issuance of extremely short-term commercial paper and other approaches, the comprehensive financial costs have been decreased.

(vi) A further deepening of energy saving and emission reduction

In 2020, the Group continued implementing various energy conservation and emission reduction measures as per the national energy conservation and emission reduction requirements. The Group continued to optimize carbon emission accounting methods, and managed to reduce carbon emission compliance costs by RMB5.28 million. In the past year, 49 water resources management optimization measures were devised, and the total volume of retrieved industrial water decreased by 10.54%. In 2020, the Company's total comprehensive energy consumption was 6.920 million tons of standard coal. The comprehensive output value consumption was 0.743 tons of standard coal/RMB10,000, representing a decrease of 0.27% over 0.745 tons of standard coal/RMB10,000 of last year. The annual COD emissions decreased by 14.97%, sulfur dioxide emissions decreased by 4.74% and nitrogen oxide emissions decreased by 3.37% (Data from the Ministry of Safety and the Ministry of Environment had shown discrepancies), as compared with the same period last year. The volume of annual average cumulative average VOCs concentration at the plant boundary is 99.1 micrograms/m3, a decrease of 26.92% compared with last year. The comprehensive compliance rate of effluent wastewater was 100%, the compliance rate of controlled waste gas was 100%, and the rate of proper treatment and disposal of hazardous waste was 100%. The heating furnace's average thermal efficiency was 92.46%, which was equivalent to the level last year.

(vii) Innovation in stable steps forward

In 2020, the Group moved firmly along the direction of "basic + high-end" development and put innovation as the top consideration in advancing the development of the Company. The Group also sought to strengthen scientific and technological innovations. The Advanced Materials Innovation Research Institute was established to carry out joint researches. A substantial breakthrough was made in the "business unit + company" operation model for carbon fibre. Constructions of projects were accelerated with the Jinshan Area Comprehensive Environment Improvement Oil Product Cleaning Project was put into operation. The oxidation and carbonization part of the second phase project with an annual output of 1,500 tons of PAN-based carbon fiber was suitable for intermediate delivery and the large tow carbon fiber project started on schedule. We will actively promote joint ventures and cooperation. The acquisition of Zhejiang Jinlian Petrochemical Storage and Transportation Co., Ltd., and participation in Pinghu China Aviation Oil Port Co., Ltd. to meet the current operation and future development needs of the Company's storage and transportation system. The Group further worked to advance the integration of production, marketing, research and application of new products. No. 92 China VIB grade automotive gasoline was successfully blended and produced for the first time, with a cumulative sales volume of 44,600 tons. The Group also completed a synthetic resin import substitution project. Success was seen in developing large-diameter, low-melting and pressure-bearing pipe products, with an accumulated sales volume of 3,108.6 tons. The export business of chemical products seen good expansion. The new high-endurance polyester engineering plastic and its application won the CIFF New Material Award at the International Industry Fair. Furthermore, the Group also steadily promoted the eight projects that included different areas such as intelligent factory construction and promotion, the upgrade of real-time database to the acceptance benchmark. Projects such as smart warehousing, contractor and direct operation management platform were also went online.

(viii) *Breakthroughs achieved in management reforms*

In 2020, the Group made good efforts in reform and innovation and continued to improve management standards with solid adherence to the targets and the schedule. To this end, the Group issued the action plan titled Sinopec Shanghai Petrochemical Standardize World Class Management Promotion Action Implementation Rules and developed a to-do list. The Group worked hard to learn from the best alongside management enhancement. The Group also invited academics and expert groups to provide input on the Company's development strategies. The Group also initiated a research and study mission to Maoming Petrochemical and formulated the Company's very own mid-to-long-term catch-up plan. The Group also optimized its management and control model. The shutdown and personnel placement of the polyester department's industrial filament installations was proceeded in an orderly manner. The Group also proceeded to adjust and optimize its organizational structures, implement category-based guidance and management of joint ventures, and strengthen the management of joint ventures that closely relate to the Company's production and operation. The Group also standardized internal management and introduced comprehensive risk management and internal control management measures with focus on key areas such as investment, finance, contracts and HSSE, and discovered and investigated problems and risks. A market-oriented simulated sewage disposal program was introduced to strictly demand production units to cut emissions at the source. The Group also actively promoted and fully completed retirees' social management and the digitization and transfer of retirees' files. On the other hand, the Group made strong efforts alleviating the burden on the basic level and formed a long-term working mechanism. The Group also promoted good utilization of talents in company enhancement. These efforts included the training and utilization of young officers and the nurturing of elite professional talents, and at the same time formulating a reserve pool of high-level talents. The Group also promoted a program in the train-up of multiple capabilities in every position. Furthermore, the Group moved forward on the training in fundamentals of intelligent exercising, and extensively promoted business competitions.

As of 31 December 2020, the net reduction of employees of the Group was 412 including voluntary resignation and retirees), accounting for 4.64% of the total 8,878 employees registered at the beginning of the year.

2. Accounting judgements and estimates

The Group's financial conditions and the results of its operations are susceptible to accounting methods, assumptions and estimates applied in preparing the financial statements. Such assumptions and estimates are based on the historical experience of the management of the Group and on various other assumptions that the management believes to be reasonable, and form the basis for the management to make judgements about matters that cannot be confirmed by other sources. On an on-going basis, the management evaluates its estimates. Actual results may differ from those estimates as the actual circumstances, environment and conditions change.

The selection of key accounting policies, the judgements and other uncertainties in the course of applying of those policies and the sensitivity of reported results to changes in conditions and assumptions are factors to be considered when reviewing the financial statements. The principal accounting policies are set forth in the financial statements. The Company's management believes that the following critical accounting policies involve the most significant judgements and estimates used in the preparation of the financial statements.

(i) 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.

(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.

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) *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.

3. Comparison and analysis of results of the Company's operations (Prepared under IFRS)

3.1 Summary

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

	For the years ended 31 December								
	2020			2019			2018		
	Sales volume ('000 tons)	**Net sales (RMB million)**	**%**	Sales volume ('000 tons)	Net sales (RMB million)	%	Sales volume ('000 tons)	Net sales (RMB million)	%
Synthetic fibres	**151.4**	**1,472.4**	**2.4**	177.9	2,158.9	2.5	156.0	2,182.4	2.3
Resins and plastics	**1,365.4**	**9,419.7**	**15.3**	1,292.4	9,979.9	11.3	1,208.6	10,542.1	11.0
Intermediate petrochemical products	**2,168.0**	**8,205.8**	**13.3**	2,193.7	10,313.6	11.7	2,134.4	12,160.6	12.7
Petroleum products	**10,347.7**	**30,139.6**	**49.0**	10,294.6	43,125.9	49.0	9,917.3	43,403.0	45.4
Trading of petrochemical products	**–**	**11,577.3**	**18.8**	–	21,690.7	24.6	–	26,544.0	27.8
Other segments	**–**	**746.1**	**1.2**	–	786.7	0.9	–	781.4	0.8
Total	**14,032.5**	**61,560.9**	**100.0**	13,958.6	88,055.7	100.0	13,416.3	95,613.5	100.0

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

	For the years ended 31 December					
	2020		2019		2018	
	RMB million	**% of net sales**	RMB million	% of net sales	RMB million	% of net sales
Synthetic fibres						
Net sales	**1,472.4**	**2.4**	2,158.9	2.5	2,182.4	2.3
Cost of sales and operating expenses	**(1,836.6)**	**(3.0)**	(2,699.2)	(3.1)	(2,755.9)	(2.9)
Segment loss from operations	**(364.2)**	**(0.6)**	(540.3)	(0.6)	(573.5)	(0.6)
Resins and plastics						
Net sales	**9,419.7**	**15.3**	9,979.9	11.3	10,542.1	11.0
Cost of sales and expenses	**(8,157.6)**	**(13.3)**	(9,578.5)	(10.9)	(9,641.7)	(10.1)
Segment profit from operations	**1,262.1**	**2.0**	401.4	0.4	900.4	0.9
Intermediate petrochemical products						
Net sales	**8,205.8**	**13.3**	10,313.6	11.7	12,160.6	12.7
Cost of sales and expenses	**(7,624.2)**	**(12.4)**	(9,899.6)	(11.2)	(10,225.7)	(10.7)
Segment profit from operations	**581.6**	**0.9**	414.0	0.5	1,934.9	2.0
Petroleum products						
Net sales	**30,139.6**	**49.0**	43,125.9	49.0	43,403.0	45.4
Cost of sales and expenses	**(32,338.3)**	**(52.5)**	(42,420.4)	(48.2)	(40,493.0)	(42.4)
Segment (loss)/profit from operations	**(2,198.7)**	**(3.5)**	705.5	0.8	2,910.0	3.0
Trading of petrochemical products						
Net sales	**11,577.3**	**18.8**	21,690.7	24.6	26,544.0	27.8
Cost of sales and expenses	**(11,535.3)**	**(18.7)**	(21,637.5)	(24.5)	(26,439.1)	(27.7)
Segment profit from operations	**42.0**	**0.1**	53.2	0.1	104.9	0.1
Other segments						
Net sales	**746.1**	**1.2**	786.7	0.9	781.4	0.8
Cost of sales and expenses	**(535.1)**	**(0.9)**	(500.0)	(0.6)	(473.0)	(0.5)
Segment profit from operations	**211.0**	**0.3**	286.7	0.3	308.4	0.3

	For the years ended 31 December					
	2020		2019		2018	
	RMB million	**% of net sales**	RMB million	% of net sales	RMB million	% of net sales
Total						
Net sales	**61,560.9**	**100.0**	88,055.7	100.0	95,613.5	100.0
Cost of sales and expenses	**(62,027.1)**	**(100.8)**	(86,735.2)	(98.5)	(90,028.4)	(94.2)
Operating (loss)/profit	**(466.2)**	**(0.8)**	1,320.5	1.5	5,585.1	5.8
Net finance income	**332.3**	**0.5**	363.0	0.4	337.4	0.4
Share of profit of associates and joint ventures	**724.7**	**1.2**	972.6	1.1	885.6	0.9
Profit before income tax	**590.8**	**0.9**	2,656.1	3.0	6,808.1	7.1
Income tax	**65.6**	**0.1**	(429.0)	(0.5)	(1,471.9)	(1.5)
Profit for the year	**656.4**	**1.0**	2,227.1	2.5	5,336.2	5.6
Attributable to:						
Shareholders of the Company	**645.1**	**1.0**	2,215.7	2.5	5,336.3	5.6
Non-controlling interests	**11.3**	**0.0**	11.4	0.0	(0.1)	0.0
Profit for the year	**656.4**	**1.0**	2,227.1	2.5	5,336.2	5.6

3.2 Comparison and analysis

Comparison between the year ended 31 December 2020 and the year ended 31 December 2019 is as follows:

3.2.A Operating results

(1) Net sales

In 2020, net sales of the Group amounted to RMB61,560.9 million, a decrease of 30.09% from the previous year's RMB88,055.7 million. As of 31 December 2020, the weighted average prices (excluding tax) of synthetic fibers, resins and plastics, intermediate petrochemical products and petroleum products of the Group decreased by 19.84%, 10.65%, 19.49% and 30.48% year-on-year respectively.

(i) Synthetic fibres

In 2020, the Group's net sales of synthetic fiber products amounted to RMB1,472.4 million, a decrease of 31.80% from the previous year's RMB2,158.9 million, which was mainly due to the downturn in the downstream market this year. The general decline in the sales price of synthetic fiber products led to the sales decline during the Reporting Period. Sales volume of synthetic fibers decreased by 14.91% year-on-year, while the weighted average sales price decreased by 19.84%. Meanwhile, the weighted average sales price of acrylic fibers, the main product of the synthetic fibers segment, decreased by 19.33% year-on-year, and the weighted average sales price of polyester fibers decreased by 24.72% year-on-year. Net sales of acrylic fibers, polyester fibers and other products accounted for 84.84%, 9.15% and 6.01% of the total sales of synthetic fibers segment respectively.

Net sales of synthetic fibers accounted for 2.40% of the Group's net sales in the current year, a decrease of 0.1 percentage points from the previous year.

(ii) Resins and plastics

In 2020, the Group's net sales of resins and plastics products amounted to RMB9,419.7 million, a decrease of 5.61% from the previous year's RMB9,979.9 million, which was mainly due to the downturn in the downstream market this year. The general decline in the sales price of resins and plastics products led to the sales decline during the Reporting Period. The weighted average sales price of resins and plastics decreased by 10.65%, while the sales volume of resins and plastics products increased by 5.65% year-on-year. Meanwhile, the weighted average sales price of polyethylene and polypropylene decreased by 3.55% and 7.37%, and the weighted polyester chips decreased by 30.77% year-on-year. The sales of polyethylene, polypropylene, polyester chips and other products accounted for 34.38%, 36.95%, 13.43% and 15.24% of the total sales of resins and plastics segment respectively.

The net sales of resins and plastics accounted for 15.30% of the Group's net sales in the current year, an increase of 4.0 percentage points from the previous year.

(iii) Intermediate petrochemical products

In 2020, the Group's net sales of intermediate petrochemical products amounted to RMB8,205.8 million, a decrease of 20.44% from the previous year's RMB10,313.6 million. The decline in raw material costs this year has driven down the unit price of intermediate petrochemical products. The weighted average sales price of intermediate petrochemical products decreased by 19.49% year-on-year, and its sales volume decreased by 1.17% year-on-year. The sales of p-xylene, ethylene oxide, pure benzene, ethylene glycol and other products accounted for 22.12%, 22.65%, 13.59%, 5.51% and 36.13% of the total sales of intermediate petrochemical products respectively.

The net sales of intermediate petrochemical products accounted for 13.30% of the Group's net sales in the current year, an increase of 1.6 percentage points from the previous year.

(iv) Petroleum products

In 2020, the Group's net sales of petroleum products amounted to RMB30,139.6 million, a decrease of 30.11% from the previous year's RMB43,125.9 million, which was mainly due to the impact of international crude oil price shocks. The weighted average sales price of major products decreased by 30.48% year-on-year, and sales volume increased by 0.52%.

The net sales of petroleum products accounted for 49.00% of the Group's net sales in the current year with no change compared with the previous year.

(v) Trading of petrochemical products

In 2020, the Group's net sales of trading of petrochemical products amounted to RMB11,577.3 million, a decrease of 46.63% from the previous year's RMB21,690.7 million, which was mainly due to the decrease in customer purchase demand of the subsidiaries, namely China Jinshan Associated Trading Corporation and Shanghai Jinshan Trading Corporation, the sales of this year decreased by RMB3,804 million and RMB6,247 million respectively.

The net sales of trading of petrochemical products accounted for 18.80% of the Group's net sales in the current year, a decrease of 5.8 percentage points from the previous year.

(vi) Others

In 2020, the Group's net sales of other products amounted to RMB746.1 million, a decrease of 5.16% from the previous year's RMB786.7 million.

The net sales of other products accounted for 1.20% of the Group's net sales in the current year, an increase of 0.3 percentage points from the previous year.

(2) Cost of sales and operating expenses

Cost of sales and expense consist of cost of sales, sales and administrative expenses, other operating expenses and other operating income, etc.

In 2020, the Group's cost of sales and expenses amounted to RMB62,027.1 million, a decrease of 28.49% from RMB86,735.2 million in 2019. Cost of sales and expenses of synthetic fibers, resins and plastics, intermediate petrochemical products, petroleum products, petrochemical products and other products amounted to RMB1,836.6 million, RMB8,157.6 million, RMB7,624.2 million, RMB32,338.3 million, RMB11,535.3 million and RMB535.1 million respectively, a decrease of 31.96%, a decrease of 14.83%, a decrease of 22.98%, a decrease of 23.77%, a decrease of 46.69% and an increase of 7.02% respectively.

Compared with the last year, the cost of sales and expenses of synthetic fibers, resins and plastics, intermediate petrochemical products, petroleum products, petrochemical products decreased this year, which was mainly due to the sharp decrease in crude oil prices and thus the decrease in corresponding costs.

– **Cost of sales**

In 2020, the Group's cost of sales amounted to RMB61,664.8 million, a decrease of 28.56% from previous year's RMB86,314.1 million. Cost of sales accounted for 100.17% of the net sales this year.

– **Selling and administrative expenses**

In 2020, the Group's sales and administrative expenses amounted to RMB486.3 million, a decrease of 11.57% from the previous year's RMB549.9 million. This was primarily due to a decrease in handling and miscellaneous handling fees of RMB19.8 million and a decrease in agency fees of RMB21.0 million.

– **Other operating income**

In 2020, the Group's other operating income amounted to RMB148.7 million, a decrease of 1.33% from previous year's RMB150.7 million. This was mainly due to the decrease of RMB2.6 million in subsidies of R&D projects, leading to a reduction in other operating income.

– **Other operating expenses**

In 2020, the Group's other operating expenses amounted to RMB24.7 million, an increase of 12.79% from previous year's RMB21.9 million. This was primarily due to an increase in other operating expenses as a result of the payment of RMB6.1 million for the purchases of rights of carbon emission during the year.

(3) Profit from operations

In 2020, the Group's operating loss amounted to RMB466.2 million, a decrease of RMB1,786.7 million from the operating profit of RMB1,320.5 million in the previous year. Profit from operations was significantly lower year on year in 2020 as a result of the decrease in the price of crude oil and the impact of the COVID-19 on downstream demand.

(i) Synthetic fibres

In 2020, the operating loss of synthetic fibers amounted to RMB364.2 million, a decrease of RMB176.1 million from the operating loss of RMB540.3 million in the previous year. The overall poor performance of the textile industry, the downstream market of synthetic fibers segment, together with the impact of the external trade situation resulted in weak market demand and losses in the synthetic fibers sector during the Reporting Period.

(ii) Resins and plastics

In 2020, the operating profit of resins and plastics amounted to RMB1,262.1 million, an increase of RMB860.7 million from the operating profit of RMB401.4 million in the previous year. The rise in operating profit in the year was mainly due to a rise in plastics product downstream demand which in turn contributed to a rise in sales volume.

(iii) Intermediate petrochemical products

In 2020, the operating profit of intermediate petrochemical products amounted to RMB581.6 million, an increase of RMB167.6 million from the operating profit of RMB414.0 million in the previous year. The growth in gross profit of petrochemical products as compared with the previous period was mainly due to a fall in international crude oil price, which contribute to a significant cost fall.

(iv) Petroleum products

In 2020, the operating loss of petroleum products amounted to RMB2,198.7 million, a decrease of RMB2,904.2 million from the operating profit of RMB705.5 million in the previous year. The fall in operating profit in the year was mainly due to a fall in international crude oil price, which contribute to a significant fall in sales price, and a fall in market demand due to the impact of COVID-19. This in turn further lead to the loss in the petroleum products sector.

(v) Trading of petrochemical products

In 2020, the operating profit of the trading of petrochemical products amounted to RMB42.0 million, a decrease of RMB11.2 million from the operating profit of RMB53.2 million in the previous year. The decrease was mainly due to the decrease of RMB10,113.4 million in net sales of the trading of petrochemical products and the decrease of RMB10,102.2 million in the cost and expenses of trading, which resulted in a year-on-year decrease in profits.

(vi) Others

In 2020, the Group's other operating profit amounted to RMB211.0 million, a decrease of RMB75.7 million from RMB286.7 million in the previous year, this was primarily due to a decrease of RMB84.3 million in processing trade.

(4) Net finance income

In 2020, the Group's net financial income amounted to RMB332.3 million, a decrease of RMB30.7 million from the net financial income of RMB363.0 million in the previous year, mainly due to an increase in the average balance of loans and the issuance of RMB3.0 billion of short-term bonds during the Reporting Period, as a result, our interest expenses had increased by RMB42.3 million from RMB59.4 million in 2019 to RMB101.7 million in 2020. The increase in our deposits during the Reporting Period resulted in an increase in interest income of RMB33.0 million from RMB398.2 million in 2019 to RMB431.2 million in 2020.

(5) Profit before taxation

In 2020, the Group's profit before tax amounted to RMB590.8 million, a decrease of RMB2,065.3 million from the profit before tax of RMB2,656.1 million in the previous year.

(6) Income tax

The income tax benefit of the Group amounted to RMB65.6 million in 2020 and the income tax expense amounted to RMB429.0 million in 2019. This was primarily due to a decrease in the profit before tax of the Company which lead to a decrease of the current income tax payable, while a rise in tax losses contribute to a rise in deferred income tax.

In accordance with The Enterprise Income Tax Law of the PRC (amended in 2018), the income tax rate applicable to the Group in 2020 is 25% (2019: 25%).

(7) Profit for the year

In 2020, the Group's profit after tax amounted to RMB656.4 million, a decrease of RMB1,570.7 million from the profit after tax of RMB2,227.1 million in the previous year.

3.2.B Liquidity and capital sources

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

(1) Capital sources

(i) Net cash flow generated from operating activities

In 2020, the Group's net cash inflows generated from operating activities amounted to RMB1,679.8 million, a decrease of RMB3,378.0 million from the net cash inflows of RMB5,057.8 million in the previous year. During the Reporting Period, with profitability in operating, the Group's cash inflows generated from operating activities in 2020 amounted to RMB1,995.1 million, a decrease of RMB3,660.6 million from the cash inflows generated from operating activities of RMB5,655.7 million. The income tax was paid in 2020 amounted to RMB243.9 million, a decrease of RMB290.6 million from the income tax payable of RMB534.5 million in the previous year.

(ii) Borrowings

By the end of 2020, the Group's total borrowings increased by RMB0.4 million to RMB1,548.0 million as compared to the same period of last year, mainly due to the increase of short-term borrowings by RMB0.4 million.

The Group managed to maintain its gearing ratio at a safe level by strengthening its management of liabilities (such as borrowings) and enhancing its control over financial risks. The Group generally does not experience any seasonality in borrowings. However, due to the fact that the Group's capital expenditure is, by nature, planned in advance, long- term bank loans can be suitably arranged in advance of expenditures, while short-term borrowings are used to meet operational needs. The terms of the Group's existing borrowings do not restrict its ability to distribute dividends for its shares.

(2) Gearing ratio

As of 31 December 2020, the Group's gearing ratio was 34.25% (2019: 34.07%). The ratio is calculated using this formula: total liabilities/total assets multiply by 100%.

3.2.C Research and development, patents and licenses

The Group owns various technology development departments, including Advanced Materials Innovation Research Institute, Petrochemical Research Institute, Plastic Research Institute and Environmental Protection Research Institute, which are responsible for research and development of new technologies, products, processes, equipment and environmental protection. The Group's research and development expenses for 2018, 2019 and 2020 amounted to RMB37.3 million, RMB93.0 million and RMB110.6 million, respectively. The increase was mainly due to the increase in research and development investment in projects related to the carbon fiber.

The Group does not rely on any patents, licenses, industrial, commercial or financial contracts or new production processes in any material respect.

3.2.D Off-Balance Sheet Arrangements

Please refer to note 31 to the financial statements prepared under IFRS in the full text of the 2020 Annual Report for details of the Group's capital commitments. The Group did not provide any guarantee to external parties during the Reporting Period.

3.2.E Contractual obligations

The following table sets forth the Group's obligations to repay loan principal in future as at 31 December 2020:

	Payment due and payable by the following period as at 31 December 2020				
	Total (RMB'000)	Within 1 year (RMB'000)	After 1 year but within 2 years (RMB'000)	After 2 years but within 5 years (RMB'000)	Over 5 years (RMB'000)
Contractual obligations					
Short term borrowings	1,548,000	1,548,000	–	–	–
Long term borrowings	–	–	–	–	–
Total contractual obligations	1,548,000	1,548,000	–	–	–

3.2.F Analysis of performance and results of in which the Company has controlling interests or investment interests during the Reporting Period

As at 31 December 2020, the Company had more than 50% equity interest in the following principal subsidiaries:

Company name	Place of registration	Principal activities	Place for principal activities	Type of legal person	Percentage of equity held by the Company (%)	Percentage of equity held by the Group (%)	Registered capital	Net profit/ (loss) for the year 2020 (RMB'000)
Shanghai Petrochemical Investment Development Company Limited ("Shanghai Investment Development")	China	Investment management	China	Limited company	100.00	100.00	RMB1,000,000	213,766
China Jinshan Associated Trading Corporation (Jinshan Associated Trading)	China	Import and export of petrochemical products and equipment	China	Limited company	67.33	67.33	RMB25,000	44,201
Shanghai Jinchang Engineering Plastics Company Limited ("Shanghai Jinchang")	China	Production of polypropylene compound products	China	Limited company	-	74.25	US$9,154	3,956
Shanghai Golden Phillips Petrochemical Company Limited ("Shanghai Golden Phillips")	China	Production of polypropylene products	China	Limited company	-	100.00	US$50,000	104,104
Shanghai Jinshan Trading Corporation ("JMGJ")	China	Import and export of petrochemical products and equipment	China	Limited company	-	67.33	RMB100,000	13,010
Zhejiang Jinlian Petrochemical Storage and Transportation Co., Ltd. ("Jinlian")	China	Trading of Petrochemical Products	China	Limited company	-	100.00	RMB200,000	-11,024

Note: None of the subsidiaries have issued any debt securities.

The Group's share of interests in associates comprises a 38.26% interest in the Shanghai Chemical Industry Park Development Co., Ltd. ("Chemical Industrial Park") established in the PRC in the amount of RMB1,907.8 million, and a 20% interest in the Shanghai SECCO Petrochemical Company Limited ("Shanghai SECCO") established in the PRC in the amount of RMB2,731.5 million. The principal businesses of the Chemical Industry Park Development Co., Ltd., include the planning, development and operation a chemical industrial park located in Shanghai of the PRC. The principal business of the Shanghai SECCO is the production and distribution of petrochemical products.

(1) Explanation of profits of major controlling companies and investing companies affecting more than 10% of the net profit of the Group

In 2020, Shanghai SECCO recorded a revenue of RMB21,626.1 million, and its profit after tax reached RMB2,412.8 million, among which RMB480.8 million was attributed to the Company.

In 2020, the Chemical Industrial Park recorded a revenue of RMB1,683.1 million and its profit after tax reached RMB404.1 million, among which RMB144.6 million was attributed to the Company.

In 2020, the Shanghai Investment Development recorded a revenue of RMB20.3 million and its profit after tax reached RMB213.8 million, among which RMB213.8 million was attributed to the Company.

In 2020, the Shanghai Golden Phillips recorded a revenue of RMB1,015.8 million and its profit after tax reached RMB104.1 million, among which RMB104.1 million was attributed to the Company.

(2) Analysis of operational performance of major controlling companies and investing companies with a 30% or more year-on-year change

(a) The operating results increased by 971.62% in 2020 as compared to the previous year, which was mainly due to the RMB59 million of dividends distributed to Shanghai Investment Development as a result of the good operating results of Shanghai Investment Development's holding subsidiary Shanghai Golden Phillips in 2020. The disposal of auxiliary plant resulted in an increase in revenue from disposal of assets of RMB87.1 million, resulting in a significant advancement in our results.

(b) In addition, the operating results of Jinshan Associated Trading increased by 59.71% in 2020 year on year, which was mainly due to an increase in investment income of Jinshan Associated Trading's subsidiary JMGJ in the amount of RMB10 million, which contributed to a rise in Jinshan Associated Trading's investment income in the amount of 6.7 million.

(c) In 2020, the operating performance of Shanghai Jinchang increased by 165.77% year on year which was primarily due to the significant improvement in the operating performance of Shanghai Jinchang in 2020, as a result of the increase in the demand main product modified polypropylenee from Jinchang.

(d) In 2020, the operating results of JMGJ has shown a decrease of 51.94% year on year. This was mainly due to a significant drop in sales volume of Xylene and liquefied gas, two of JMGJ's main products, which led to a significant decline in operating performance in 2020.

(e) The operating performance of Shanghai Golden Phillips has seen an increase of 47.33% year on year, which was mainly due to a significant drop in price of Ethylene, the main raw materials required by Shanghai Golden Phillips. This contributed to an increase in operating results for 2020.

3.2.G Major suppliers and customers

The Group's top five suppliers in 2020 were China International United Petroleum & Chemical Co., Ltd., Sinochem Oil Co. Ltd., Sinopec East China Company, Sinopec Chemical Commercial Holding (Hong Kong) Company Limited and Shanghai Gas Co., Ltd.. Total procurement costs involving these five suppliers, which amounted to RMB34,973.0 million, accounted for 59.53% of the total procurement costs of the Group for the year. The procurement from the largest supplier amounted to RMB26,820.7 million, representing 45.65% of the total costs of purchases by the Group for the year.

The Group's top five customers in 2020 were Sinopec East China Company, China International United Petroleum & Chemical Co., Ltd, Sino Refinery Products Sales Co., Ltd., Shanghai Secco and Jiaxing Petrochemical Co., Ltd.. Total sales to these five customers amounted to RMB46,506.8 million, representing 62.96% of the Group's total turnover for the year. Sales to the Group's largest customer amounted to RMB38,651.4 million, representing 52.32% of the Group's total turnover for the year.

To the knowledge of the Board, among the suppliers and customers listed above, Shareholders and Directors of the Company and their close associates have no interest in Sinochem Oil Company Limited, Jiaxing Petrochemical Company Limited and Shanghai Gas Company Limited, which is an associate of the Company; Shanghai Secco is an associate company of the Company; Sinopec Chemicals Sales (Hong Kong) Co., Ltd., Sinopec Refinery Sales Co., Ltd. and Sinopec East China Company are subsidiaries of Sinopec Corp., a controlling shareholder of the Company.

(II) The Principal Operations of the Company during the Reporting Period

Discussion and analysis of the Company's operation (Prepared under CAS)

1. Analysis of the Company's major businesses

1.1 Analysis of changes in the Consolidated Income Statement and the Consolidated Cash Flow Statement

Unit: RMB'000

Item	**Amount for the year ended 31 December 2020**	Amount for the year ended 31 December 2019	Percentage increase/ decrease(%)
Revenue	**74,705,183**	100,346,048	-25.55
Cost of sales	**59,089,119**	83,781,040	-29.47
Selling and distribution expenses	**479,260**	532,455	-9.99
General and administrative expenses	**2,459,328**	2,500,287	-1.64
Financial expenses ("–" for financial income)	**-337,459**	-348,181	-3.08
Research and Development Expenditure	**110,625**	92,964	19.00
Net cash inflow generated from operating activities ("–" for net outflow)	**1,751,217**	5,121,209	Inflow decreased by 65.80%
Net cash inflow generated from investing activities ("–" for net outflow)	**-3,887,528**	-4,623,209	Outflow decreased by 15.91%
Net cash inflow generated from financing activities ("–" for net outflow)	**1,610,421**	-1,800,792	Inflow increased by 189.43%

Analysis of major changes in the Consolidated Income Statement

Unit: RMB'000

Item	For the years ended 31 December 2020	2019	Increase/ decrease amount	Increase/ decrease (%)	Major reason for change
Investment income	**837,005**	953,661	-116,656	-12.23	Associated company Shanghai Secco and Chemical Industrial Park's net profit for the period decreased sharply, resulting in a decrease in the investment accounted under the equity method.
Operating profit	**636,660**	2,698,359	-2,061,699	-76.41	During the year, the price of crude oil had seen significant fluctuation and the price of products dropped more than the decrease in the cost of crude oil, resulting in a significant decrease in profit as a result of the impact of the price differential and the decrease in demand from downstream manufacturers and the general economic environment.
Total profit	**573,816**	2,654,116	-2,080,300	-78.38	
Net profit	**639,436**	2,225,153	-1,585,717	-71.26	
Income tax (benefit)/ expense	**-65,620**	428,963	-494,583	-115.30	The profit before tax decreased during the Reporting Period.

Analysis of major changes in the Cash Flow Statement

Unit: RMB'000

Item	For the years ended 31 December 2020	2019	Increase/ decrease amount	Increase/ decrease (%)	Major reason for change
Net cash inflow generated from operating activities ("–" for net outflow)	**1,751,217**	5,121,209	Inflow decreased by 3,369,992	Inflow decreased by 65.80	A decrease in demand for downstream-end products this year has led to a decrease in revenue-related sales and other inflows.
Net cash inflow generated from investing activities ("–" for net outflow)	**-3,887,528**	-4,623,209	Outflow decreased by 735,681	Outflow decreased by 15.91%	The increase in net cash inflow from purchasing structured deposits and time deposits for the year was RMB1.4 billion, resulting in an increase in cash inflow from investing activities.
Net cash inflow generated from financing activities ("–" for net outflow)	**1,610,421**	-1,800,792	Outflow increased by 3,411,213	Outflow increased by 189.43	During the Reporting Period, short-term financing bonds amounting to RMB3.0 billion were issued, resulting in an increase in cash inflow from financing activities.

1.2 Revenue

(1) Analysis of factors causing the changes in revenue

The weighted average prices (exclude VAT) of the Group's synthetic fibres, resins and plastics, intermediate petrochemical products and petroleum products reduced by 19.84%, 10.65%, 19.49% and 30.48% respectively, bringing a lower revenue in 2020 compared with the previous year.

(2) Major customers

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

1.3 *Cost of sales*

(1) Analysis of cost of sales

In 2020, the Group's costs of sales were RMB59,089.1 million, a decrease of 29.47% from the previous year's RMB83,781.0 million. This was mainly due to the fall in international crude oil price in the year and a fall in the Group's purchase, which lead to a decrease in cost.

The following table sets forth the details of the cost of sales of the Group during the Reporting Period:

	For the years ended 31 December				
	2020		2019		
	RMB million	**% of total cost of sales**	RMB million	% of total cost of sales	Increase/ decrease (%)
Cost of raw materials					
Crude oil	**33,960.6**	**57.48**	47,077.7	56.20	-27.86
Ancillary materials	**8,121.7**	**13.74**	10,024.3	11.96	-18.98
Depreciation and amortisation	**1,430.1**	**2.42**	1,413.3	1.69	1.19
Staff costs	**2,109.9**	**3.57**	2,086.6	2.49	1.12
Costs of trade	**11,467.4**	**19.41**	21,566.4	25.74	-46.83
Others	**1,999.4**	**3.38**	1,612.7	1.92	23.98
Total	**59,089.1**	**100.00**	83,781.0	100.00	-29.47

(2) Major suppliers

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

1.4 Expenses

Please refer to "Analysis of changes in the Consolidated Income Statement and the Consolidated Cash Flow Statement" set forth in the "Discussion and Analysis of the Company's Operations" for details of the changes in expenses of the Group.

1.5 Research and development ("R&D") expenditure

Unit: RMB'000

Expensed R&D expenditure during the Reporting Period	110,624.5
Capitalised R&D expenditure during the Reporting Period	284,667.5
Total R&D expenditure	395,292.0
% of R&D expenditure to revenue	0.53
Number of R&D personnel	142
% of number of R&D personnel to total number of staff	1.69
% of capitalised R&D expenditures	72.01

Please refer to 3.2.C for details of R&D, patents and licences of the Group.

1.6 Cash Flow

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

2. Analysis of business operations by industry, product or geographical location segment

2.1 Principal operations by industry or product

Unit: RMB'000

By industry	Revenue	Cost of sales	Gross profit/(loss) margin (%)	Increase/ decrease of revenue as compared to the previous year	Increase/ decrease of cost of sales as compared to the previous year	Change of gross profit margin as compared to the previous year (%)
Synthetic fibres	1,480,576	1,764,492	-19.18	-32.71%	-29.02%	Decreased by 6.19 percentage points
Resins and plastics	9,475,887	7,334,646	22.60	-6.77%	-16.57%	Increased by 9.09 percentage points
Intermediate petrochemical products	8,251,252	6,867,874	16.77	-21.50%	-24.49%	Increased by 3.30 percentage points
Petroleum products (Note)	43,080,204	30,970,671	28.11	-21.51%	-24.75%	Increased by 3.09 percentage points
Trading of petrochemical products	11,585,110	11,467,420	1.02	-46.63%	-46.83%	Increased by 0.37 percentage points
Others	422,466	415,228	1.71	-1.59%	12.18%	Decreased by 12.07 percentage points

Note: Gross profit margin is calculated according to the price of petroleum products, which includes consumption tax. Gross profit margin of petroleum products after deducting consumption tax amounted to 1.65%.

2.2 Operating income by geographical location

Unit: RMB'000

Geographical location	Revenue	Increase/decrease of revenue compared with the previous year (%)
Eastern China	65,078,522	-17.23%
Other regions in China	1,950,194	-42.22%
Exports	7,676,467	-58.16%

3. Analysis of assets and liabilities

Unit: RMB'000

Item Inventories	As at 31 December 2020 Amount	As at 31 December 2020 % of total assets	As at 31 December 2019 Amount	As at 31 December 2019 % of total assets	Change of amount on 31 December 2020 to 31 December 2019 (%)	Major reason of the change
Inventories	3,888,746	8.69	6,754,434	15.09	-42.43	As a result of the COVID-19 pandemic and the decline in international crude oil prices, the Company's crude oil inventory unit cost decreased sharply. Affected by the decline in crude oil prices, the volume of products in process and finished products decreased by 42.0% and 45.0%, respectively.
Other current assets	3,057,587	6.83	11,971	0.03	25,441.62	Other current assets in the period are mainly the time deposits maturing within one year as purchased by the Company.
Other non-current assets	7,042,840	15.74	3,511,234	7.85	100.58	Other current assets increased in the period included time deposits of more than one year and large amount certificates of deposits.
Other current liabilities	3,072,150	6.87	–	–	100.00	Other current liabilities increased in the period was mainly the extremely short-term bonds issued by the Company

4. Others

(1) Directors, Supervisors, senior management and employees

Please refer to "Directors, Supervisors, Senior Management and Employees" in this annual report.

(2) Purchase, sale and investment

Save and except as disclosed in the 2020 annual report, there was no material purchase or sale of the Group's subsidiaries, associates or joint ventures or any other material investments in 2020.

(3) Pledge of assets

As at 31 December 2020, no fixed assets were pledged by the Group (31 December 2019: Nil).

(4) Material events after the Reporting Period

The Board of directors is not aware of any material events affecting the Group since the end of the Reporting Period.

5. Financial assets and financial liabilities held in foreign currencies

As at 31 December 2020, bank deposits denominated in foreign currencies held by the Group equivalent to RMB207,727 thousand.

6. Investment of the Company

6.1 Entrusted wealth management and entrusted loans

(1) Entrusted wealth management

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

(2) Entrusted loans

The Company did not engage in any entrusted loans during the Reporting Period.

6.2 Analysis of the companies in which the Company has controlling interests or investment interests

Please refer to 3.2.F "Analysis of performance and results of major companies in which the Company has controlling interests or investment interests during the Reporting Period" contained in section II "Management Discussion and Analysis" of this chapter for details on the analysis of the major companies in which the Company has controlling interests or investment interests.

6.3 Non-fundraising projects

In 2020, the capital expenditures of the Group amounted to RMB2,107.0 million, representing an increase of 15.77% as compared with RMB1,820.0 million in 2019. Major projects include the following:

Major Project	Total amount of project investment RMB' 00,000,000	Amount of project investment during the Reporting Period RMB' 00,000,000	Project progress as at 31 December 2020
Equity acquisition of Zhejiang Jinlian Petrochemical Storage and Transportation Co., Ltd.	3.40	3.40	Capital contribution fully completed
Sinopec Shanghai raw silks (24,000 ton/year) and 48K large-tow carbon fiber (12,000 ton/year) project	34.90	2.80	Under construction
Oil cleaning project 400,000 tons/year clean gasoline components units	7.82	2.60	Put into operation
Second stage of PAN (Polyacrylonitrile) based carbon fiber project with annual production of 1,500 tons	8.48	0.57	Under construction
Security risk rectification project of the central control room of the olefin section	1.00	0.50	Under construction
Jinyang spinning process optimization project	0.54	0.39	Under construction
Equity Investment in Pinghu China Aviation Oil Port Co., Ltd.	0.28	0.28	Capital contribution fully completed

Note: In addition to the major capital expenditure items disclosed in the above table, the total capital expenditure of other projects of the Company is RMB1,053.0 million.

The Group's capital expenditures for 2021 are estimated at approximately RMB3,250.0 million.

(III) Discussion and analysis on future development of the Company

1. Industry competition and development trends

Currently, while the world is deep in the crisis of the pandemic, the global economy is expected to undergo a rapid recovery in the wake of swift vaccine research and roll-out, and is on track for the full restoration of a pre-pandemic state by the end of the year. Even so, the ongoing global economic recovery was still clouded by the following challenges: the effectiveness of vaccine is still waiting to be seen; countries may withdraw their stimulus measures sooner; increasing trade protectionism; intensifying geo-political tensions; the global economy still faces intricacy.

While China is still moving into a new development phase, the foundation for recovery is yet to be consolidated. Issues in unbalanced and inadequate development remain to be tackled. However, China still enjoys positive economic development factors: 2021 is the commencing year of the "14th Five-Year Plan" which represents the three major objectives have been completed on schedule, and a new development pattern with the domestic big circle as the main body and the domestic and international double circle promoting each other is being accelerated.. China will continue to implement a proactive fiscal policy and a prudent monetary policy so as to keep providing necessary support for economic recovery. It is expected that China's economic growth is going to operate within a reasonable range.

In 2021, COVID-19 pandemic, OPEC+ production cut and geo-politics incidents pose continuing challenges on oil price. The recovery of the global economy in the second half of the year will draw new oil demand. Rising supply is expected from OPEC nations exempted from oil cut and non-OPEC producers like Canada, which are to exert pressure on the supply side. However, global oil supply would run on a lower level should OPEC+ maintain effective enforcement on production cut, so much so that the supply will stay lower than demand. On the political stage, the new US president's ruling strategy, the degree of support for energy development in US and the positioning of Sino US relations are still uncertain. Whether Sino US trade frictions will come back and the trend of US crude oil production and export are all factors that may affect the oil price trend in 2021.

The domestic petrochemical industry is currently facing the challenge of a downward economic cycle. During the "14th Five-Year Plan" period, China's refining and chemical industry is set to enter a full phase of new release in capacity and fierce competition. Industry integration, transformation and upgrading are also phasing in. Oversupply is further seen in the refined oil market. The transformation of chemical products towards the higher end and the more environmentally friendly will become a new trend. Driven by new energy, new materials, and the new economy, clean, digital, and diversified developments are now the key trends in developments upon the phasing in of a new energy regime in social development. These new developments will impact the energy supply from petrochemical companies, which will put severe pressure on petrochemical companies' profitability.

2. **Development strategies of the Company**

The Group's development objectives are to evolve itself into a "leading domestically, first-class globally" energy and chemical and new material enterprise. The key components of the Group's development strategy are as follows: to take into account both low cost and differentiation, and to focus on both scale and refinement. The Company foscuses on value and market orientation, creativity, talents as the backbone of the Company, the emphasis of environment and low carbon emissions and integrated development, to realize low cost and large scale of the upstream, and high value-added and refinement of the downstream. The Company will give full play to its advantages of wide product chain, diversified products and close monitoring of the market to enhance competitiveness. Under the guidance of the development strategy, the Company further integrates the existing three industrial chains of oil refining, olefin and aromatics with the development idea of "One Leader, One Core and One Base", enterprise resource optimization and development plan in the Shanghai region. The Company also takes advantage of the new development model of integrated refinery and petrochemical capacity with the concept of molecular refining and petrochemicals, and further advances the integration of industry and city as well as regional integration, while selectively developing the downstream petrochemical product chain with cost and logistics advantages as well as market support. On this basis, the Company is to build an industrial base that features green energy, fine petrochemical, and high-end materials that come with world-scale and first-class competitiveness on the northern shore of Hangzhou Bay, forming an unparalleled industrial complex with a stable profit model.

3. **Business plans**

In 2021, the Group will continue to adhere to the market-oriented, efficiency-centred strategy, and to consolidate the foundation of environmental protection, continue to optimize production and operation, improve corporate governance efficiency with a focus on building talent teams, to achieve high-quality development of the Company and strive to create better economic benefits.

In 2021, the Company is looking to process a total of 14.20 million tons of crude oil and produce a total of 8.69 million tons of refined oil, 0.75 million tons of ethylene, 0.49 million tons of paraxylene, 0.42 million tons of polyethylene, 0.43 million tons of polypropylene, 0.30 million tons of purified terephthalic acid, 0.25 million tons of ethylene glycol, 0.03 million tons of polyester fiber and 0.10 million tons of acrylic fiber.

In order to realize the operation goals of 2021, the Group will put its mind on the following tasks:

(1) To center on green and clean energy for consolidating environmental protection

The Company vows to comprehensively promote the establishment of the HSSE management system and establish and improve the PDCA closed-loop management mechanism. Under the key theme of "identifying major risks, eliminating major hidden dangers, and preventing major accidents", the Company seeks to strengthen risk management and control in key areas and key links, and continue to tighten contractor safety management and control. Furthermore, the Company shall keep on improving employees' safety awareness and skills and promote the creation of a culture that values safety. The Company shall also emphasize implementing a green and clean strategy and strengthen carbon emission management to realize stable and standard-meeting emission of waste gas and wastewater to ensure that VOCs' average concentration at the boundary was less than 100 micrograms/m3 and strengthen carbon emission management. The Company also seeks to make a good effort in the supply of anti-epidemic materials, in dealing with emergencies and the workforce's stability to ensure the safety and physical and mental health of employees, and to strengthen employee safety education and comprehensively improve employee health management standards.

(2) To focus on improving qualities and efficiencies the continuous optimization of production and operation

The Company vows to optimize its overall planning for operations shutdown and start-up and strengthen the plant's management and control during the shutdown and start-up phase. The Company shall also improve its technical and economic indicators by improving safety management and its key control and maintenance plans. The Company shall also optimize its systems to further improve the accuracy and reliability of crude oil comparison and selection, production and operation, and product structure optimization. The Company shall also further expand varieties in crude oil procurement and enhance deployment flexibility and reduce crude oil procurement costs. Furthermore, the Company strives to accurately grasp market conditions and adjust marketing strategies and product structures to maximize benefits. The Company shall also emphasize flexibly adjusting the yield of refined oil products and diesel-gasoline ratio, raise the total volume of high-grade gasoline, and develop new channels for exporting gasoline and jet fuel. The Company shall also take advantage of market opportunities and devote efforts in developing new products and specialized materials. The Company shall optimize its public projects and promote the optimization of its storage and transportation logistics system, and optimization its oil refining business. As a significant step forward, the Company is to implement full process safety management while strengthening its process stability and equipment integrity management, and continuously upgrade the automation and intelligences of its equipments. The Company will exert strict control of "Three Smalls" and eliminate "Three Nons". Special competitions on the reliability of production equipment will continue to take place, while the "The Day of Excellence" activities are continuing to mobilize employees to eliminate safety risks in time, avoid accidents, and strengthen the smooth separation of the equipment.

(3) *To advance reformations further and to raise efficiencies in corporate governance*

With a good focus on its strategic planning, the Company seeks to explore its path in organizational reorganization along the business or industrial chain to establish an organizational system which is in line with the management scope. The Company shall also reorganize its organizations and streamline work processes as well as integrate positions, and focus on key tasks in the reform, such as the reformation of "three systems", the reformation of its scientific research regime, and a sound market-oriented operating system. The Company shall continue to promote its process management to improve the efficiency of business collaboration between different departments. The Company shall also strengthen the management of investment enterprises, and incorporate wholly-owned and holding subsidiaries into the Company's integrated management system. The Company shall also fully carry out benchmarking and upgrading, and strengthen cost target management across the whole staff body, while further tapping potentials and raise efficiency, with strict control on various expenses and expenditures. The Company also works to integrate business and finance, and transformation from accounting finance to management finance. The Company also implements transparent management, optimises business processes, improves management efficiency and quality, and makes good use of information technology to quickly and effectively convey the Company's decisions and plans to, and deployment at, the bottom level. The Company is also establishing a back-check mechanism to ensure the all employees are clear about the goals and responsibilities and provided the motivation.

(4) *To focus on creativity-driven development so as to realize high-quality corporate development*

In accordance with the "3060" national carbon emission requirement, the Company's ultimate goal is to ensure "zero carbon emissions" and guarantee coordination of carbon reduction and transformation and development. The Company promoted the construction of large ton carbon fibre, hundred-ton high performance carbon fibre pilot plant project, 3rd circuit 220 kV power supply line project. We will speed up the construction of hydrogen energy demonstration projects and launch the thermoplastic elastomer project. The Company shall emphasis on tackling key core technologies such as carbon fiber, and increase investment in research and development, and improve the collaborative innovation mechanism. The Company shall also explore opportunities in differentiated high value-added products, and strive to build a new material industry cluster with the carbon fiber industry as the core and utilize polyester, polyolefin, elastomer, C5 downstream fine chemical new materials as the keys to seek breakthroughs and developments. The Company also vigorously promote the construction of a data governance system and the application of advanced control and optimization technologies, and deepen the application of intelligent security, with promoting the construction of an integrated platform for intelligent marketing, and accelerate the advancement of digital transformation.

(5) *Focus on team building and cementing solid foundation for development*

The Company shall further empower the Company through recruiting talents and improve the recruitment of fresh graduates. The Company is devising a five-year training programme for new college graduates and building a talent team with engineering thinking. The Company shall also clarify its employment orientation and evaluate officers and talents' selection and appointment mechanism. The Company continues to explore channels to select and appoint officers by introducing mature talents and the selection and appointment of professional managers to nurture more young officers. The Company is also looking to uphold the pioneering spirit of the base-level and the public and improve staff medical services and improve medical protection standards to raise its staff's happiness index while further enhancing the cohesion of the staff team.

4. Risk exposure

(1) *The cyclical characteristics of the petroleum and petrochemicals market and price volatility in crude oil and petrochemical products may have an adverse impact on the Group's operations*

A large part of the Group's revenue is derived from the sales of refined oil and petrochemical products. Historically, such products have been cyclical in nature and relatively sensitive to macroeconomic changes. Additionally, changes in regional and global economic conditions, productivity and output, prices and supply of raw materials, consumer demand and prices and supply of substitutes also have an effect. From time to time, these factors have a material impact on the prices of the Group's products in regional and global markets. Given the reduction of tariffs and other import restrictions as well as the relaxation of control by the PRC government over the distribution and pricing of products, a substantial number of the Group's products will increasingly be subject to the cyclical impact in the regional and global markets. In addition, the prices of crude oil and petrochemical products will remain volatile, and uncertain. Higher crude oil prices and lower petrochemical products prices are likely to have a negative impact on the Group's business, operating results and financial condition.

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

At present, the Group consumes a significant amount of crude oil for the production of petrochemical products. More than 95% of the crude oil consumption is imported. In recent years, crude oil prices have been subject to significant fluctuations due to a variety of factors, and the Group cannot rule out the possibility of any major unexpected event which may cause a suspension in crude oil supply. The Group has attempted to mitigate the effects of increased costs from rising crude oil prices by passing them on to the customers, but the ability to do so is limited because of market conditions and government control over the pricing of refined oil products. Since there is a time-lag between increases in crude oil prices and increases in petrochemical product prices, higher costs cannot be totally offset by raising the selling prices. In addition, the State also imposes control over the distribution of some petroleum products within China. For instance, some of the Group's petroleum products are required to be sold to designated customers (such as subsidiaries of Sinopec Corp). Hence, when crude oil prices are high, the higher costs cannot be totally offset by raising the selling prices of the Group's petroleum products.

(3) *Modest capital expenditures and financing requirements are required for the Group's development plans, presenting a number of risks and uncertainties*

The petrochemical industry is a capital-intensive industry. The Group's ability to maintain and raise income, net income and cash flows is closely connected with ongoing capital expenditures. The Group's capital expenditures are estimated to amount to approximately RMB3,250 million in 2021, which will be met by financing activities and by internal funding. The Group's effective capital expenditures may vary significantly due to the Group's ability to generate sufficient cash flows from operations, investments and other factors that are beyond control. Furthermore, there is no assurance as to the completion, cost or outcome of the Group's fund-raising projects.

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

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

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

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

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

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

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

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

Sinopec Corp., the controlling shareholder of the Company, owns 5,460,000,000 shares of the Company, which represents 50.44% of the total number of shares of the Company and gives it an absolute controlling position. Sinopec Corp. may, by using its controlling position, exercise influence over the Group's production operations, fund allocations, appointment or removal of senior staff and so forth, thereby adversely affecting the Group's production operations as well as minority shareholders' interests.

Section III Analysis of Operating Information in Chemical Industry

(I) Basic information of the industry

1. Industry policy and changes

In 2020, facing new phenomena in fossil, water, solid waste and gas management, various environmental protection policies are further tightened, with clarification of the enterprise's primary responsibilities and a further refinement in the risk response mechanism. On the one hand, the oil and gas industry were continued to be guided towards being market-oriented and internationalized on the national and the local level. On the other hand, the Company sought to step up its adjustment of the industrial structure and curtail backward production capacity and raise the threshold for new projects. All in all, changes in policies had bought both opportunities and challenges to the industry.

In terms of safety and environmental protection policies, on 16 January, the National Development and Reform Commission, Ministry of Ecology and Environment issued the "Opinion on further Strengthening the Control of Plastic Pollution". The "Opinion" proposed to actively respond to plastic pollution, prohibit and restrict the production, sales and usage of certain plastic products in an orderly fashion, and introduced a series of policies and measures for effective and orderly control of plastic pollution. On 22 January, the Shanghai Emergency Management Bureau released the "Implementation Measures of Shanghai Fire Safety Responsibility System", which was implemented from 1 March. On 9 February, the Shanghai Emergency Management Bureau launched the "Opinions on Further Fully Implementing the Main Responsibilities of Enterprise Work Safety", which was implemented from 12 March. The "Opinion" required companies to enhance the legal awareness on safe production of all employees and strengthen the responsibilities of the person in charge of safety production and ensure the investment of safety production funds. On 26 February, the General Office of the CPC Central Committee and the general office of the State Council issued the "Opinions on Comprehensively Strengthening the Work of Safe Production of Hazardous Chemicals". All regions and departments were hereby required to carry out in-depth safety risk investigation, strengthen the safety management and control of key links, and strengthen the implementation of enterprises' main responsibility. On 21 February, the Shanghai Emergency Management Bureau, China Banking and Insurance Regulatory Commission jointly issued the "Measures for the Shanghai hazardous chemicals and work safety liability insurance in the field of industry and trade, which was implemented from 1 April. On 16 March, the Shanghai Municipal Bureau of Ecology and Environment promulgated and implemented the "Implementation Plan on Further Strengthening the Prevention and Control of Hazardous Waste Pollution in Shanghai". On 7 April, four departments including Shanghai Municipal Bureau of Ecology and Environment jointly promulgated and implemented the "Implementation plan of Shanghai on implementing the law on the prevention and control of soil pollution and promoting the solution of prominent soil pollution problems". On 29 April, the 17th session of the Standing Committee of the 13th National People's Congress deliberated on and adopted the revised "Law on the Prevention and Control of Environmental Pollution by Solid Waste", the new "Solid Waste Law" was implemented on 1 September 2020. The new "Solid Waste Law" raised penalties for illegal disposal of solid waste. Strict legal responsibilities were imposed on illegal activities such as dumping, stacking, discarding, throwing industrial solid waste without authorization, and dumping and stacking hazardous waste without authorization. On 10 September, ten departments including Shanghai Development and Reform Commission issued "Implementation Plan of Shanghai on Further Strengthening the Treatment of Plastic Pollution". On 30 October, the Ministry of Ecology and Environment in conjunction with the Ministry of Industry and Information Technology and the National Health Commission issued the "List of Priority Control Chemicals (Second Batch)". The list required environmental risk control measures for products related to the list, minimized the impact of the production and use of chemicals on human health and the environment. On 31 October, the Ministry of Emergency Management issued and implemented "Notice on Issuing the Catalogue of Safety Classification and Rectification of Hazardous Chemical Enterprises (2020)". The "Notice" summarized standard specifications and supporting normative documents involving the violation of hazardous chemical safety and the sort-out major hidden dangers that distributed around the content of "Safety Production Law", the "Hazardous Chemical Safety Management Regulations", and other laws and regulations. It draws upon the latest requirements of "Three year Action Plan for Special Rectification of Hazardous Chemicals Safety" at the same time. These efforts helped to define the criteria for qualitative evaluation of safety production conditions of hazardous chemical enterprises.

In terms of industrial policy, on 26 March, the State Council issued the " Official Reply of the State Council on Several Measures for Supporting the Opening-up and Development of the Complete Oil and Gas Industry Chain in the China (Zhejiang) Pilot Free Trade Zone". On 25 May, the Shanghai Municipal Commission of Economic and Information Technology published the" Shanghai Municipality Industrial Structure Adjustment Catalogue--Restrictions and Elimination (the 2020 Edition)". It outlines restricted categories including the construction of PET continuous polymerization production plant of less-than 800,000 tons/p.a. naphtha cracking ethylene, less-than 1 million tons/p.a. purified terephthalic acid, less-than 200,000 tons/p.a. ethylene glycol, less-than 200,000 tons/p.a. styrene, less-than 200,000 tons/p.a. polyethylene, and single-line production capacity of less than 200,000 tons/p.a., etc. The elimination categories include 2 kt/p.a. and below atmospheric and vacuum unit, conventional polyester (PET) batch polymerization production process and equipment, semi-automatic winding equipment for normal polyester filament yarn spindle shaft at a length of 900 mm and below. On 12 June, the NDRC and the Energy Administration jointly issued the ''Guiding Opinions on betterment of 2020 Energy Security Work ''(The Opinion). The Opinion put forward a proposal to vigorously enhance the energy production supply capacity, and focus on strengthening energy reserves and accelerate the construction of gas storage facilities. The Opinion also required the relevant departments of each region to improve the emergency protection plan and to strengthen mechanisms in energy monitoring and early warning. On 1 July, the Ministry of Commerce of the PRC promulgated the Decree No. 1 of 2020, first to terminate the "Measures for the Administration of Refined Oil Market" (Order No. 23 of 2006 issued by the MOFCOM, as amended by the MOFCOM Order No. 2 of 2015, and MOFCOM Order No. 1 of 2019); second to terminate the "Measures for the Administration of Crude Oil Market" (Order No. 24 of 2006 issued by MOFCOM, as amended by MOFCOM No. 2 of 2015). On 1 September, 2020, the PRC 's Resource Tax Law was officially enacted, and the taxation of resource taxes at ad valorem, to be supplemented by the levy of taxation per quantities, was introduced into law.

2. Basic situation of major segments and the Company's industry status

In 2020, the COVID-19 pandemic coupled with low oil prices posed unprecedented challenges and impacts to the petrochemical industry. The breakdown of the industry's annual production and operation is summarized as follows.

The first is more apparent segments differentiation. The refining segment fell by 15.5% year-on-year in terms of operating income, which was worse than the industry average; the chemical segment fell by 3.6% year-on-year, which was better than the industry average. The refining segment fell by 45.6% year-on-year in terms of profit, which was significantly worse than the industry average; the chemical segment increased by 25.4% year-on-year, which was substantially better than the industry average and substantially better than the refining segment. From the sub-sectors, the annual operating income and profit of basic chemical products dropped (-5.2%, -2.6%), the annual operating income and profit of specialized chemicals increased (+1.6%, +13.4%), and synthetic materials (-6.7%, +5%).

The second is the increase in the output of main products. Annual crude oil production was 195 million tons, a year-on-year increase of 1.6%, and a year-on-year increase for two consecutive years; with the natural gas production of 188.85 billion cubic meters, an increase of 9.8% year-on-year, and an increase of more than 10 billion cubic meters for the fourth consecutive year. Crude oil processing volume totaled 674 million tons, an increase of 3.0% year-on-year. Total production of major chemicals increased by 3.6%. Ethylene increased by 4.9% year-on-year, Pure benzene increased by 8.6%, refined methanol increased by 4.7%, polyethylene increased by 8.9%, polypropylene increased by 10.8%, synthetic fiber monomer increased by 8.6%.

The third is the increase in consumption of major products. Although major petrochemical products' market consumption suffered a significant setback in the first quarter, it nevertheless gradually rebounded since the second quarter. Annual crude oil apparent consumption reached 736 million tons, an increase of 5.6% year-on-year; natural gas apparent consumption reached 325.36 billion cubic meters, an increase of 7.3% year-on-year. Total apparent consumption of major chemicals increased by about 4.6% year-on-year, among which ethylene increased by 1.7%, pure benzene increased by 8.8%, methanol increased by 7.5%, synthetic resin increased by 8.4%, synthetic fiber monomer (polymer) increased by 7.9%.

The fourth is the fall in product prices. The average annual price of 70 among the 88 major organic chemicals represented a year-on-year decrease, which accounted for 79.5% of all products. The sharp drop in product prices is the main factor that led to a sharp decline in the entire industry's benefits.

Although significantly impacted by the COVID-19 pandemic, and excess refining capacity was further tightened, the build-up of China's refining and chemical capacity is still in boom in 2020. Among which foreign investment, central enterprises and private enterprises take their active part. ExxonMobil commenced construction of the ethylene project in Huizhou with a total investment of 10 billion USD. The construction of BASF Zhanjiang Integrated Base continued after the construction commenced in November 2019. The integrated operation of Sino-Science Refinery and Chemical was officially put into operation. Two sets of units under the Sinopec Luoyang Petrochemical Refining Structure Adjustment Project were put into operation, which delivered a processing capacity of 10 million tons/year. PetroChina Daqing Petrochemical Refining Structural Adjustment and Transformation and Upgrading Project 's 12 sets of equipment and 29 supporting utilities and auxiliary facilities have been completed, which set the Company among the ranks of 10-million-ton refining and petrochemical integrated enterprises. The 1.5 million tons/year ethylene project invested and constructed by Hengli has been put into production. Hengli Coal & Chemical Integrated Industrial Base has been established in in Yulin, Shaanxi Province, which forged a pattern of development that incorporated a completed industrial chain layout that covered everything "from a drop of oil to a piece of cloth and from a piece of coal to a piece of cloth". The Yulong Island Refining and Chemical Integration Project, a landmark project of Shandong local smelting capacity integration and transfer, commences. The 1 million tons/year ethylene project of Wanhua Chemical began production in Yantai, Shandong Province. Zhejiang Petrochemical 40 million tons/year integration of refining and chemical phase II project is now in pilot production phase. Tangshan Xuyang Petrochemical Co., Ltd.'s 15 million tons/year refining and chemical integration project was approved. It is also worth noting that Zhejiang Petrochemical is qualified to export refined oil products in non-state trade. It therefore becomes the first private enterprise to acquire the right of exporting refined oil products besides the four state-owned oil enterprises. In view of an apparent surplus in refining capacity, while the production capacity for many basic petrochemical products has or tends to be saturated under the situation, the construction of production capacity is hot and fierce, and the domestic market will be further shuffled.

The Group is one of the major large-scale enterprises integrating refining and petrochemical capacity in China. As its production capacity of main products remained unchanged in recent years, while other domestic enterprises focused on expanding their capacity, the production of ethylene, paraxylene, glycol and other products of the Group accounted for significantly less market share domestically of similar products in 2020. In 2020, the output of the Group's main products accounted for 1.5%-3% of the corresponding national output.

(II) Products and production

1. Main operating model

The Company's main operating models are: crude oil procurement; processing and production of synthetic fibre, resin, plastic, intermediate petrochemical products and petroleum products; realizing profit through product sales.

2. Main products

Product	Industry segment	Primary upstream raw material	Transport/storage method	Primary downstream application fields	Key price-influencing factors
Diesel	Petroleum products	Petroleum	Pipeline transportation and shipping/ storage tank	Transportation fuel, agricultural machinery fuel	International crude oil price, government control
Gasoline	Petroleum products	Petroleum	Pipeline transportation and shipping/ storage tank	Transportation fuel	International crude oil price, government control
Jet Fuel	Petroleum products	Petroleum	Pipeline transportation and shipping/ storage tank	Transportation fuel	International crude oil price, supply-demand balance
PX	Intermediate petrochemicals	Naphtha	Road transportation/ storage tank	Intermediate petrochemical products and polyester	Raw material price, supply-demand balance
Benzene	Intermediate petrochemicals	Naphtha	Road transportation, shipping, rail transportation/ storage tank	Intermediate petrochemical products, styrene, plastic, explosive, dye, detergent, epoxy resin, chinlon	International crude oil price, market supply-demand condition
Ethylene Glycol	Intermediate petrochemicals	Naphtha	Road transportation/ storage tank	Fine Chemicals engineering	International crude oil price, market supply-demand condition

Product	Industry segment	Primary upstream raw material	Transport/storage method	Primary downstream application fields	Key price-influencing factors
Ethylene Oxide	Intermediate petrochemicals	Naphtha	Road transportation, pipeline transportation/ storage tank	Chemical and medical industry intermediate products, including dyes, detergents and auxiliary	International crude oil price, market supply-demand condition
Ethylene	Intermediate petrochemicals	Naphtha	Road transportation, pipeline transportation, shipping/storage tank	PE, EG, PVC and other raw material for further processing of intermediate petrochemical products such as resins, plastics and synthetic fibres	International crude oil price, supply-demand balance
PE	Resins and plastics	Ethylene	Road transportation, shipping and rail transportation/ warehousing	Film, mulching film, cable insulation material and housewares, toys injection moulding products	Raw material price and market supply-demand condition
PP	Resins and plastics	Propylene	Road transportation, shipping and rail transportation/ warehousing	Film, mulching film, housewares, toys, household appliances and auto parts injection moulding products	Raw material price and market supply-demand condition
Polyester chips	Resins and plastics	PTA, EG	Road transportation, shipping and rail transportation/ warehousing	Polyester fibre or film, container	Raw material price and market supply-demand condition

Product	Industry segment	Primary upstream raw material	Transport/storage method	Primary downstream application fields	Key price-influencing factors
Acrylics	Synthetic fibres	Acrylonitrile	Road transportation, shipping and rail transportation/ warehousing	Simple spinning or blend with other material for texture or acrylic top	Raw material price and market supply-demand condition
Polyester	Synthetic fibres	Polyester	Road transportation, shipping and rail transportation/ warehousing	Texture, apparel	Raw material price and market supply-demand condition

	Production			Sales		
Products	**2020 (10,000 tons)**	2019 (10,000 tons)	Year-on-year change	**2020 (10,000 tons)**	2019 (10,000 tons)	Year-on-year change
Diesel Note1	**398.21**	384.50	3.57%	**398.61**	384.14	3.77%
Gasoline	**327.30**	346.84	-5.63%	**328.18**	345.31	-4.96%
Jet Fuel Note1	**112.45**	187.86	-40.14%	**99.43**	135.39	-26.56%
Paraxylene	**66.24**	66.68	-0.66%	**45.64**	45.55	0.20%
Benzene Note2	**37.21**	37.33	-0.32%	**33.14**	32.98	0.49%
Ethylene Glycol	**23.67**	28.67	-17.44%	**12.73**	18.23	-30.17%
Ethylene Oxide	**31.30**	27.55	13.61%	**30.53**	26.69	14.39%
Ethylene Note2	**82.52**	84.13	-1.91%	**–**	0.19	–
Polyethylene	**58.12**	53.73	8.17%	**57.85**	53.58	7.97%
Polypropylene	**49.29**	46.96	4.96%	**45.16**	43.36	4.15%
Polyester Pellet Note2	**33.99**	35.90	-5.32%	**29.33**	28.09	4.41%
Acrylic	**11.55**	13.69	-15.63%	**11.69**	13.70	-14.67%
Polyester Staple	**3.37**	3.94	-14.47%	**3.40**	3.94	-13.71%

Note 1: Excludes sales volume on a sub-contract basis.

Note 2: The difference between production and sales are internal sales.

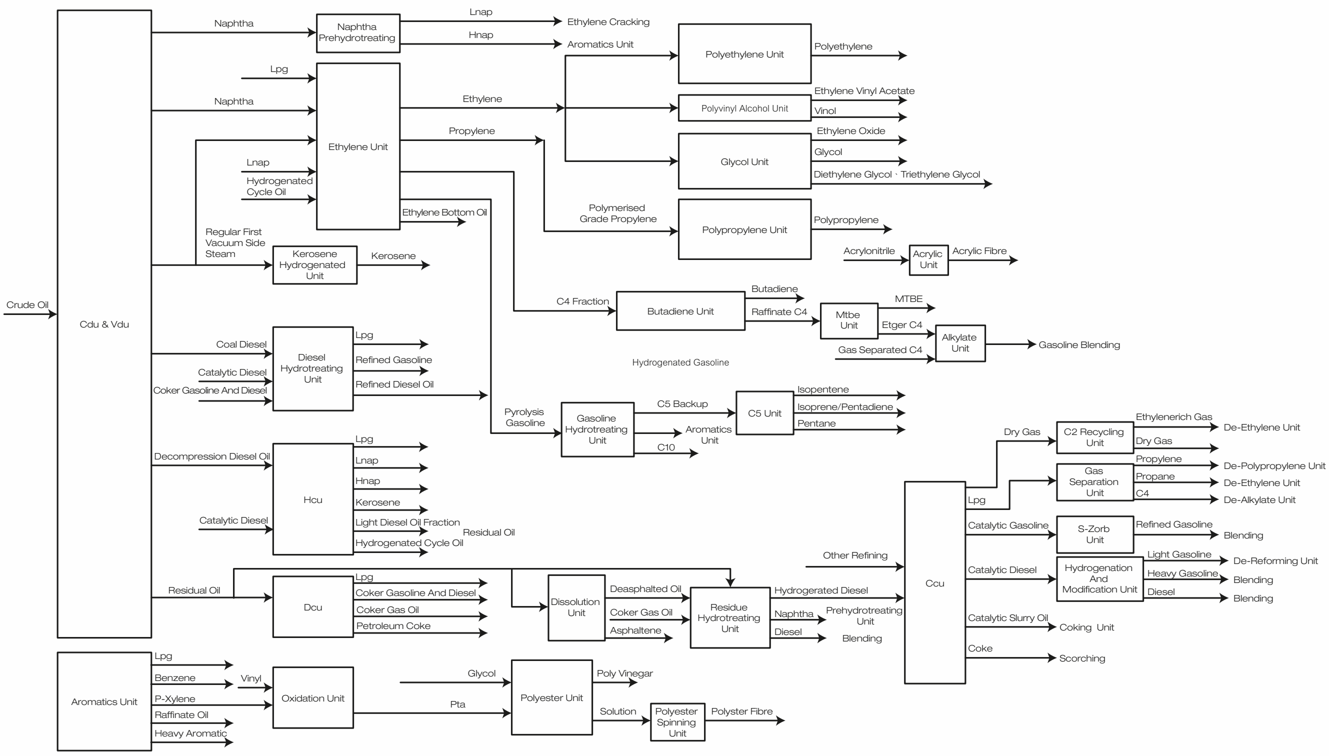
The above-mentioned sales volume and sales revenue do not include the trading of petrochemical products of the Group.

3. R&D and Innovation

Please refer to 3.2.C of the section "Management Discussion and Analysis" in this chapter for details of the R&D and innovation of the Group.

4. Production techniques and processes

The key component of the vertically integrated production facility of the Company is the ethylene facility producing ethylene and propylene and aromatics facility mainly producing paraxylene and benzene. Ethylene is the main raw material for the production of polyethylene and ethylene glycol, while ethylene glycol and PTA polymerization produces polyester. Propylene is the main raw material for the production of acrylics and polypropylene. The above-mentioned products all use crude oil as raw material and are processed through a series of petrochemical facilities. The chart below illustrates in brief the production processes of the Company.



5. Capacity and operation status

Key production facilities (number of sets)	Designed capacity (tons)	Capacity Utilization (%)
Crude oil distillation facility (2)	14,000,000	95.44
Hydrocracking facility (2)	3,000,000	86.81
Ethylene facility	700,000	107.54
* Aromatics facility (2)	835,000	102.06
PTA facility	400,000	79.93
Ethylene oxide/Ethylene glycol facility (2)	525,000	86.51
Catalytic cracking	3,500,000	95.85
Delayed coking (2)	2,200,000	87.5
** Diesel hydrogenation (2)	3,850,000	97.55
** Acrylonitrile facility	650,000	94.19
C-5 Separation (2)	205,000	134.8
*** Polyester facility (3)	550,000	88.37
**** Polyester staple fibre facility (2)	158,000	88.38
Polyester filament facility	21,000	82.48
Acrylics staple fibre facility (3)	140,800	111.38
Polyethylene facility (3)	408,000	96.34
Polypropylene facility (3)	400,000	97.78
Vinyl acetate facility	86,000	98.27

* No.1 PX facility (235,000 tons/year) was suspended for the whole year.

** No.2 Diesel hydrogenation facility (1,200,000 tons/year) was revamped into acrylonitrile facility by the end of 2016. Annual production is 650,000 tons/year.

*** No.3 polyester fibre facility (100,000 tons/year) was discontinued on 1 September 2013.

**** No.1 Polyester staple fibre facility (4,000 tons/year) was suspended for the whole year.

For capital expenditure items, please refer to "Non-fundraising projects" in the section headed "Discussion and analysis of the Company's operations" in Section II "Management Discussion and Analysis" of this chapter.

(III) Raw material procurement

1. Basic information of major raw materials

The major raw material of the Company is crude oil, hence the fluctuations of crude oil prices substantially affect the Company's results. The Company purchases most of its crude oil from international markets through agents.

Please refer to "Review of the Company's operations during the Reporting Period" in Section II "Management Discussion and Analysis" of this chapter for details of the crude oil procurement of the Company in 2020.

2. Measures to deal with the risk of raw material price fluctuation.

A brief account of holding derivatives and other financial products.

At the end of July 2019, crude oil inventories were below normal level. In order to ensure market supply, 1.42 million barrels of Saudi Crude oil were borrowed from the Commercial and Storage Companies according to the actual production demand of oil, and the monthly weighted balance price was $62.63/barrel. The price of the international crude oil market dropped sharply at the beginning of 2020, and to lock in the cost of oil, In February and March, the Company bought 1.42 million barrels of Dubai swap in May and November. The operation has no risk exposure, and the maximum possible loss is RMB0 and the comprehensive income is RMB238 million.

In May 2020, the price of crude oil was at a low level rarely seen in history. It was estimated that the price of crude oil in the second half of 2020 would rebound substantially with the stabilization of the epidemic situation, and tend to the normal price level. In order to avoid the risk of rising crude oil purchase price, we bought 400 thousand barrels of Dubai swap in November and December at an average price of about $33/barrel. The operation has no risk exposure, and the maximum possible loss is RMB0, and the comprehensive income is $33.6614 million.

For accounting policies related to the hedge accounting of the Company, please refer to Note 2(9) to the financial statements prepared in this annual report in accordance with CAS.

(IV) Sales of products

1. Sales model

The Company's sales models are mainly direct sales and agency sales. The products are mostly sold to large trading companies and industrial users, including Sinopec Group and its designated clients. The Company has established long-term relationships with these clients.

2. Pricing strategy and change in prices of major products

Most of the products of the Company are sold at market price. However, sales of the Company's major petroleum products (gasoline, diesel and jet fuel) are also subject to different extent of government pricing (guided-price).

The prices of products of the Company that are not subject to price control are fixed with reference to the market price in the main chemical products market of Shanghai and other places in China. The Company keeps monitoring major international commodity markets, especially the price trend in Southeast Asian markets. In most cases, the Company revises product prices monthly while more frequent price revisions will be made during periods of intense price fluctuations.

3. Basic information of main businesses of the Company by industry segment

Please refer to "Comparison and analysis of results of the Company's operations" in "Section II Management Discussion and Analysis" of this chapter for basic information of main business of the Group by industry segment.

4. Basic information of main businesses of the Company by sales channel

Unit: RMB'000

Sales Channel	Revenue	Year-on-year increase/decrease in revenue (%)
Direct sales	42,680,196	-20.22%
Agency sales	20,030,189	-19.70%
Trade	11,585,110	-13.11%

5. **Basic information of joint products, side products, semi-finished products, waste, residual heat utilization products during the production process of the Company**

The Company owns a power plant which provides power and steam resources mainly to the Company while the surplus is sold to external parties. In 2020, the Company sold 737 million kilowatt-hour of power, generating revenue of RMB377 million, and sold 463,700 giga joules of steam, generating revenue of RMB41.48 million.

(V) Environmental protection and safety

1. **Major safety production accident of the Company during the Reporting Period**

Nil.

2. **Environmental protection investment of the Company during the Reporting Period**

Unit: RMB100 million

Environmental protection investment	Percentage of invested capital in operating revenue (%)
5.69	0.91%

Section IV Major Events

(I) Plan for profit distribution of ordinary shares or capital reserve capitalization

1. Cash Dividend Policy and its formulation, implementation or adjustment

In 2016, the Company made amendments to its cash dividend policy in the Articles of Association of Sinopec Shanghai Petrochemical Company Limited (the "Articles of Association") and its appendices. The proposed amendments to the Articles of Association were considered and approved at the annual general meeting of 2015 held on 15 June 2016. According to Article 207 of the Articles of Association:

1. The Company should place emphasis on delivering reasonable return on investments to the investors. The Company shall pay due attention to the opinions of minority shareholders through various channels when allocating its profits. The profits distribution policy of the Company shall be consistent and stable, taking into account the long-term interests of the Company, the overall interests of all shareholders and the Company's sustainable development.

2. The Company may distribute dividends in the following forms: cash, shares or other forms permitted by laws, administrative rules, regulations of competent authorities and regulatory provisions in the place where the Company's shares are listed. The Company shall give priority to the distribution of dividends in cash. The Company may make interim dividends distribution.

3. The Company shall distribute cash dividends when the Company's net profit and retained earnings, in separate financial statement, are positive and the Company has adequate cash inflows over the requirements of cash flows for its operation and sustainable development. The cash dividends per annum should not be less than thirty (30) percent of the net profit of the Company in the current year.

4. The Company may adjust its profits distribution policy referred to in sub-paragraphs (2) and (3) of this Article in case of war, natural disasters or other force majeure, or where changes to the external environment of the Company result in material impact on the production and operation of the Company, or where there are significant changes in the Company's own operations or financial conditions, or where the Company's board of directors considers it necessary. Independent directors shall issue independent opinions on the adjustment of the profits distribution policy whilst the board of directors shall discuss the rationality of such adjustment in detail and form a resolution which shall be submitted to shareholders' meeting for approval by way of special resolution. The convening of the shareholders' meeting shall comply with regulatory provisions in the place where the Company's shares are listed.

5. The management of the Company shall formulate the annual profits distribution plan and submit such plan to the board of directors for consideration. Independent directors shall issue independent opinions on such plan and the board of directors shall form a resolution which shall be submitted for approval by shareholders' meeting. If the conditions for the distribution of cash dividends have been satisfied and the Company does not propose a cash dividends distribution plan or does not propose such plan in compliance with the sub-paragraph (3) of this Article, independent directors shall issue independent opinions whilst the board of directors shall give specific explanation regarding such arrangement and form a resolution which shall be submitted to shareholders' meeting for approval and make relevant disclosures. The plan for half-yearly dividends distribution of the Company shall comply with Article 215 of the Articles of Association.

2. Plan for profit distribution or capitalisation of capital reserves for the Reporting Period

In 2020, the net profit attributable to equity shareholders of the Company amounted to RMB628,110 thousand under CAS (net profit of RMB645,072 thousand under IFRS). In accordance with the 2020 Profit Distribution Plan approved by the Board on 24 March 2021, the Company proposed to distribute a Final Dividend of RMB0.10 per share (including tax) based on the total issued share as at dividend payout date. The 2020 Profit Distribution Plan will be implemented subject to approval at the AGM. The date and time of the AGM and the book closure arrangement will be announced later. The Notice of the AGM will be announced separately in accordance with the Articles of Association of the Company. The Notice of the AGM, the accompanying circular and proxy form will be despatched to holders of H shares in accordance with the Hong Kong Listing Rules.

Subject to the passing of the resolution by the shareholders of the Company at the AGM, the Final Dividend is expected to be distributed on or around Tuesday, 20 July 2021 to shareholders whose names appear on the register of members of the Company's H shares at the close of business on Monday, 28 June 2021. The Final Dividend is denominated and declared in Renminbi. The Final Dividend payable to the holders of the Company's A shares shall be paid in Renminbi while those payable to the holders of the Company's H shares shall be paid in Hong Kong dollars. The amount of Hong Kong dollars payable shall be calculated on the basis of the average closing exchange rates for Hong Kong dollars as announced by the Foreign Exchange Trading Centre of the PRC one calendar week prior to the approval of the Final Dividend at the AGM.

The Company is expected to close the register of members of the Company's H shares from Wednesday, 23 June 2021 to Monday, 28 June 2021 (both days inclusive), during which period no transfer of H shares will be registered in order to confirm the shareholders' entitlement to receive the Final Dividend. The holders of the Company's H shares who wish to receive the Final Dividend should lodge the transfer documents and relevant share certificates with the Company's H shares share registrar, Hong Kong Registrars Limited, at Shops 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong on or before 4:30 p.m. on Tuesday, 22 June 2021.

The record date for dividend distribution, distribution procedures and time for the distribution of dividends applicable to holders of the Company's A shares will be announced separately.

3. Plan or scheme of dividends distribution of ordinary shares, plan or scheme of capitalization of capital reserves of the Company in the past three years (including the Reporting Period)

Unit: RMB'000

Year of dividend payment	Amount of bonus shares for every 10 shares (share)	Amount of dividend for every 10 shares (RMB) (including tax)	Amount of capitalization for every 10 shares (share)	Amount of cash dividend (including tax)	Net profit attributable to shareholders of ordinary shares of the listed company in the consolidated statement for the year	Percentage of net profit attributable to shareholders of ordinary shares of the listed company in the consolidated statement (%)
2020	0	1.0	0	1,082,381.35	628,110	172.32
2019	0	1.2	0	1,298,857.62	2,213,716	58.67
2018	0	2.5	0	2,705,953.38	5,277,186	51.28

(II) Fulfilment of undertakings

1. Undertakings made by the de facto controller, shareholders, connected parties and purchasers of the Company and the Company itself during the Reporting Period or continuing up to the Reporting Period

Undertakings about share reform

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

Sinopec Corp. shall continue to support the development of the Company upon the completion of the share reform scheme, 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 Scheme of the Company" (the Revised Draft) (Full Version) published in Shanghai Securities News and China Securities Journal on 20 June 2013, as well as the relevant announcements uploaded to the websites of the Shanghai Stock Exchange, the Hong Kong Stock Exchange and the Company.

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

With regard to the aforementioned undertakings, the Company did not notice any violation in fulfilling the above undertakings by Sinopec Corp.

(III) Events regarding capital occupation and repay during the Reporting Period

Nil.

(IV) Explanation on the reasons and impact for the Company's changes in accounting policies, accounting estimates, or correction of previous significant accounting errors

1. New standards adopted by the Company and revision and explanation of the standards

The Group has applied the following standards and amendments for the first time for their annual Reporting Period commencing 1 January 2020:

- Definition of Material – Amendments to IAS 1 and IAS 8
- Definition of a Business – Amendments to IFRS 3
- Interest Rate Benchmark Reform – Amendments to IFRS 9, IAS 39 and IFRS 7
- Revised Conceptual Framework for Financial Reporting
- Covid-19-related Rent Concessions – Amendments to IFRS 16

No other standards or interpretation revisions with major impact on the Group's combined financial statements was first effective for the financial year started on 1 January 2020.

(V) Appointment and dismissal of auditors

During the Reporting Period, the Company did not change the auditors.

Details of the auditors appointed by the Company during the Reporting Period and the appointment details are as below:

Unit: RMB Yuan

	Current
Name of the domestic auditors	PricewaterhouseCoopers ZhongTian LLP
Remuneration of the domestic auditors	4,800,000
Duration of audit of the domestic auditors	8 years
Name of the international auditors	PricewaterhouseCoopers
Remuneration of the international auditors	3,000,000
Duration of audit of the international auditors	8 years

(VI) Material litigation or arbitration

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

(VII) Punishment and Reprimand of the Listed Company and its Directors, Supervisors, Senior Management, Controlling Shareholders, De Facto Controller and Purchaser

During the Reporting Period, the Company and its Directors, Supervisors, senior management, controlling shareholder, de facto controller and purchasers had not been investigated, administratively punished, publicly criticized by the CSRC nor publicly censured by the stock exchanges.

(VIII) Credit status of the Company and its controlling shareholder and de facto controller during the Reporting Period

During the Reporting Period, the Company and its controlling shareholder and de facto controller of the Company were not involved in any events regarding failure to perform obligations under a judgement of courts, nor have they had any relatively large amount of debts which have become due and outstanding.

(IX) The Share Option Incentive Scheme of the Company

The Share Option Incentive Scheme of the Company took effect from 23 December 2014, with a validity period of 10 years until 22 December 2024. The first grant of A-share share options under the Share Option Incentive Scheme was on 6 January 2015. For details, please refer to the relevant announcements uploaded on the websites of Shanghai Stock Exchange, Hong Kong Stock Exchange and the Company on 6 January 2015. All the exercise periods of the first grant have ended on 28 December 2018. For details, please refer to the relevant announcements uploaded on the websites of Shanghai Stock Exchange, Hong Kong Stock Exchange and the Company on 28 December 2018. At present, the Company has no other granting scheme.

During the Reporting Period, the Company did not grant A-share share options under the Share Option Incentive Scheme, nor did the grantees exercise any A-share share options, and no A-share share options were cancelled or lapsed.

(X) Major connected transactions

1. Connected transactions in relation to daily operations

Continuing connected transactions under chapter 14A of the Hong Kong Listing Rules

During the Reporting Period, pursuant to the Mutual Product Supply and Sales Services Framework Agreement entered into with the controlling shareholder of the Company on 23 October 2019, Sinopec Corp., and the de facto controller, Sinopec Group, as well as the Comprehensive Services Framework Agreement entered into with the Company's de facto controller, Sinopec Group, on 23 October 2019, the Company purchased raw materials from Sinopec Group, Sinopec Corp. and their associates and sold petroleum products and petrochemicals and leased properties to Sinopec Corp. and its associates, and Sinopec Corp. and its associates provided agency sales services for petrochemical products to the Company. Pursuant to the Comprehensive Services Framework Agreement entered into with the Company's de facto controller, Sinopec Group, the Company obtained construction and installation, engineering design, petrochemical industry insurance and financial services from Sinopec Group and its associates. The "Mutual Product Supply and Sales Services Framework Agreement" and "Comprehensive Services Framework Agreement" shall be valid for three years until 31 December 2022.

The transactions under the above-mentioned 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 ongoing related party transactions under the Shanghai Listing Rules. The Company disclosed the two agreements and the respective continuing connected transactions (i.e. ongoing related party transactions, same below) under the agreements in an announcement dated 23 October 2019 and a circular dated 13 November 2019. These two agreements and the respective continuing connected transactions under the agreements together with the associated annual caps from 2020 to 2022 were considered and approved at the first extraordinary general meeting for 2019 held on 10 December 2019.

During the Reporting Period, the relevant continuing connected transactions were conducted in accordance with the terms of the Mutual Product Supply and Sales Services Framework Agreement and the Comprehensive Services Framework Agreement. The transaction amounts of the relevant connected transactions did not exceed the annual caps in relation to the respective continuing connected transactions approved at the first extraordinary general meeting for 2019.

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

Unit: RMB'000

Type of connected transaction	Connected person	Annual cap for 2020	Transaction amount during the Reporting Period	Percentage of the transaction amount of the same type of transaction (%)
Mutual Product Supply and Sales Services Framework Agreement				
Purchases of raw materials	Sinopec Group, Sinopec Corp. and their associates	78,453,000	42,354,073	41.89%
Sales of petroleum products and petrochemicals	Sinopec Corp. and its associates	70,113,000	48,704,983	65.20%
Property leasing	Sinopec Corp. and its associates	37,000	32,829	40.23%
Agency sales of petrochemical products	Sinopec Corp. and its associates	166,000	104,598	100.00%
Comprehensive Services Framework Agreement				
Construction, installation and engineering design services	Sinopec Group and its associates	684,000	233,591	26.36%
Petrochemical industry insurance services	Sinopec Group	120,000	107,495	100.00%
Financial services	Associate of Sinopec Group (Sinopec Finance)	200,000	2,088	0.48%

During the 19th meeting of the ninth Session of the Board of Directors of the Company on 27 December 2019, the Company approved the oil tanks lease agreement entered into on 31 December 2019 between the Company and the Sinopec Petroleum Storage and Reserve Limited ("Sinopec Reserve") which is a wholly owned subsidiary of the Sinopec Group (the de facto controller of the Company), and the Baishawan subsidiary of Sinopec Reserve ("Baishawan Branch"). Pursuant to the agreement, Baishawan branch is to provide the storage service for the Company for one year, with the leasing period from 1 January 2020 to 31 December 2020, at an annual storage fee of a maximum of RMB114.0 million (including VAT). Related announcements were published on the websites of the Shanghai Stock Exchange, the Hong Kong Stock Exchange and the Company on 27 December 2019, as well as on the Shanghai Securities News and the China Securities Journal on 28 December 2019. During the Reporting Period, the Company incurred a related service fees in the amount of RMB109 million (including VAT).

As the above oil tanks lease agreement services agreement expired on 31 December 2020, the Company entered into an oil tanks lease agreement with the Sinopec Reserve and the Baishawan Subsidiary on 31 December 2020, pursuant to which the Baishawan Branch provides storage services to the Company for a term of three years commencing from 1 January 2021 to 31 December 2023. The annual aggregate amount payable by the Company to the Baishawan Branch in 2021, 2022 and 2023 shall not exceed RMB114.0 million (VAT inclusive). The oil tanks lease agreement was considered and approved at the fourth meeting of the tenth Session of the Board of Directors held on 8 December 2020. The relevant announcement was published on the websites of the Shanghai Stock Exchange, the Hong Kong Stock Exchange and the Company, respectively, on 8 December 2020 and 11 December 2020, and was published on the Shanghai Securities News and the China Securities Journal on 9 December 2020.

Connected transactions under Chapter 14A of the Hong Kong Listing Rules

On 28 December 2018, the Company entered into a technical service agreement with Petro-CyberWorks Information Technology Co., Ltd. ("PCITC"), a non wholly-owned subsidiary of the Company's de facto controller, Sinopec Group. Pursuant to the technical service agreement, the Company appointed PCITC to implement the design, construction, operation and maintenance of smart plant project for a total amount of RMB30,580,000 (inclusive of tax). The term of the technical service agreement starts from the date of signing by both parties, and the project was inspection and acceptance in November 2020. Related announcements were published on the official websites of the Hong Kong Stock Exchange on 28 December 2018 and Shanghai Stock Exchange on 29 December 2018 respectively, as well as on "Shanghai Securities News" and "China Securities Journal" on 29 December 2018.

The transactions between the Company and Sinopec Group, Sinopec Corp. and their associates as disclosed in Note 28 to the financial statements prepared under IFRS in the 2020 annual report of the Company constituted continuing connected transactions under Chapter 14A of the Hong Kong Listing Rules. The above-mentioned continuing connected transactions have been disclosed in accordance with Chapter 14A of the Hong Kong Listing Rules.

2. Connected parties' liabilities

Unit: RMB'000

Connected party	Connected relationship	Funds provided to connected parties: Balance as at the beginning of the period	Funds provided to connected parties: Transaction amount	Funds provided to connected parties: Balance as at the end of the period	Funds provided by connected parties to the listed company: Balance as at the beginning of the period	Funds provided by connected parties to the listed company: Transaction amount	Funds provided by connected parties to the listed company: Balance as at the end of the period
Sinopec Corp., its subsidiaries, joint ventures and associates & Sinopec Group and its subsidiaries	Controlling shareholder, de facto controller and their related parties	2,010	21,188	23,198	120,834	44,226	165,060

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

Note 2: The period-end balance of the funds provided by the connected parties to the Group was mainly unsettled payables arising from the provision of construction, installation and engineering design services by Sinopec Group and its subsidiaries.

The prices of the continuing connected transactions conducted by the Company with Sinopec Group, Sinopec Corp. and their associates were determined, upon negotiations between both parties, on the basis of (i) state tariffs, (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 continuing connected transactions did not have a significant adverse impact on the Company's independence.

Independent Non-executive Directors of the Company have reviewed the continuing connected transactions of the Group and confirmed that:

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

- The above continuing connected transactions have been entered into on normal commercial terms or better;

- The above continuing connected transactions have been entered into according to the agreements governing them on terms that are fair and reasonable and in the interests of the Company's shareholders as a whole; and

- The transaction amounts of the above continuing connected transactions during the Reporting Period were within the annual caps.

3. **The international auditor of the Company, PricewaterhouseCoopers, was engaged to report their conclusions regarding the above continuing connected transactions of the Company to the Board in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information", with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditors has, in accordance with Chapter 14A.56 of the Hong Kong Listing Rules came to the conclusion that:**

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

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

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

- With respect to the aggregate amount of each of the continuing connected transactions, nothing has come to their attention that causes them to believe that the amount has exceeded the annual cap set by the Company as disclosed in the announcements in respect of each of the continuing connected transactions.

(XI) Material contracts and their performance

1. Entrustments, sub-contracts and lease arrangements

During the Reporting Period, the Company had no entrustments, sub-contracts or lease arrangements that generated 10% or more (including 10%) of the gross profit of the Company for the period.

2. Guarantees

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

3. Entrusting others to conduct wealth management

Please refer to “Investment of the Company” in the section headed “Discussion and analysis of the Company’s operations” in Section II “Management Discussion and Analysis” of this chapter.

4. Other major contracts

There were no major contracts of the Company during the Reporting Period.

(XII) The Company’s disclosure on the fulfillment of its corporate social responsibility

1. Fulfillment of corporate social responsibility

For the Company’s performance of corporate social responsibility in 2020 and the Company’s 2020 Environmental, Social and Governance Report, please refer to the “2020 Corporate Social Responsibility Report of Sinopec Shanghai Petrochemical Company Limited” published by the Company on the websites of the Shanghai Stock Exchange, the Hong Kong Stock Exchange and the Company.

2. Environmental protection situation of key pollutant-discharging companies and their subsidiaries as announced by the Ministry of Environmental Protection

The Company is one of the contaminating enterprises under Intensive Monitoring and Control by the State proclaimed by the Ministry of Environmental Protection. According to Measures for Self-Monitoring and Information Disclosure by the Enterprises subject to Intensive Monitoring and Control of the State (Trial Implementation), the Company has disclosed to the public on the website of the Shanghai Environmental Protection Bureau the sites of the source of pollution, pollutant types and concentration of pollution which are subject to intensive monitoring and control of the State.

The Company, as a manufacturing enterprise in the petrochemical industry, consistently places environmental protection as its priority. It continues to receive ISO14001 Environmental Management System Certification. In January 2013, it received certifications from the Shanghai Audit Center of Quality including quality (GB/T19001: 2008), environment (GB/T24001: 2004) and occupational health and safety (GB/T28001: 2011). On 16 September 2019, the continued use of the title "All-China Environmentally Friendly Enterprise" was approved. In 2019, the Company was awarded the title "Sinopec Green Enterprise for 2019". In 2020, the Company continued to maintain the title of "Green Enterprise", and successfully completed 27 green base-level establishments.

In 2020, the Company continued to improve environmental protection system management, and strived to build a green enterprise. By actively fulfilling the main responsibility of environmental protection, the Company comprehensively promoted the green development of the industry, resolutely fought against pollution and won the battle of defending the blue sky, as well as conscientiously implemented the requirements of "the Seventh Environmental Protection Three-Year Action Plan", "Shanghai Clean Air Action Plan (2018-2022)" and "Jinshan District Environmental Comprehensive Remediation Action Plan". The Company also worked to promote the verification of green enterprise and the establishment of green base-level establishments, and continuously enhance the level of intrinsic environmental protection, to create a "domestically-leading and world-class" refining and chemical company with good performance in HSSE.

In 2020, the Company actively organized and implemented the environmental protection potential hazard management projects. Emission volume of sulfur dioxide, nitrogen oxides and VOCs decreased by 4.74%, 3.37% and 7.50%, respectively compared to last year.

In 2020, both the compliance rate on waste water and waste gas emission were 100%, and all hazardous wastes were disposed of properly with a rate of 100%. The Company continuously implemented LDAR work and achieved continuous emission reduction of VOCs, meeting the emission reduction standard set by the Shanghai Environmental Protection Bureau. In 2020, the Company had inspected a total of 2,710,891 points/times for the sealing points in production equipment, and the number of leaking points detected was 7,455, of which 6,908 points were repaired, achieving a repair rate of 92.66%.

In 2020, the Company paid RMB15.1979 million of environmental tax to the Tax Bureau of Jinshan District.

In 2020, the Company received 1 administrative penalty decision (which happened in 2019) issued by the Shanghai Municipal Bureau of Ecology and Environment, involving a fine of RMB0.40 million. The main reason for the penalty was that the monitored emissions of on-site organized exhaust outlets exceeded the limit.

No.	Event	Rectification
1	On 24 December 2019, the monitored emissions of the polymerization waste gas collection tower outlet of Acrylic Fiber south unit exceeded standard	(1) Accelerated the implementation and operation of the "Shanghai Petrochemical Acrylic Department voc Governance Project". (2) Replaced the A1 isolation valve at both systems with new valves and installed blind plates at the valves to ensure that the exhaust gas in the production system would no longer leak to the cleaning system. (3) Passed after self-test, third-party inspection and re-testing by the team leader after rectification.

3. Environmental Impact Assessment and Other Environmental Protection Administrative Licensing of Construction Projects

According to relevant requirements of national and local governments such as "Classification Management List for Construction Project Environmental Impact Assessment" and " 'Classification Administrative Catalogue for Construction Project Environmental Impact Assessment' Shanghai Municipality Detailed Implementation Regulations (2018)", the Company implemented classification management, by combining the impact of the construction project on the environment, and the environmental impact assessment of the Company's construction projects. The Company also strictly verified the implementation of environmental protection measures during different stages such as feasibility study, design, construction and confirmation of trial production conditions etc. In 2020, three projects being the "Storage and Transportation Department T-135, 136 Tank Intrinsic Safety and Environmental Protection Hazard Control" project, the "Storage and Transportation Department T-121~124 Tank Intrinsic Safety and Environmental Protection Hazard Control" project, and the "Sinopec Shanghai Petrochemical Co., Ltd. 24,000 tons/year raw yarn, and 12,000 tons/year 48K large tow carbon fiber production" project received EIA approval. Three projects, being the Company's environmental hazard rectification project of warehouse for storing spent catalysts, the modification project of warehouse for temporary storage of hazardous waste, the project of technical transformation of the factory infrastructure for the upgrading of marine fuel oil in the Storage and Transportation Department, had finalized completion acceptance and information publication.

Due to reasons such as the start-up of the refining alkylation production unit and others, in June 2020, the Company started to convert sewage discharge licenses. After data research and on-site verification, the application for converting sewage discharge permit licenses was approved by the Shanghai Municipal Bureau of Ecology and Environment on 31 July 2017. According to the requirements of the "Management Measures for Sewage Discharge License (Trial)", the Company completed the renewal of the Company's sewage discharge licenses at the end of December 2020. The validity period of the new sewage discharge licenses is from 1 January 2021 to 31 December 2025.

4. Emergency response plan for emergent environmental incidents

According to the three-year validity required by the "Administrative Measures for Emergency Preparedness for Environmental Incidents of Sinopec", the Company completed the revision of the "Comprehensive Emergency Response Plan for Environmental Emergencies" and filed a report to the Shanghai Municipal Bureau of Ecology and Environment in December 2019. The revision and publication of the "Regulations on Risk Management for Environmental Emergencies" was completed in 2020.

The Company continued to carry out assessment of major environmental risks. In 2020, in accordance with the requirements of the Group's "Notice on Printing and Distributing the Sinopec Environmental Risk Assessment Guide", the Company carried out environmental risks identification and assessment. A total of 113 environmental risk sources were assessed by the end of 2020, of which none was a level I environmental risk source, 33 were level II environmental risk sources (15 in the equipment, 17 in the tank area and 1 in the wharf), and 80 were level III environmental sources (59 in the equipment, 16 in the tank area, 4 in the land pipelines and 1 in the wharf). At present, all environmental risk sources are structured as per "One Case for One Source", to be respectively assigned to the responsible departments (persons) and control measures are to be incorporated for daily management.

The Company carried out regular environmental protection emergency drills. On 29 June 2020, The Company carried out "Emergency drill on dealing with leakage of valve flange of tank car body connection occurred during the loading process of the LPG tank car in the LPG filling station of the third storage and transportation workshop"; on 1 December 2020, the Company carried out "T-03 tank emergency drill of Shanghai Petrochemical Baishawan Branch" to further enhance the capability of emergency response through drills. Through these drills, the staff's ability to correctly handle the abnormal situation in tank areas and long-distance pipeline in the field was improved. In addition, the drills examined the ability of Sinopec Shanghai and relevant units such as the local fire brigade to handle emergencies and communicate, verified the practicability and operability of emergency plans, improved the decision-making and execution ability of relevant personnel in dealing with emergencies quickly, improved the emergency disposal of environmental pollution and timeliness of environmental monitoring response, and further strengthened the emergency linkage with local governments.

5. Environmental self-monitoring programme

In accordance with the requirements of "Self-monitoring Scheme for Pollutant Discharge Permits", "Sinopec Regulations on Environmental Monitoring Management" and "Shanghai Petrochemical Regulations on Environmental Monitoring Management" issued by Shanghai Petrochemical, the annual environmental monitoring plan and emission implementation standards of Shanghai Petrochemical were compiled and issued in early 2020. The monitoring content includes: Water Quality (rainwater) monitoring plan, atmospheric monitoring plan (atmosphere PM10, fugitive emission monitoring), exhaust gas monitoring plan, noise monitoring plan, radioactive instrument monitoring plan, water quality (sewage) monitoring plan, groundwater monitoring plan, etc. covering 7 parts of the Company's wastewater. Monitoring of pollution sources such as sewage, rainwater, waste gas, noise, and radioactivity, and monitoring of environmental qualities such as the atmosphere and groundwater, and daily environmental monitoring, according to the monitoring plan. In 2020, 16,906 sets of water quality monitoring data, 11,280 sets of air and waste gas monitoring data and 320 sets of noise monitoring data were completed. At the same time, the Group timely organized personnel to update the monitoring plan once the Pollutant Discharge Permit and environmental protection standards were revised and updated, so as to ensure transparency of the environmental monitoring data and government departmental information as well as consistency between environmental protection tax reporting requirements, thereby providing data support for the Company's various pollution indices to meet the emission standards.

(XIII) Equity-linked agreements

Apart from the Share Option Incentive Scheme disclosed in item (9) under Section IV "Major Events" of chapter 3, the Company does not have any equity-linked agreements during the year.

(XIV) Tax rate

The income tax rate currently applicable to the Company is 25% (2019: 25%).

(XV) Deposits

The Company did not have any entrusted deposits during the Reporting Period. As at 31 December 2020, the Group did not have any term deposits which could not be collected upon maturity.

(XVI) Reserves

Details of changes in reserves are set out in note 27 to the consolidated financial statements prepared under IFRS.

(XVII) Financial summary

A summary of the results, total assets, total liabilities and shareholders' equity of the Group as at 31 December 2020 are set out on page 6 of this annual report.

(XVIII) Bank loans and other borrowings

Details of bank loans and other borrowings of the Company and the Group for the year ended 31 December 2020 are set out in note 22 to the consolidated financial statements prepared under IFRS.

(XIX) Interest capitalized

Details of interest capitalized during the year are set out in note 9 to the consolidated financial statements prepared under IFRS.

(XX) Property, plant and equipment

Changes in property, plant and equipment during the year are set out in note 16 to the consolidated financial statements prepared under IFRS.

(XXI) 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 listed securities.

(XXII) Pre-emptive rights

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

(XXIII) Donations

During the Reporting Period, the Company donated RMB1.9 million to the Shanghai Jinshan Education Development Foundation to support education reform and development projects in Jinshan District, as well as award projects for excellent educators. The Company donated RMB100 thousand to Shanghai Chemical Industry Park Development Co., Ltd. to hold the "2020 SCIP +" green chemical innovation and Entrepreneurship Competition (activity); The Company donated RMB100 thousand to the poverty alleviation workshop project of "lannuomixiang" series of black tea deep processing in Madeng Ma'an, Zhenyuan County, Pu'er City, Yunnan Province, to build a new black tea production workshop.

(XXIV) Tax relief

During the Reporting Period, the holders of listed securities of the Company were not entitled to tax relief due to the holding of listed securities of the Company in accordance with the PRC laws.

Section V Business review and outlook

Please refer to Section II "Management Discussion and Analysis" of this chapter for the business review of the Group for the year ended 31 December 2020 and the outlook for 2021.

Directors, Supervisors, Senior Management and Employees

(I) Changes in shareholdings and remuneration

1. Changes in shareholdings and remuneration of Directors, Supervisors and senior management who hold the position currently or left the office during the Reporting Period

Name	Used name/ alias	Position	Sex	Age	Date of commencement of service term	Date of end of service term	Number of shares held at the beginning of the Reporting Period (ten thousand shares)	Number of shares held at the end of the Reporting Period	Change in number of shares during the Reporting Period	Reason of change	Total Remuneration received from the Company during the Reporting Period (before taxation) (RMB' ten thousand)	Whether received remuneration from connected person(s) of the Company
Wu Haijun	None	Executive Director & Chairman	M	59	June 2020	June 2023	0	0	0	-	120.22	No
Guan Zemin	None	Executive Director, vice Chairman & President	M	57	June 2020	June 2023	0	0	0	-	80.45	No
Jin Qiang	None	Executive Director & Vice President	M	56	June 2020	June 2023	30.1	30.1	0	-	111.42	No
Jin Wenmin	None	Executive Director & Vice President	M	56	June 2020	June 2023	17.5	17.5	0	-	101.53	No
Huang Xiangyu	None	Executive Director & Vice President	M	53	June 2020	June 2023	14	14	0	-	75.36	No
Huang Fei	None	Executive Director, Vice President & secretary to the board	M	44	June 2020	June 2023	0	0	0	-	68.20	No
Xie Zhenglin	None	Non-executive Director	M	56	June 2020	June 2023	0	0	0	-	0	Yes
Peng Kun	None	Non-executive Director	M	55	June 2020	June 2023	0	0	0	-	36.65	No
Li Yuanqin	None	Independent Non-executive Director	F	48	June 2020	June 2023	0	0	0	-	15.00	No
Tang Song	None	Independent Non-executive Director	M	41	June 2020	June 2023	0	0	0	-	7.50	No
Chen Haifeng	None	Independent Non-executive Director	M	47	June 2020	June 2023	0	0	0	-	7.50	No
Yang Jun	None	Independent Non-executive Director	M	64	June 2020	June 2023	0	0	0	-	7.50	No
Gao Song	None	Independent Non-executive Director	M	51	June 2020	June 2023	0	0	0	-	7.50	No
Ma Yanhui	None	Supervisor, Chairman of the Supervisory Committee	M	50	June 2020	June 2023	0	0	0	-	109.32	No
Zhang Feng	None	Supervisor	M	52	June 2020	June 2023	1	1	0	-	67.24	No
Chen Hongjun	None	Supervisor	M	50	June 2020	June 2023	3.14	3.14	0	-	68.16	No
Zhang Xiaofeng	None	Supervisor	M	51	June 2020	June 2023	0	0	0	-	0	Yes

Name	Used name/ alias	Position	Sex	Age	Date of commencement of service term	Date of end of service term	Number of shares held at the beginning of the Reporting Period (ten thousand shares)	Number of shares held at the end of the Reporting Period	Change in number of shares during the Reporting Period	Reason of change	Total Remuneration received from the Company during the Reporting Period (before taxation) (RMB' ten thousand)	Whether received remuneration from connected person(s) of the Company
Zheng Yunrui	None	Independent Supervisor	M	56	June 2020	June 2023	0	0	0	-	10.00	No
Choi Ting Ki	None	Independent Supervisor	M	67	June 2020	June 2023	0	0	0	-	10.00	No
Du Jun	None	Vice President & Chief Financial Officer	M	51	October 2020	June 2023	0	0	0	-	15.54	No
Lei Dianwu*	None	Former Non-executive Director	M	59	June 2017	June 2020	0	0	0	-	0	Yes
Mo Zhenglin*	None	Former Non-executive Director	M	57	June 2017	June 2020	0	0	0	-	0	Yes
Zhou Meiyun*	None	Former Executive Director, Vice President & Chief Financial Officer	M	52	September 2017	June 2020	0	0	0	-	88.19	No
Zhang Yimin*	None	Former Independent Non-executive Director	M	67	June 2017	June 2020	0	0	0	-	7.50	No
Liu Yunhong*	None	Former Independent Non-executive Director	M	45	June 2017	June 2020	0	0	0	-	7.50	No
Du Weifeng*	None	Former Independent Non-executive Director	M	45	June 2017	June 2020	0	0	0	-	7.50	No
Zhai Yalin*	None	Former Supervisor	M	57	June 2017	June 2020	0	0	0	-	0	Yes
Total	/	/	/	/	/	/	65.74	65.74	0	/	1,029.79	/

* On 30 September 2020, Mr. Zhou Meiyun proposed to the Board that he would no longer serve as executive director, vice president and chief financial officer due to job change. Mr. Zhou Meiyun's resignation took effect when the resignation report was delivered to the Board on 30 September 2020.

* Mr. Lei Dianwu, Mr. Mo Zhenglin, Mr. Zhang Yimin, Mr. Liu Yunhong, Mr. Du Weifeng and Mr. Zhai Yalin no longer served as directors and supervisors of the company after the annual general meeting of shareholders on 18 June 2020.

(II) Profiles of Directors, Supervisors and senior management

Directors:

Wu Haijun, born in August 1962 is the Executive Director, Chairman, Chairman of the Strategy Committee and member of the Nomination Committee, Director of Shanghai SECCO and Chairman of Shanghai Chemical Industry Park Development Co., Ltd.. Mr. Wu joined the Shanghai Petrochemical Complex (the "Complex") in 1984 and has held various positions, including Deputy Director and Director of the Company's No.2 Chemical Plant, as well as manager of the Chemical Division. He was Vice President of the Company from May 1999 to March 2006 and Director of the Company from June 2004 to June 2006. Mr. Wu was manager and Secretary of the Communist Party Committee of the Chemical Sales Branch of Sinopec Corp from December 2005 to March 2008. From December 2005 to April 2010, he was Director of the Chemical Business Department of Sinopec Corp. From April 2010, he was appointed as a Director of Shanghai SECCO. From April 2010 to February 2011, Mr. Wu was President of Shanghai SECCO. From April 2010 to August 2018, he was appointed Secretary of the Communist Party Committee of Shanghai SECCO and in June 2010 he was appointed Director of the Company. From June 2010 to December 2017, he served as Vice President of the Company. From February 2011 to March 2015, he acted as Vice President of Shanghai SECCO, and was President of Shanghai SECCO from March 2015 to December 2017. From December 2017 to January 2019, Mr. Wu was appointed Chairman of Shanghai SECCO. From December 2017 to August 2018, he was the Company's Deputy Party Secretary. He has served as President of the Company from December 2017 to September 2018. In December 2017, he was appointed as Chairman of the Company. In January 2018, he was appointed as Chairman of Shanghai Chemical Industry Park Development Co, Ltd. and was appointed as Secretary to the Communist Party Committee of the Company in August 2018. Mr. Wu graduated from the East China Institute of Chemical Technology in 1984, majoring in chemical engineering, and obtained a Bachelor's degree in engineering. In 1997, he obtained a Master's degree in business administration from the China Europe International Business School. He is a Professorate senior engineer by title.

Guan Zemin, born in December 1964, is serving as Deputy Chairman, Executive Director, Deputy Chairman of the Strategy Committee and President of the Company. Mr. Guan started to work in 1990, and he has successively served as Section Manager of Technology Development Section, Technology Development Department, and Deputy Chief Engineer of Wuhan Petrochemical Works, and Director of Catalyzing Workshop, Deputy Director and Director of Production Scheduling Department, and Deputy Chief Engineer of the Wuhan branch of Sinopec Corp. ("Wuhan Branch"). From December 2012 to December 2018, he served as Deputy General Manager of Wuhan Branch. From May 2016 to December 2019, he served as General Manager and Director of Sinopec-SK (Wuhan) Petrochemical Company Limited. From December 2018 to December 2019, he served as the Director and Deputy Party Secretary and General Manager of Wuhan Branch. He was appointed Deputy Secretary of the Company in December 2019. From February 2020, he served as the President of the Company. From June 2020, he served as the executive director, vice chairman and vice chairman of the strategy committee of the company. Mr. Guan graduated from the Fine Chemical Major of School of Chemical Engineering, East China University of Science and Technology with a Master's degree in Engineering in July 1990. He is a senior engineer by professional title.

Jin Qiang, born in May 1965, is an Executive Director and Vice President of the Company. Mr. Jin joined Zhenhai General Petrochemical Works in 1986 and has held various positions, including Deputy Chief of the Utilities Department, Deputy Director and Director of the Machinery and Power Division of SINOPEC Zhenhai Refining & Chemical Co., Ltd., and Director of the Machinery and Power Division of SINOPEC Zhenhai Refining & Chemical Company. Mr. Jin was Deputy Chief Engineer of SINOPEC Zhenhai Refining & Chemical Company from March 2007 to October 2011, and was appointed Vice President of the Company in October 2011. In June 2014, Mr. Jin was appointed Executive Director of the Company. Mr. Jin graduated from the East China Institute of Chemical Technology in 1986 majoring in chemical machinery and graduated from the Graduate School of Central Party School in 2007 majoring in economic management. He is a Professorate senior engineer by title.

Jin Wenmin, born in February 1965, is an Executive Director and Vice President of the Company. Mr. Jin joined the Complex in 1985 and served as the Secretary of the Communist Party Committee of the Company's No.1 Oil Refining Device of Refining Unit, Head of Butadiene Device, Manager of the storage and transportation, branch company, manager and Deputy Secretary of the Communist Party Committee of Storage and Transportation Department, manager and Deputy Secretary of the Communist Party Committee of Oil Refining Department etc. From April 2013 to February 2017, Mr. Jin was appointed as Head of Production Department of the Company. From May 2013 to August 2016, Mr. Jin was appointed as Assistant to the General Manager of the Company and was appointed Vice President of the Company in September 2016. He was appointed Executive Director of the Company in June 2018. Mr. Jin graduated from the Shanghai Second Polytechnic University in July 2003. He is a senior engineer by professional title.

Huang Xiangyu, born in March 1968, is serving as the Executive Director and Deputy President of the Company. Mr. Huang started his career in 1990 and joined the Complex in 1992. He served as the Deputy Director of the chemical workshop of Shanghai Jinyang Acrylic Plant, Deputy Director of Jinyang Equipment, Director and Deputy Director of Jinyang Acrylic Equipment of Acrylic Business Unit and Chief Engineer of Acrylic Business Unit. From July 2011 to January 2020, he served as the Director of the Acrylic Fiber Research Institute. From November 2011 to January 2020, he served as the Chief Engineer of the Acrylic Fiber Department. From February 2019 to January 2020, he served as Deputy Chief Engineer of the Company. From February 2020, he served as the Vice President of the Company. From June 2020, he was an Executive Director of the Company. Mr. Huang graduated from the Organic Chemical Major of School of Chemical Engineering, East China University of Science and Technology with a Bachelor's degree in Engineering in July 1990. He obtained a Master's degree in Engineering from Donghua University in May 2004. He graduated from Polymeric Chemistry and Physics Major of Fudan University with a doctor's degree in Science in June 2013. He is a Professorate senior engineer by title.

Huang Fei, born in January 1977, is serving as Executive Director, Deputy President of the Company, Secretary to the Board, Joint Company Secretary and member of the Strategy Committee. Mr. Huang joined Sinopec Shanghai Petrochemical Company Limited in 2000, and he has successively served as Polyolefin Plant Deputy Director of Plastic Business Unit and Manager Assistant and Polyolefin Plant Director of Plastic Department. From August 2012 to June 2014, he served as Deputy Manager of the Plastic Department. From June 2014 to February 2017, he served as Director of Statistical Center and Vice Party Secretary. From February 2017 to December 2018, he served as Manager of Olefin Department and Deputy Party Secretary. From December 2018 to January 2019, he served as President's Assistant and the Director of Production Department. From January 2019 to December 2019, Mr. Huang served as President's Assistant and Manager of Production Department of Shanghai SECCO. From February 2020, he served as the Deputy President of the Company. From June 2020, he served as the Executive Director, Secretary to the Board, Joint Company Secretary and member of the Strategy Committee of the company. Mr. Huang graduated from the Polymer Materials and Engineering Major of East China University of Science and Technology with a Bachelor's degree of Engineering in July 2000. He graduated from Chemical Engineering Major of East China University of Science and Technology with a Master's degree in April 2008. He is a senior engineer by professional title.

Xie Zhenglin, born in February 1965, is currently serving as an Non-Executive Director, member of the Strategy Committee, Deputy President of Chemical Service Department of the Sinopec Corp., and General Manager of Sinopec Group Assets Management Co., Ltd.. Mr. Xie started his work in 1989, served as Principal Staff Member of State Price Control Bureau and State Development Planning Commission, and started to work in Sinopec Group in September 1995, successively served as Deputy Director and Director of the Comprehensive Division of the Finance Department, Deputy Director of Capital Management Department, Deputy Director of General Accounting Department of Sinopec Assets Management (presided over the work), Deputy Director of Assets Management Department of Sinopec Corp., Deputy General Manager of Sinopec Assets Management, Acting Director of Assets Management Department of Sinopec Corp., and Deputy Executive Director and Deputy General Manager of Sinopec Assets Management. From April 2014 to October 2020, he served as the Deputy Chairman and director of the China Merchants Energy Shipping Co., Ltd. (listed on the Shanghai Stock Exchange, Stock Code: 601872). Mr. Xie served as Director of Assets Management Department of Sinopec Corp., and Executive Director and General Manager of Sinopec Assets Management from April 2014 to December 2019. He has been the Deputy President of Chemical Service Department of Sinopec Corp. and General Manager of Sinopec Assets Management since December 2019. From June 2020, he served as the executive director and member of the strategy committee of the company. Mr. Xie obtained a Master's degree in Economics from Graduate School of Chinese Academy of Social Science in August 1989. He obtained a Master's degree in Business Administration from University of Houston in May 2007. He is a Senior Accountant by professional title.

Peng Kun, born in December 1966, is currently serving as a Non-Executive Director, the General Manager of Human Resource Department, Minister of Party Committee Organization Department, and Director of Office of Veteran Cadres of the Company. Mr. Peng joined the Complex in 1986 and served as Deputy Director of General Affairs Office, Department of Chemical Engineering, General Research Institute, assistant manager of the life logistics subsidiary of Easy-Art Design, section manager of Coordination Section of Chemical Engineering Institute, section manager of Administration Department, Secretary of Party General Branch and Deputy Director of Quality Center, Deputy party Secretary and Secretary of Commission for Discipline Inspection of Quality Management Center, Director of Labor Union, and Chairman, Secretary of the Communist Party Committee and Deputy Manager of Labor Union. He served as Director of Human Resources Department of the Company from February 2016 to April 2018, the Head of Human Resources Division of the Company from April 2018 to May 2019, and the Head of Organization and Personnel Division of the Company from May 2019 to March 2020. He was appointed as Director of CPC United Front Work Department and Director of Retired Cadres Office in May 2019, and General Manager of Human Resources Department and Director of CPC Organization Department of the Company from March 2020. From June 2020, he served as the Non-Executive Director of the Company. Mr. Peng graduated from East China University of Science and Technology with a degree in Engineering Management in July 2004 and obtained senior professional and technical title.

Li Yuanqin, born in July 1973, is an Independent Non-Executive Director, Chairman of the Audit Committee and member of the Strategy Committee of the Company, Professor of the School of Management and the associate head of the Department of Accountancy at Shanghai University. Ms. Li has been appointed as an Independent Non-Executive Director of the Company since August 2017. She is currently the independent Director of Shanghai New World Co., Ltd. (listed on Shanghai Stock Exchange, stock code: 600628), Yunsai Zhilian Co., Ltd. (listed on Shanghai Stock Exchange, stock code: 600602, 900901) and Hengtian Kaima Co., Ltd. (listed on Shanghai Stock Exchange, stock code: 900953). From April 2000 to March 2003, Li served at the Settlement Department at the headquarters of ICBC. From June 2006 to September 2009, she was the lecturer at the School of Management at Shanghai University. From September 2009 to March 2019, she was the associate professor at the School of Management at Shanghai University. She has been the professor at the School of Management and the associate head of the Department of Accountancy of Shanghai University since March 2019 and May 2011. During that period, she was also a visiting scholar at Foster School of Business, University of Washington in the United States between February 2012 and February 2013. She also serves as a member of the eighth session of the Shanghai Baoshan Committee of the Chinese People's Political Consultative Conference and a non-practicing member of the Chinese Institute of Certified Public Accountants. She received a PhD in Management from Antai College of Economics and Management (ACEM) at Shanghai Jiao Tong University.

Tang Song, born in December 1980, is serving as the Independent Non-executive Director and a member of the Audit Committee of the Company, Dean Assistant of School of Accountancy, Shanghai University of Finance and Economics, Professor and PH. D graduate student supervisor. Mr. Tang finished his undergraduate study in June 2003 at the School of Accountancy of the Shanghai University of Finance and Economics and obtained a doctor's degree from a successive postgraduate and doctoral program in Management (Accountancy) in June 2008. Mr. Tang worked in the School of Accounting and Finance, Hong Kong Polytechnic University for collaborative research from August 2008 to August 2009. He worked in China Europe International Business School for collaborative research from August 2009 to June 2010. Mr. Tang served as Lecturer in School of Accountancy, Shanghai University of Finance and Economics from June 2010 to July 2012. He served as associate professor at the School of Accountancy, Shanghai University of Finance and Economics from August 2012 to June 2019. Mr. Tang served as Dean Assistant of Shanghai University of Finance and Economics from January 2019, and as a Professor of the School of Accountancy of the University since August 2019. Mr. Tang served as an Independent Director of the Shanghai Qifan Cable Co. Ltd. (listed on the Shanghai Stock Exchange, stock code: 605222) since July 2019, and as an Independent Director for the Shanghai Universal Biotech Co., Ltd since May 2020. He served as the independent non-executive director, member of the audit committee and member of the strategy committee of the company since June 2020. Mr. Tang served as an Independent Director for the Wuxi Commercial Mansion Grand Orient Co., Ltd.(listed on Shanghai Stock Exchange, stock code: 600327) since November 2020.

Chen Haifeng, born in January 1974, is serving as an Independent Non-Executive Director of the Company, member of the Audit Committee and the Nomination committee, and a Senior Director of the Shanghai MindMotion Microelectronics Co., Ltd.. Mr. Chen graduated from Fudan University with a Bachelor's degree in applied physics in 1997. He served as clerk, project supervisor, and project manager of Investment Banking Department of CITIC Securities from July 1997 to August 2001. Mr. Chen served as Senior Manager of Strategic Investment Department of SVT Group from September 2002 to February 2006. He served as Senior Manager of Investment Banking Department of Orient Securities from August 2006 to March 2008. Mr. Chen served as senior vice president and sponsor Deputy of Investment Banking Department of China Jianyin Investment Securities from April 2008 to May 2012. He served as CEO and sponsor Deputy of Investment Banking Department of Caida Securities from June 2012 to June 2015. Mr. Chen served as independent Director of CNNC Hua Yuan Titanium Dioxide Company Limited(listed on Shenzhen Stock Exchange, stock code: 002145) from February 2015 to October 2018. He served as CEO and sponsor Deputy of Investment Banking Department in Dongxing Securities from July 2015 to September 2017. Mr. Chen has been a non independent Director of Zhejiang Yueling Wheels Corporation from October 2017 to December 2020(listed on the Shenzhen Stock Exchange, Stock Code: 002725). He served as an independent non-executive director, member of the audit committee and member of the nomination committee of the company since June 2020. He served as a Senior Director of the Shanghai MindMotion Microelectronics Co., Ltd. Since January 2021.

Yang Jun, born in August 1957, is serving as an Independent Non-executive Director, Chairman of the Nomination Committee, the Remuneration and Appraisal Committee Director (vice president level) of Gansu Gangtai Holding (Group) Co., Ltd. Mr. Yang graduated from East China University of Political Science and Law with a degree in Law in September 1979 and from Peking University with a Master's degree in Civil Law in July 1991. He worked in Shanghai Intermediate Court and Supreme Court from July 1983 to July 2005. He served as an assistant to the president and general legal officer of Shanghai United Assets and Equity Exchange, General Manager of Beijing Headquarter of Central Enterprise Equity Exchange, operation Director of Equity Exchange and General Manager of Financial Equity Exchange from July 2005 to September 2017. He has served as an arbitrator of China International Economic and Trade Arbitration Commission from March 2007 to March 2015 and served as an arbitrator of Shanghai International Economic and Trade Arbitration Commission since March 2007. He served as independent non executive Director of China Merchants Securities Co., Ltd. (listed on the Hong Kong stock exchange, stock code: 06099) from June 2011 to January 2018. He has served as independent Director of Shanghai Zhenhua Heavy Industries Co., Ltd.(listed on Shanghai Stock Exchange, stock code: 600320) since April 2015 and Director (Vice President level) of Gansu Gangtai Holding (Group) Co., Ltd. since September 2017. He served as the independent non-executive director, chairman of the nomination committee and chairman of the remuneration and assessment committee of the company since June 2020.

Gao Song, born in June 1970, is serving as an Independent Director, member of remuneration and appraisal committee and Strategy Committee, Professor of Business School of East China University of Science and Technology and Director of China's Institute for action learning. Mr. Gao graduated from Shandong University with a degree in Computer Software in 1992, from the School of Management of Fudan University with a Master's degree in Corporate Management in 1998 and from the Antai College of Economics & Management of Shanghai Jiao Tong University with a doctorate in Corporate Management in 2006. He served as Director of Marketing Department of Shanghai Guanshengyuan Group Co., Ltd.. From March 1998 to May 2002 and General Manager of Shanghai Aichu Food Co., Ltd.. From May 2002 to March 2007. He has served as Professor of Business School of East China University of Science and Technology and Director of China's Institute for action learning since May 2009. He was a visiting scholar at the University of Illinois at Urbana-Champaign from 2014 to 2015. From June 2020, he served as the independent non-executive director, chairman of the remuneration and appraisal committee and member of the strategy committee of the company.

Supervisors:

Ma Yanhui, born in February 1971, is a Supervisor, the Chairman of Supervisory Committee,, the Deputy Secretary of the Communist Party Committee, Secretary of the Communist Party Discipline Supervisory Committee and Chairman of the Labour Union of the Company. Mr. Ma started his career in 1996. He served as Secretary of Office of Yanhua Refinery, Secretary and Deputy Director of Yanhua Office of Great Wall Lubricant Oil, Supervisor and Acting Director and Deputy Director of Integrated Corporate Reform Department of China Petrochemical Corporation, and Deputy Director and Director of Structure Reform Sector, Corporate Reform Department of Sinopec Assets Management Co., Ltd., etc. From June 2008 to August 2017, Mr. Ma was Director of Integrated Corporate Reform Department of China Petrochemical Corporation (Sinopec Group). From August 2017, Mr. Ma was the Deputy Secretary of the Communist Party Committee and Secretary of the Communist Party Discipline Supervisory Committee of the Company. He was appointed as Supervisor, Chairman of Supervisory Committee and Chairman of the Labour Union of the Company in October 2017. Mr. Ma graduated from East China University of Science and Technology in July 1996, majoring in petroleum processing, and obtained a Bachelor's degree in engineering. In June 2006, he obtained a Master's degree in corporate management from Renmin University of China. Mr. Ma is a senior economist by professional title.

Zhang Feng, born in June 1969, is currently a Supervisor and the Auditing Director of the Company. Mr. Zhang started his career in the Complex in 1991. He served as Assistant of Chief and Deputy Chief of Finance Section of Polyester II Factory, Deputy Chief of Finance Section of Polyester Department, Deputy Chief and Chief of Cost Section of Finance Division of Polyester Department, Deputy Chief and Chief of Finance Division, Director Assistant, Deputy Director, Deputy Director (Hosting Work), Director of Finance Department and Chief of Finance Division, etc. He worked as Auditing Director of the Company from December 2018 to March 2020, and as Supervisor in October 2019. From March 2020, he worked as the Auditing Director of the Company. Mr. Zhang graduated from Shanghai University of Finance and Economics in 1991, majoring in Accounting, and obtained a Bachelor's degree in Economics. Mr. Zhang is a senior accountant by professional title.

Chen Hongjun, born in January 1971, is currently a Supervisor, Vice-President of Labour Union, Director of the Public Affairs Department and Vice-President of the Association of Science and Technology of the Company. Mr. Chen started his career in the Complex in 1996. He served as Vice Party Branch Secretary of Fibre Polymer Office, Deputy Director of Spinning Office, Director of Simulation Office, Section Manager of Scientific Research Management Department, Deputy Secretary and Secretary of Youth League Committee of the Company, Party Secretary and Deputy Director of the Chemical Engineering Department, Party Secretary and Assistant Manager of Fine Chemicals Department and Director of Public Affairs Department. Mr. Chen was appointed as Vice-President of Labour Union of the Company in November 2013. He was appointed as Vice President of the Association of Science and Technology in December 2017. He served as Director of the Public Affairs Department of the Company from April 2018 to March 2020, and he was elected as Supervisor of the Company in October 2019. He was the Director of Public Affairs of the Company since march 2020. In 1993, Mr. Chen graduated from Chengdu University of Science and Technology, majoring in Dyeing and Finishing Engineering, and obtained a Bachelor's degree in Engineering. In 1996, he obtained a Master's degree in Chemical Fibre from Sichuan Unite University. Mr. Chen is a senior engineer by professional title.

Zhang Xiaofeng, born in March 1970, is currently serving as External Supervisor, Deputy General Manager of the Enterprise Reform and Legal Department of Sinopec Group and Deputy Director of the Company's Commission Office for Public Sector Reform. Mr. Zhang currently holds the position of supervisor of Sinopec Insurance Limited, Sinopec Oilfield Equipment Corporation and Sinopec Petroleum Reserve Company Limited. Starting his career in 1995, Mr. Zhang has served as Deputy chief of the Office Management Division of the Legal Department of Sinopec Group, Deputy chief and chief of the Contract Project Division, chief of the Dispute Management Division and chief of the General Management Division of Legal Department of Sinopec Group. He has served as Deputy Director of the Legal Department of Sinopec Group from January 2018 to December 2019. He has also served as Deputy General Manager of the Enterprise Reform and Legal Department of Sinopec Group and Deputy Director of the Company's Commission Office for Public Sector Reform since December 2019. Mr. Zhang, majoring in International Economic Law, graduated from China University of Political Science and Law with a Bachelor's degree in Law in July 1995, and he is a senior economist.

Zheng Yunrui, born in December 1965, is an Independent Supervisor of the Company, a professor in civil and commercial law at the Faculty of Law of the East China University of Political Science and Law in the PRC and Member of Expert Consultation Committee of Shanghai Yangpu District People's Procuratorate and Mediator of Shanghai Second Intermediate People's Court. He has served as the Company's Independent Supervisor since December 2014. He is currently an independent Director of Jiangxi XinyuGuoke Technology Co., Ltd. (listed on the Shenzhen Stock Exchange, stock code: 300722), independent Director of Fuxin Dare Automotive Parts Co, Ltd. (listed on the Shenzhen Stock Exchange, stock code: 300473), Dalian Insulator Group Co., Ltd (listed on the Shenzhen Stock Exchange, stock code:002606) and Wuxi New Hongtai Electrical Technology Co., Ltd. (listed on Shanghai Stock Exchange, stock code: 603016). Mr. Zheng graduated from the Shangrao Normal University in Jiangxi Province, majoring in English Language. Mr. Zheng obtained a Master's degree in law and a doctorate's degree in law from the Faculty of Law of Peking University in July 1993 and July 1998, respectively. Mr. Zheng previously worked at the Education Bureau of Shangrao County, Jiangxi Province, Hainan Airport Limited, China Township Enterprise Investment and Development Company Limited and the Legal Affairs Office of the Shanghai Municipal People's Government. He has been teaching at East China University of Political Science and Law since August 2001. He was a visiting scholar at the Faculty of Law of National University of Singapore between July 2002 and December 2002. From April 2013 to May 2019, he served as independent director of Hangzhou Xianfeng Electronic Technology Co., Ltd. (listed on Shenzhen Stock Exchange, stock code: 002767). From 2019 to February 2021, he served as the external supervisor of Zhejiang Weihai Construction Group Co., Ltd. (listed on Shenzhen Stock Exchange, stock code: 002586). In November 2019, he served as a member of the second shareholding exercise Expert Committee of China Securities small and Medium Investors Service Center. In September 2020, he was appointed as a legal consultant of Wuxi intermediate people's court. Mr. Zheng has been engaged in trials, teaching and research relating to civil law, property law, contract law, company law, insurance law, social insurance law and government procurement law. He is experienced in the legal affairs on corporate governance and has great academic achievements. He is also an arbitrator at the Arbitration Commission of Xuzhou and Wuxi. Mr. Zheng was appointed as member of Expert Advisory Committee of the People's Procuratorate of Shanghai Yangpu District and mediator of Shanghai No. 2 intermediate People's Court on 24 March 2017 and 26 June 2017, respectively.

Choi Ting Ki, born September 1954, is an Independent Supervisor of the Company and a Fellow of the Hong Kong Institute of Certified Public Accountants. He joined the Company in June 2011. Mr. Choi served as Independent Non-Executive Director of the Company from June 2011 to June 2017 and has been Independent Supervisor since June 2017. Mr. Choi has been an independent non-Executive Director of Yangtzekiang Garment Limited (listed on the Main Board of the Hong Kong Stock Exchange, stock code: 00294) and YGM Trading Limited (listed on the Main Board of the Hong Kong Stock Exchange, stock code: 00375) since December 2012. Mr. Choi graduated from the Department of Accounting, Hong Kong Polytechnic in 1978. He joined KPMG in the same year and has held various positions, including Partner of the audit department of KPMG Hong Kong Office, Executive Partner of KPMG Shanghai Office, Senior Partner of KPMG Huazhen Shanghai Office as well as Senior Partner of KPMG Huazhen in Eastern and Western China. Mr. Choi retired from KPMG Huazhen in April 2010.

Senior Management:

Du Jun, born in March 1970, is the Deputy President, Chief Financial Officer of the Company, Chairman of China Jinshan Associated Trading Corporation ("Jinshan Associated Trading") and a Director of the Shanghai Chemical Industry Park Development Co.,Ltd.. Mr. Du Jun started his career in 1990 and has successively served the Chief of Second Division of the Secretary of President's Office of the Sinopec Yangzi Petrochemical Company Ltd., Deputy Director of Finance Office and Deputy Director of Finance Department of Sinopec Yangzi Petrochemical Co., Ltd. From August 2004 to July 2007, he served as Director of Finance Department of Sinopec Yangzi Petrochemical Co., Ltd.. From July 2007 to August 2012, he served as Director of Finance Department of Sinopec Yangzi Petrochemical Company Limited. From August 2012 to August 2016, he served as Chief Accountant of Sinopec Yangzi Petrochemical Company Limited. From December 2015 to September 2020, he served as Supervisor of BASF-YPC Company Limited. From June 2016 to September 2020, he served as Director of Sinopec Yangzi Petrochemical Company Limited. From August 2016 to September 2020, he served as Chief Accountant of Sinopec Yangzi Petrochemical Company Limited. From September 2020, he served as the Deputy General Manager and the Chief Financial Officer of the Company. He served as the Chairman of the Jinshan Associated Trading, and as Director of the Shanghai Chemical Industry Park Development Co., Ltd. since December 2020. Mr. Du Jun graduated from Southeast University with a Bachelor's degree in Industrial Corporate Management in 1990. He obtained a Master's degree in Business Administration (MBA) from Southeast University in 2004. He is a Professorate senior accountant by title.

(III) Share options held by the Directors, Supervisors and senior management during the Reporting Period

There were no share options held by the Directors, Supervisors and senior management during the Reporting Period.

(IV) Positions held in the Company's shareholders during the Reporting Period

Name	Name of shareholder	Position held	Commencement of term of service	End of term of service
Xie Zhenglin	Sinopec Corp.	Deputy general manager of chemical business department	December 2019	May 2021
Xie Zhenglin	Sinopec Asset Management Co., Ltd.	General manager	December 2019	May 2021
Zhang Xiaofeng	Sinopec Group	Deputy general manager of enterprise reform and law department, deputy director of office of Party Organization Establishment Committee	December 2019	May 2021

(V) Positions held in other companies during the Reporting Period

Name	Name of other company	Position held	Commencement of term of service	End of term of service
Wu Haijun	Shanghai SECCO	Director	August 2019	August 2022
Wu Haijun	Shanghai chemical industrial zone development Co., LTD	Chairman	January 2018	September 2021
Du Jun	Jinshan Associated Trading	Chairman	December 2020	July 2023
Du Jun	Shanghai chemical industrial zone development Co., LTD	Director	December 2020	September 2021

Apart from the information set out in the tables above and in section (II) "Profile of Directors, Supervisors and Senior Management", no Director, Supervisor or senior management of the Company holds any other position at any other company.

(VI) Remuneration of Directors, Supervisors and senior management during the Reporting Period

Procedures for determining the remuneration of Directors, Supervisors and senior management	Remuneration for Independent Non-executive Directors are determined in accordance with the Remuneration System for Independent Directors approved at the 2007 Annual General Meeting. Remuneration for Independent Supervisors are determined in accordance with the Remuneration Payment Method for Independent Supervisors approved at the 2016 Annual General Meeting. Remuneration of the other Directors, Employee Representative Supervisors and External Supervisors and senior management are determined in accordance with the Remuneration System for Directors, Supervisors and Senior Management approved at the 2002 Annual General Meeting. For details of the remuneration of the Directors and Supervisors of the Company, please refer to Note 11 and Note 34 to the consolidated financial statements prepared under IFRS.
Basis for determining the remuneration of Directors, Supervisors and senior management	The remuneration of Directors, Supervisors and senior management of the Company is determined on the principles of "efficiency, motivation and fairness" and in accordance with the Remuneration System for Directors, Supervisors and Senior Management.
Remuneration paid to Directors, Supervisors and senior management	Please refer to item (1) "Changes in shareholdings and remuneration" of this chapter.
Total remuneration received by all Directors, Supervisors and senior management for the Reporting Period	RMB10.2978 million
The five highest paid individuals	Please refer to note 34(i) to the consolidated financial statements prepared under IFRS. The five individuals are the Directors and Supervisors of the Company.
Pension scheme	Please refer to Notes 2.25 and 28(f) to the consolidated financial statements prepared under IFRS.

(VII) Changes in Directors, Supervisors and senior management during the Reporting Period

Name	Position held	Change	Reason
Guan Zemin	Vice Chairman & President	Elected & Appointed	–
Huang Xiangyu	Executive Director & Vice President	Elected & Appointed	–
Huang Fei	Executive Director, Vice President & Secretary to the Board	Elected & Appointed	–
Xie Zhenglin	Non-executive Director	Elected	–
Peng Kun	Non-executive Director	Elected	–
Tang Song	Independent Non-executive Director	Elected	–
Chen Haifeng	Independent Non-executive Director	Elected	–
Yang Jun	Independent Non-executive Director	Elected	–
Gao Song	Independent Non-executive Director	Elected	–
Zhang Xiaofeng	Supervisor	Elected	–
Du Jun	Vice President & chief financial officer	Appointment	–
Lei Dianwu	Non-executive Director	Resigned	Expiration of term
Mo Zhenglin	Non-executive Director	Resigned	Expiration of term
Zhang Yimin	Independent Non-executive Director	Resigned	Expiration of term
Liu Yunhong	Independent Non-executive Director	Resigned	Expiration of term
Du Weifeng	Independent Non-executive Director	Resigned	Expiration of term
Zhai Yalin	Supervisor	Resigned	Expiration of term
Zhou Meiyun	Executive Director, Vice President & chief financial officer	Resigned	Change of work arrangements

(VIII) Interests and short positions of Directors, chief executives and Supervisors in the shares, underlying shares and debentures of the Company or associated corporations

As at 31 December 2020, 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 of interests 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:

Interests in the shares and underlying shares of the Company:

Name	Position held	Number of shares held (Shares)	Number of underlying A shares share options held according to the Share Option Incentive Scheme (Shares)	Percentage of the total issued shares of the Company (%)	Capacity
Jin Qiang	Executive Director and Vice President	301,000 A Share (L)	0.002781	0.00411	Beneficial owner
Jin Wenmin	Executive Director and Vice President	175,000 A Share (L)	0.001617	0.00239	Beneficial owner
Huang Xiangyu	Executive Director and Vice President	140,000 A Share (L)	0.001293	0.001910	Beneficial owner
Zhang Feng	Supervisor	10,000 A Share (L)	0.000092	0.00014	Beneficial owner
Chen Hongjun	Supervisor	31,400 A Share (L)	0.000290	0.00043	Beneficial owner

(L): Long position

Save as disclosed above, as at 31 December 2020, 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 or 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.

(IX) Changes in Directors' and Supervisors' information

Save as disclosed in the 2020 interim report, disclosure of changes in Directors' and Supervisors' information pursuant to Rule 13.51B(1) of the Hong Kong Listing Rules during the Reporting Period are set out as below:

(1) Mr. Chen Haifeng, an Independent Non-executive Director, resigned as a non-independent director of Zhejiang Yueling Co., Ltd. (listed on Shenzhen Stock Exchange, stock code: 002725) on 29 December 2020 and has been a senior director of Shanghai Smart Microelectronics Co., Ltd. since January 2021.

(2) Mr. Xie Zhenglin, a Non-executive Director, resigned as the vice chairman and director of China Merchants Energy Transportation Co., Ltd. (listed on Shanghai Stock Exchange, stock code: 601872) on 19 October 2020.

(3) Ms. Li Yuanqin, an Independent Non-executive Director, has been an independent director of Hengtian Kaima Co., Ltd. (listed on Shanghai Stock Exchange, stock code: 900953) since January 2021.

(4) Mr. Tang Song, an Independent Non-executive Director, has been an independent director of Wuxi Commercial Building Dadongfang Co., Ltd. (listed on Shanghai Stock Exchange, stock code: 600327) since November 2020.

(X) Transactions, arrangements or interests of Directors and Supervisors

None of the Directors or Supervisors of the Company had any material interests, either directly or indirectly, in any material contract which was entered into by the Company or any of its subsidiaries and subsisted during the Reporting Period or at the end of the Reporting Period.

None of the Directors or Supervisors had any interests in any businesses (other than the Group's businesses) that competed directly or indirectly with the Group's business.

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

(XI) Directors' rights to acquire shares or debentures

During the Reporting Period, the Company did not grant the Directors the rights to acquire shares or debentures.

(XII) Compliance of Model Code for Securities Transactions

The Company has adopted the Model Code for Securities Transactions to regulate securities transactions of the Directors and Supervisors. After making specific enquiries with all the Directors and Supervisors, the Company obtained written confirmations from each of the Directors and Supervisors that they have fully complied with the Model Code for Securities Transactions during the Reporting Period.

The Model Code for Securities Transactions is also applicable to the senior management of the Company who are in possession of unpublished price sensitive information of the Company. No incident of non-compliance of the Model Code for Securities Transaction by the senior management was noted by the Company.

(XIII) Management contracts

During the Reporting Period, the Company did not enter into any management and administration contract regarding the whole or any substantial part of its businesses (other than the service contracts with the Directors or any full-time employee of the Company).

(XIV) Permitted indemnity provision

Appropriate Directors' liability insurance has been arranged to indemnify the Directors for liabilities arising out of corporate activities. Such liability insurance is currently in force and was in force throughout the Reporting Period.

(XV) Punishment by securities regulatory authorities in the recent three years

Nil.

(XVI) Employees

1. Employees of the Group

	Number (Person)
Number of employees of the Company	8,383
Number of employees of the subsidiaries	83
Total number of employees of the Group	8,466
Number of retired workers whose retirement costs are borne by the Group	19,095
Professionals	
Production staff	5,094
Sales staff	78
Technical staff	2,136
Financial staff	92
Administrative staff	1,066
Total	8,466
Education level	
Specialist college graduate and below	5,863
Bachelor's degree	2,205
Master's degree and above	398
Total	8,466

2. Remuneration policy

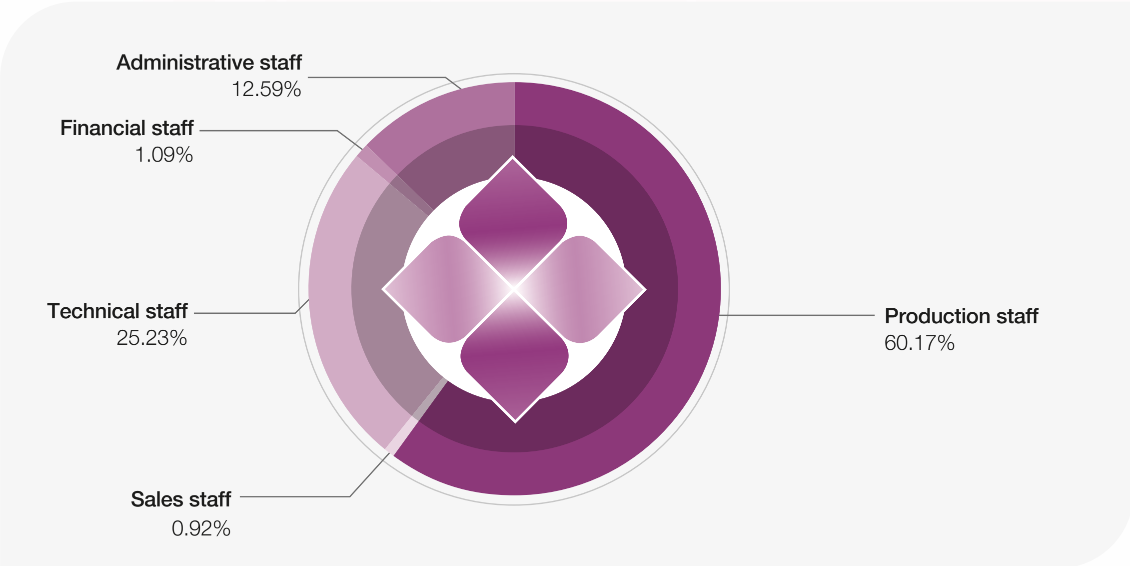
Remuneration packages of the Company's staff include salary, share options and allowances. Employees of the Company are also eligible for medical insurance, retirement and other benefits. In accordance with the relevant regulations of the PRC, the Company also participates in the social security scheme implemented by the relevant government authorities, and makes contribution for the employees in proportion to their monthly salary. Employees of the Company can also enjoy supplementary medical insurance, enterprise annuity, retirement and other benefits.

During the Reporting Period, the staff remuneration of the Company amounted to RMB3,143,219.01 thousands.

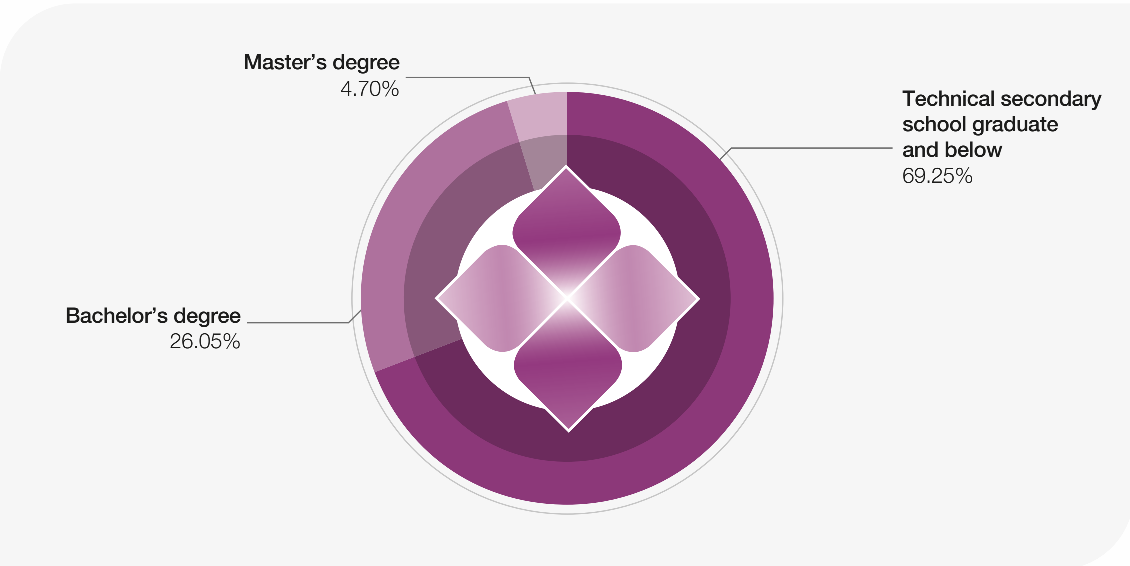
3. Training programs

According to the Company's plan of boosting the enterprise through talents, the annual key work requirements and the provisions of "Management Measures for Staff Training of Sinopec Shanghai", the Company took the "problem-oriented, scientific management, and efficiency improvement" as the main task, through continuously improving the relevance and effectiveness of training, to strengthen the construction of the talent team, promote the development of employees, and help the Company fight a "talent reserve war". The Company organized staff training at three levels of the Company, all units and dispatched personnel to participate in the headquarters and external institutions, so as to improve the quality of staff.

4. **Professional structure chart**



5. **Statistics on the education level**



6. **Outsourcing services**

The total remuneration paid for outsourcing services of the Company during the Reporting Period was RMB123,111.5 thousand.

(I) Notes for corporate governance and insider registration management

1. Corporate governance

In 2020, the Company strictly complied with the regulatory regulations such as Company Law, Securities Law and the Corporate Governance Principles for Listed Companies issued by the CSRC, as well as the relevant provisions and requirements of the Shanghai Stock Exchange, the Hong Kong Stock Exchange and the New York Stock Exchange. It continued to improve its corporate governance structure, develop its corporate system, standardize the corporate operations and enhance its overall corporate image.

Accomplishing specific corporate governance activities as a listed company. During the Reporting Period, the Company was committed to ensuring the compliance with relevant regulatory rules regarding corporate governance and continued to consolidate its achievements in specific areas of corporate governance. None of the Company, its Directors, Supervisors, senior management, shareholders and de facto controllers of the Company has been investigated by the CSRC, or punished or publicly criticized by the CSRC, the Securities and Futures Commission of Hong Kong or the U.S. Securities and Exchange Commission, or publicly censured by the Shanghai Stock Exchange, the Hong Kong Stock Exchange or the New York Stock Exchange.

Through continuously conducting specific corporate governance activities and improving its governance system, the Company further enhanced its corporate governance level. The Company's internal system also became more robust and standardized. Under the guidance of the relevant regulatory authorities, the Company will operate in strict compliance with the relevant laws and regulations and will further strengthen the establishment of standardized and institutionalized corporate governance so as to ensure the lawful, robust and sustainable development of the Company.

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

In order to administer the registration and management of persons with access to the Company's inside information, strengthen confidentiality of inside information and safeguard fairness of information disclosure, during the Reporting Period, the Company enhanced the confidentiality of inside information and the registration, management and reporting of the persons with access to the Company's inside information according to "System for the Registration and Management of Inside Information", so as to prevent the Company from suffering unusual stock price fluctuations due to leakage of inside information and the resulting legal risks, and further standardize the Company's operation.

(II) Brief introduction of general meeting

Session of the meeting	Convening date	Title of the motions	Status of the resolutions	Designated websites for publication of resolutions	Date of publication of resolutions
The Company's 2019 annual general meeting	18 June 2020	1. 2019 Work Report of the Board 2. 2019 Work Report of the Supervisory Committee of the Company 3. 2019 Audited Financial Statements of the Company 4. 2019 Profit Distribution Plan of the Company 5. 2020 Financial Budget Report of the Company 6. Re-appointment of PricewaterhouseCoopers Zhong Tian LLP (Special General Partnership) and PricewaterhouseCoopers as the domestic and international auditors, respectively, of the Company for the year 2020, and to authorise the Board to fix their remuneration 7. Investment and construction project with annual production of 24,000 tons of precursor and 12,000 tons of 48K large tow carbon fiber 8. Resolution for authorising the Board to determine the proposed plan for issuance of debt financing instrument(s) 9. Election of candidates as non-employee representative supervisors of the Tenth Session of the Supervisory Committee of the Company 10. Election of candidates as non-independent directors of the Tenth Session of the Board 11. Election of candidates as independent directors of the Tenth Session of the Board	Passed	Websites of the Shanghai Stock Exchange, the Hong Kong Stock Exchange and the Company	19 June 2020

(III) Performance of duties by the directors

1. Directors' attendance at the Board meetings and general meetings

		Information on participating in the Board Meeting						Information on participating in General Meetings
Name of Director	Independent Director or not	Attendance at the Board meetings during the year (number of times)	Attendance in person (number of times)	Attendance by correspondence (number of times)	Attendance by proxy (number of times)	Absence (number of times)	Failure to attend the meeting in person for two consecutive times or not	Attendance at general meetings (number of times)
Wu Haijun	No	7	7	4	0	0	No	1
Guan Zemin	No	4	4	2	0	0	No	1
Jin Qiang	No	7	7	4	0	0	No	1
Jin Wenmin	No	7	7	4	0	0	No	1
Huang Xiangyu	No	4	4	2	0	0	No	1
Huang Fei	No	4	4	2	0	0	No	1
Xie Zhenglin	No	4	4	3	0	0	No	0
Peng Kun	No	4	4	2	0	0	No	1
Li Yuanqin	Yes	7	7	4	0	0	No	1
Tang Song	Yes	4	4	2	0	0	No	1
Chen Haifeng	Yes	4	4	2	0	0	No	1
Yang Jun	Yes	4	4	2	0	0	No	1
Gao Song	Yes	4	4	2	0	0	No	1
Zhou Meiyun	No	5	5	2	0	0	No	1
Lei Dianwu	No	3	3	3	0	0	No	0
Mo Zhenglin	No	3	3	2	0	0	No	0
Zhang Yimin	Yes	3	3	2	0	0	No	1
Liu Yunhong	Yes	3	3	2	0	0	No	1
Du Weifeng	Yes	3	3	2	0	0	No	1

Number of Board meetings held during the year	7
including: number of meetings held on site	2
number of meetings held by correspondence	4
number of meetings held on site and by correspondence concurrently	1

2. Disagreements of the Independent Non-executive Directors on relevant issues of the Company

During the Reporting Period, none of the Independent Non-executive Directors of the Company raised any disagreements on any Board resolutions or other issues of the Company.

(IV) Major comments and recommendations put forward by the specific Board committees under the Board while discharging their duties during the Reporting Period

On 24 March 2020, the Board's Audit Committee reviewed together with the management the accounting principles and standards adopted by the Company and discussed matters regarding audit, risk management, internal control and financial reporting, including the review of the financial statements for the year ended 31 December 2019.

On 24 March 2020, the Board's Remuneration and Appraisal Committee reviewed the remuneration of Directors, Supervisors and senior management set out in the Company's annual report for the year ended 31 December 2019.

(V) Information on Supervisory Committee's identification of risks in the Company

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

(VI) Information on whether the Company fails to guarantee independence from its controlling shareholder or maintain autonomous operational ability in respect of business, personnel, assets, organization and finances, etc.

The Company is independent of its controlling shareholder with regard to its business, personnel, assets, organizations and finances. The Company has the full ability to conduct its business independently and has the ability to operate autonomously.

(VII) Evaluation mechanism for senior management as well as the establishment and implementation of incentive mechanism during the Reporting Period

The Remuneration System for the senior management was considered and approved at the 2002 annual general meeting of the Company on 18 June 2003. In 2020, the Company continued to implement this system as the basis of appraising and rewarding the Company's senior management.

(I) Statement of responsibility for internal control and the establishment of the internal control system

1. Statement of responsibility for internal control

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

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

The Board has evaluated the internal controls pertinent to financial reporting in accordance with the requirements under the Basic Standards for Enterprise Internal Control, and is of the view that such internal control was effective in the year of 2020.

2. Establishment of internal control system

Overall plan of internal control establishment	Since 2004, the Company has established and implemented a comprehensive internal control system which covers aspects such as production, operations, finance, investment, human resources and information disclosure, and amends the Internal Control Manual annually in accordance with domestic and overseas regulatory requirements, risk prevention needs and recommendations by external auditors on internal control review. The Company's internal control system has been established primarily for the following basic objectives: (a) to standardize the enterprise's business operation, prevent operational and managerial risks, ensure that financial statements and relevant information are truthful and complete, improve operational efficiency and effectiveness, and facilitate the achievement of the Company's development strategy; (b) to plug loopholes and eliminate potential hazards so as to prevent, detect and correct mistakes and fraudulent acts in a timely manner, thereby ensuring that the Company's assets are secure and integral; and (c) to ensure that the relevant state laws and regulations, the Articles of Association and internal rules and regulations are thoroughly enforced so as to fulfill the regulatory requirements for listed companies in both domestic and overseas capital markets.
Work plan on establishing and improving the internal control system and implementation thereof	The Internal Control Manual (2019 Edition) comprises 22 categories, 56 operation process and sets out 1,539 control points and 215 authorization control indicators. The scope of control covers the major areas of the Company's production, operations and development, as well as the key procedures of relevant business such as financial management, accounting and auditing, procurement of resources, product sales, capital expenditures, human resources and information management. The scope of control also includes reviewing the sufficiency of the Company's resources of accounting, financial management and reporting functions as well as employee qualifications and experience and the adequacy of the training courses attended by the employees and the relevant budget. In 2020, the Company conscientiously enforced the Internal Control Manual approved by the Board, and conducted self-assessment, walk-through test on procedures and integrated inspection on internal control in accordance with the relevant rules and regulations. PricewaterhouseCoopers ZhongTian LLP, external auditor of the Company also reviewed the status of the Company's internal control. The management of the Company considers that the internal control of the Company was effective during the Reporting Period.

Establishment of the department inspecting and supervising internal control	The Company has established an internal control task force, with the Chairman, the President and the Chief Financial Officer as its chief and deputy chief, respectively. As the leading organ of the Company's overall internal control system, the task force's main duty includes organizing the formulation and revision of the Company's internal control manual, organizing the self inspection of the internal control of the Company's own level and the inspection of its subordinate enterprises, and guiding and coordinating the Company's internal control management. The internal control office under the internal control task force is the centralized management department of the comprehensive supervision of the Company's internal control risk management, which is responsible for the daily supervision and special supervision of the Company's internal control risk management, and the daily work is in the charge of the enterprise management department. The Company established an internal control supervisor working network which was in charge of each department (unit) in the Company. These internal control supervisors, representing their respective departments, and administrative heads of second-tier units, conduct internal control work and activities within their respective supervisory scope and functionally report to the internal control office of the Company.
The Board's work arrangements for internal control	The Board is regularly informed of the reports on the establishment of the internal control system of the Company and the findings of the implementation and inspection of the internal control through the Board's Audit Committee. The Board also considers and publishes a self-assessment report on the internal control of the Company and considers and approves the revised Internal Control Manual of the Company on an annual basis. PricewaterhouseCoopers, the Company's external auditor, issued an auditor's report on internal control over financial reporting according to the "Sarbanes-Oxley Act". PricewaterhouseCoopers ZhongTian LLP, the Company's external auditor, issued an auditor's report on internal control over financial reporting according to "Audit Guidelines for Enterprise Internal Control" in 2020.
Improvements in the internal control system in relation to financial audit	The Company took the lead for the assessment of the rules and regulations and fully assessed the compliance and effectiveness of each system. A total of 101 amendments were made, 64 systems were amended and 37 systems were added.
Deficiencies in internal control and the relevant rectification	The Company conducted a self-assessment on its internal control work in 2020. The results of the assessment are: no material deficiencies were detected in the design or implementation of the internal control of the Company from 1 January 2020 to 31 December 2020.

(II) Disclosure of the self-assessment report on internal control

The Company has disclosed the self-assessment report of the Board on the Company's internal control.

(III) Auditor's report on internal control

Whether the Auditor's report on internal control is disclosed: Yes

The Company has engaged PricewaterhouseCoopers Zhong Tian LLP to conduct an audit on the effectiveness of the internal control over financial reporting of the Company for the year ended 31 December 2020 pursuant to the requirements of the Audit Guidelines for Enterprise Internal Control and an auditor's report on internal control has been issued.

(IV) The Company's establishment of an accountability system for major errors in the disclosure of information in annual reports

The Company's Information Disclosure Management System (2017 Revised Version) sets out specific regulations for the accountability of major errors in the disclosure of information in its annual reports. During the Reporting Period, there were no major errors in the disclosure of information in the Company's annual report, which required amendments to major accounting errors, supplements to material omission of information or amendments to results forecasts.

Corporate Governance Report (under the Hong Kong Listing Rules)

The Company is committed to operating in compliance with corporate governance standards by implementing stringent corporate governance measures and enhancing accountability and transparency to deliver higher returns to shareholders. It is the Board's belief that maintaining a good corporate governance system and a world-class governance model are essential in providing a framework for the Company to safeguard the interests of shareholders, enhance corporate value, formulate its business strategies and policies and to develop the Company into a competitive international petrochemical enterprise.

(1) Corporate Governance Practices

The Company has applied the principles as set out in the Corporate Governance Code.

In the opinion of the Directors, throughout the Reporting Period, the Company has complied with all applicable code provisions set out in the Corporate Governance Code.

In the opinion of the Directors, throughout the Reporting Period, the Company has complied with all applicable principles and code provisions set out in the Environmental, Social and Governance Reporting Guide, details of which are set out in the Company's "2020 Corporate Social Responsibility Report".

(2) Securities Transactions by Directors and Supervisors

The Company has adopted the Model Code for Securities Transactions as set out in Appendix 10 to the Hong Kong Listing Rules.

Specific enquiry has been made with all the Directors and Supervisors and the Directors and Supervisors have confirmed that they have fully complied with the Model Code for Securities Transactions throughout the Reporting Period.

The Model Code for Securities Transactions is also applicable to the senior management of the Company who are in possession of unpublished price sensitive information of the Company. No incident of non-compliance of the Model Code for Securities Transactions by the senior management was noted by the Company.

(3) Board of Directors

1. Composition of the Board

The Board currently consists of 13 Directors, including 6 Executive Directors, 2 Non-executive Directors and 5 Independent Non-executive Directors, among whom there is 1 Chairman and 4 Vice Presidents. Details of the current Board composition are as follows:

Executive Directors:
Wu Haijun, *Chairman, Chairman of the Strategy Committee and member of the Nomination Committee*
Guan Zemin, *Vice Chairman, President and Vice Chairman of the Strategy Committee*
Jin Qiang, *Vice President*
Jin Wenmin, *Vice President*
Huang Xiangyu, *Vice President*
Huang Fei, *Vice President, Joint Company Secretary and member of the Strategy Committee*

Non-executive Directors:
Xie Zhenglin, *member of the Strategy Committee*
Peng Kun

Independent Non-executive Directors:
Li Yuanqin, *Chairman of the Audit Committee*
Tang Song, *members of the Audit Committee, the Remuneration and Appraisal Committee*
Chen Haifeng, *members of the Audit Committee, Nomination Committee*
Yang Jun, *Chairman of the Remuneration and Appraisal Committee, Chairman of the Nomination Committee*
Gao Song, *members of the Remuneration and Appraisal Committee, the Nomination Committee*

During the Reporting Period, Mr. Lei Dianwu and Mr. Mo Zhenglin left their post as Non-Executive Directors, and Mr. Zhang Yimin, Mr. Liu Yunhong and Mr. Du Weifeng left their post as Independent Non-Executive Director after the expiration of their term at the annual general meeting of shareholders on 18 June 2020. Mr. Zhou Meiyun resigned as Executive Director on 30 September 2020.

The biographical information of the Directors are set out in the section headed "Directors, Supervisors, Senior Management and Employees" on pages 101 to 106 of this annual report. The Directors (including the Chairman and the President (equivalent to the chief executive officer) have no financial, business, family or other material relationship with each other.

2. Attendance Records of the Directors

The Board meets at least once per quarter. In 2020, the Board held seven meetings. Most of the Directors entitled to attend the meetings had actively attended the seven meetings held this year in person or by alternates. Before each Board meeting, the joint company secretary would consult each Director on matters to be tabled at the Board meeting. Any matters raised by the Directors would be included in the agenda of the Board meeting. During the Reporting Period, notices and draft agenda of Board meetings were sent to all Directors at least 14 days before the date of the meeting.

To facilitate the Directors in performing their duties effectively and obtaining relevant information to make informed decisions, the agenda of all meetings of the Board or Board committees, together with all relevant documents, are sent to each Board member at least five days before the date of the relevant meetings. The Directors may hold formal or informal meetings with the senior management before any Board meeting. The Directors and members of the Board committees have access to the papers and minutes of meetings of the Board or the Board committees.

The attendance records of each director at the Board meetings and the general meetings of the Company held during the Reporting Period are set out in the table below:

	Board Meeting				Annual General Meeting
Name of Director	Number of Meetings	Attendance in Person	Attendance by Telephone	Attendance by Alternate	Attendance/ Number of Meetings
Executive Directors:					
Wu Haijun	7	7	4	0	1/1
Guan Zemin(1)	4	4	2	0	1/1
Jin Qiang	7	7	4	0	1/1
Jin Wenmin	7	7	4	0	1/1
Huang Xiangyu(1)	4	4	2	0	1/1
Huang Fei(1)	4	4	2	0	1/1
Zhou Meiyun(2)	5	5	2	0	1/1
Non-executive Directors:					
Lei Dianwu(3)	3	3	3	0	0/1
Mo Zhenglin(3)	3	3	2	0	0/1
Xie Zhenglin(4)	4	4	3	0	0/1
Peng Kun(4)	4	4	2	0	1/1
Independent Non-executive Directors:					
Zhang Yimin(5)	3	3	2	0	1/1
Liu Yunhong(5)	3	3	2	0	1/1
Du Weifeng(5)	3	3	2	0	1/1
Li Yuanqin	7	7	4	0	1/1
Tang Song(6)	4	4	2	0	1/1
Chen Haifeng(6)	4	4	2	0	1/1
Yang Jun(6)	4	4	2	0	1/1
Gao Song(6)	4	4	2	0	1/1

(1) Mr. Guan Zemin, Mr. Huang Xiangyu and Mr. Huang Fei were appointed as Executive Directors on 18 June 2020.
(2) Mr. Zhou Meiyun resigned as Executive Director on 30 September 2020.
(3) Mr. Lei Dianwu and Mr. Mo Zhenglin left the post as Non-Executive Directors as their term expired on 18 June 2020.
(4) Mr. Xie Zhenglin and Mr. Peng Kun were appointed as Non-Executive Directors on 18 June 2020.
(5) Mr. Zhang Yimin, Mr. Liu Yunhong and Mr. Du Weifeng left the post as Independent Non-Executive Directors as their term expired on 18 June 2020.
(6) Mr. Tang Song, Mr. Chen Haifeng, Mr. Yang Jun and Mr. Gao Song were appointed as Independent Non-Executive Directors on 18 June 2020.

The Company did not hold extraordinary general meeting of shareholders during the Reporting Period.

Apart from the abovementioned Board meetings, the Chairman also held 1 meeting with the Non-executive Directors (including Independent Non-executive Directors) without the presence of Executive Directors during the Reporting Period to discuss the Board's annual work plan and the implementation of such plans and to review the state of affairs of the Company's productions and operations and its development prospects.

3. Chairman and President (equivalent to Chief Executive Officer)

The duties and responsibilities of the Chairman and the President are separated and the scope of their respective duties and responsibilities is set out in the Articles of Association.

The Chairman of the Company is responsible for providing to all Directors all information concerning the performance of Board duties. He is also committed to improving the quality of the information and timeliness of the delivery of information to the Directors. The Chairman of the Company plays an important role in promoting good corporate governance within the Company. He is to lead the Board, encourage the Directors to carry out their duties in good faith with mutual support and close cooperation, and make an active contribution to the production, operations, reform and development of the Company. The President is accountable to the Board. With the authorization of the Board, the President shall have the power to fully manage the Company's business, deal with all internal and external affairs of the Company including presiding over the management of the Company's production and operations, developing basic rules and regulations of the Company, organizing and implementing the annual business plan and investment proposals of the Company, etc.

Code provision A.2.1 of the Corporate Governance Code stipulates that the roles of chairman and chief executive should be separate and should not be performed by the same individual.

During the Reporting Period, the positions of the Chairman and the President are held by Mr. Wu Haijun and Mr. Guan Zemin, respectively.

4. Independent Non-executive Directors

During the Reporting Period, the Board at all times has four Independent Non-executive Directors representing one-third of the Board, meeting the requirements of the Hong Kong Listing Rules relating to the appointment of at least three Independent Non-executive Directors representing at least one-third of the Board with one of whom possessing appropriate professional qualifications, or accounting or related financial management expertise.

The Independent Non-executive Directors possess extensive experience as well as academic and professional qualifications in various areas that include management, accounting and finance thereby ensuring the Board's ability to protect the interests of the Company's shareholders as a whole. During the Reporting Period, the Independent Non-executive Directors contributed significantly in improving the Company's corporate governance structure and protecting the interests of the Company's minority shareholders.

The Company has received written annual confirmation from each of the Independent Non-executive Directors in respect of his independence in accordance with the independence guidelines set out in Rule 3.13 of the Hong Kong Listing Rules. The Company considers all Independent Non-executive Directors independent.

5. Appointment and Re-election of Directors

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

6. Responsibilities of the Directors

The Board is primarily responsible for formulating and supervising the strategic development of the Company, setting the objectives, strategies, policies and business plans of the Company, reviewing and monitoring the Company's operations and financial performance directly and indirectly through its committees, as well as devising the appropriate risk management and internal control policies and systems, thereby ensuring the achievement of the Company's strategic objectives.

All Directors, including Non-executive Directors and Independent Non-executive Directors, have brought a wide spectrum of valuable business experience, knowledge and professionalism to the Board for its efficient and effective functioning. The functions of the Non-executive Directors include participating in Board meetings to provide independent opinions, taking a lead at Board meetings where potential conflict of interests arises, serving as members of the Board committees when invited, scrutinizing the Company's performance and providing a balance in the Board for bringing effective independent judgement on corporate actions and operations.

All Directors have full and timely access to all the information of the Company and may, upon request, seek independent professional advice in appropriate circumstances, at the Company's expenses for discharging their duties to the Company. When the Directors are required to give opinions on matters such as external guarantees, financing and connected transactions, the Company will appoint relevant independent professionals such as auditors, financial advisers and lawyers to provide independent opinions to help the Directors discharging their duties.

The Board reserves the power to make decisions relating to all major matters including policy matters, strategies and budgets, internal control and risk management, material transactions (in particular those that may involve conflict of interests), financial information, appointment of directors and other significant operational matters of the Company. Responsibilities relating to implementing decisions of the Board, directing and co-ordinating the daily operation and management of the Company are delegated to the management.

The Rules of Procedures for the Board, an appendix to the Articles of Association, contains detailed provisions on the terms of reference, authorization, meeting policies and rules of discussion of the Board. The Company has also developed the Work Rules for the President which contains detailed provisions on the duties and responsibilities as well as the rules of procedure for the management.

The Directors shall disclose to the Company details of other offices held by them and the Board regularly reviews the contribution required from each Director to perform his responsibilities to the Company.

The Company has purchased Directors' and officers' liabilities insurance in respect of any possible legal action against its Directors and officers arising out of corporate activities.

7. Continuous Professional Development of Directors & Company Secretary

Directors shall keep abreast of regulatory developments and changes in order to effectively perform their responsibilities and to ensure that their contribution to the Board remains informed and relevant.

To ensure that the Directors adequately understand the operations and businesses of the Company, every newly-appointed Director will receive a comprehensive set of introductory materials after his/her appointment which includes an introduction to the Group's business, the duties and responsibilities of a Director and other legal requirements. Relevant on-going professional training sessions will also be organized for newly-appointed Directors to help them fully understand the duties that a Director should fulfill as stipulated in the relevant requirements of the laws and regulations, including the Hong Kong Listing Rules, and to enable them to have a timely and comprehensive understanding of the operations of the Company.

In addition, all Non-executive Directors will receive updated information from the management regularly, including strategic plans, business reports and analyses on economic activities etc. with a view to assist them to perform their duties effectively.

All Directors should participate in continuous professional development to upgrade their expertise and skills and to refresh their knowledge to ensure that they perform their duties better in contributing to the Board. Each of the Directors has provided to the Company records of their participation in the relevant training in 2020. The Company has also committed to organizing training programs for its Directors. Internally-facilitated briefings for Directors would be arranged and reading material on relevant topics would be provided to Directors where appropriate.

During the Reporting Period, Mr. Wu Haijun and Mr. Guan Zemin participated in the third, fifth, sixth and seventh network training for chairman and president of Listed Companies in 2020, Mr. Huang Fei participated in the 130th training for secretary to the board of directors, Mr. Gao Song participated in the 71st training for independent directors, and Mr. Tang Song and Mr. Yang Jun participated in the second training for independent directors in 2020. Mr. Jin Qiang, Mr. Jin Wenmin, Mr. Huang Xiangyu, Mr. Xie Zhenglin, Mr. Choi Ting Ki, Mr. Zhang Xiaofeng and Mr. Zhang Feng participated in the first phase of training for directors and supervisors of Listed Companies in Shanghai in 2020.

During the Reporting Period, Ms. Chan Sze Ting, Secretary of the Company, has received no less than 15 hours of relevant professional training.

(4) Board Committees

The Board has established four committees, namely, the Audit Committee, the Remuneration and Appraisal Committee, the Nomination Committee and the Strategy Committee, for overseeing particular aspects of the Company's affairs. All Board committees stipulate their terms of reference. The Rules of Procedures of the Board committees are posted on the websites of the Hong Kong Stock Exchange, the Shanghai Stock Exchange and the Company and are available to shareholders upon request. The Board committees submit minutes, resolutions and reports to the Board subsequent to their meetings in respect of the progress of work and results of discussion.

1. The Remuneration and Appraisal Committee

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

The principal duties of the Remuneration and Appraisal Committee are to formulate and review the remuneration policies and proposals for the Directors and senior management of the Company, to set performance appraisal standards and conduct performance appraisals of the Directors and senior management of the Company, and to establish transparent procedures for developing such remuneration policy and structure to ensure that no Director or any of his directly interested parties is involved in deciding his own remuneration.

The committee may seek advice from independent professionals if required in accordance with the applicable procedures at the expense of the Company.

(ii) Members of the Remuneration and Appraisal Committee

The Remuneration and Appraisal Committee of the Board comprises one Executive Director and two Independent Non-executive Directors.

Members of the Remuneration and Appraisal Committee during the Reporting Period are as follows:

Chairman: Yang Jun, *Independent Non-executive Director* (served from 18 June 2020)
Zhang Yimin, *Independent Non-executive Director* (term expired on 18 June 2020)

Members: Tang Song, *Independent Non-executive Director* (served from 18 June 2020)
Gao Song, *Independent Non-executive Director* (served from 18 June 2020)
Zhou Meiyun, *Executive Director* (resigned from 18 June 2020)
Du Weifeng, *Independent Non-executive Director* (term expired on 18 June 2020)

(iii) Meetings of the Remuneration and Appraisal Committee

The Remuneration and Appraisal Committee convenes at least one meeting each year. In 2020, the Remuneration and Appraisal Committee held one meeting with a record of attendance as follows:

Name of Director	Attendance in Person/ Number of Meetings	Attendance by Alternate/ Number of Meetings
Yang Jun(1)	–	–
Tang Song(1)	–	–
Gao Song(1)	–	–
Zhang Yimin(2)	1/1	0/1
Zhou Meiyun(2)	1/1	0/1
Du Weifeng(2)	1/1	0/1

(1) Mr. Yang Jun, Mr. Tang Song and Mr. Gao Song served as member of the Remuneration and Appraisal Committee on 18 June 2020.

(2) Mr. Zhang Yimin, Mr. Zhou Meiyun and Mr. Du Weifeng left the post as member of the Remuneration and Appraisal Committee as their term expired on 18 June 2020.

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

The remuneration of Independent Non-executive Directors is determined in accordance with the "Remuneration System for Independent Directors" amended at the 2007 annual general meeting held in June 2008. The remuneration of other Directors, Staff Supervisors, External Supervisors and senior management is determined according to the "Remuneration System for Directors, Supervisors and Senior Management" passed at the 2002 annual general meeting held in June 2003. The remuneration of Independent Supervisors is determined in accordance with the "Remuneration Payment Method for Independent Supervisors" approved at the 2016 annual general meeting held in June 2017.

The Remuneration and Appraisal Committee reviews the implementation of the remuneration evaluation every year. It also appraises the annual performance of the Directors and senior management of the Company, and makes recommendations to the Board on their remuneration according to the results of the appraisal.

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

During the Report Period, the Remuneration and Appraisal Committee reviewed the remuneration policy of the Directors and conducted annual appraisals with the Directors and the senior management. The committee also reviewed the remuneration structure of the Directors, Supervisors and senior management.

2. The Audit Committee

(i) Role and Functions of the Audit Committee

The Audit Committee is principally responsible for advising the Board on the appointment, dismissal, remuneration and terms of engagement of external auditors, reviewing the effectiveness of the Company's internal audit function, supervising the internal audit system and its implementation, reviewing the financial information of the Company and its disclosure including verifying the completeness of financial statements, annual reports and interim reports of the Company, reviewing the major opinions stated in the financial statements and reports of the Company, reviewing the financial control, internal control and risk management systems of the Company, reviewing arrangements to enable employees of the Company to raise concerns about possible improprieties in financial reporting, internal control or other matters of the Company and examining connected transactions of the Company.

The establishment of the Audit Committee reflects the Company's determination to improve the transparency of its financial reporting system and its financial arrangements. The Company pays close attention to the minutes and reports prepared by the Audit Committee. The committee may seek advice from independent professionals in accordance with the applicable procedures at the expense of the Company.

(ii) Members of the Audit Committee

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

Members of the Audit Committee during the Reporting Period are as follows:

Chairman: Li Yuanqin, *Independent Non-executive Director*

Members: Tang Song, *Independent Non-executive Director* (served from 18 June 2020)
Chen Haifeng, *Independent Non-executive Director* (served from 18 June 2020)
Liu Yunhong, *Independent Non-executive Director* (term expired on 18 June 2020)
Du Weifeng, *Independent Non-executive Director* (term expired on 18 June 2020)

(iii) Meetings of the Audit Committee

The Audit Committee should convene at least two meetings each year. In 2020, the Audit Committee held three meetings without the presence of the Executive Directors with a record of attendance as follows:

Name of Director	Attendance in Person/ Number of Meetings	Attendance by Alternate/ Number of Meetings
Li Yuanqin	3/3	–
Tang Song(1)	2/2	–
Chen Haifeng(1)	2/2	–
Liu Yunhong(2)	1/1	–
Du Weifeng(2)	1/1	–

(1) Mr. Tang Song and Mr. Chen Haifeng served as member of the Audit Committee on 18 June 2020.

(2) Mr. Liu Yunhong and Mr. Du Weifeng left the post as member of the Audit Committee for term expired on 18 June 2020.

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

During the Reporting Period, the Audit Committee reviewed the accounting principles and standards adopted by the Company, the interim and annual financial results and reports and significant issues on the financial reporting, operational and compliance controls, the effectiveness of the risk management and internal control systems, appointment of external auditors and relevant scope of works, and continuing connected transactions of the Company.

3. The Nomination Committee

(i) Role and Functions of the Nomination Committee

The Nomination Committee is accountable to the Board, and is mainly responsible for reviewing the Board composition, making recommendations to the Board on the procedures and criteria for the selection and appointment of Directors and senior management of the Company and on their qualifications to hold office, and assessing the independence of Independent Non-executive Directors.

In assessing the Board composition, the Nomination Committee would take into account various aspects as well as factors concerning Board diversity as set out in the Company's Board Diversity Policy, including but not limited to gender, age, cultural and educational background, professional qualifications, experience, skills, knowledge, length of service, etc. The Nomination Committee would discuss and agree on measurable objectives for achieving diversity on the Board, where necessary, and recommend them to the Board for adoption.

In identifying and selecting suitable candidates for directorships, the Nomination Committee would consider the candidate's relevant criteria as set out in the Director Nomination Policy such as character, qualifications, experience, independence and other relevant criteria necessary to complement the corporate strategy and achieve Board diversity, where appropriate, before making recommendation to the Board.

The Company provides adequate resources to the Nomination Committee for the performance of its duties. The committee may seek independent professional advice during the performance of its duties at the Company's expense.

(ii) Members of the Nomination Committee

The Nomination Committee of the Board comprised one Executive Director and two Independent Non-executive Directors.

Members of the Nomination Committee during the Reporting Period are as follows:

Chairman: Yang Jun, *Independent Non-executive Director* (served from 18 June 2020)
Zhang Yimin, *Independent Non-executive Director* (term expired on 18 June 2020)

Members: Chen Haifeng, *Independent Non-executive Director* (served from 18 June 2020)
Wu Haijun, *Executive Director*
Du Weifeng, *Independent Non-executive Director* (term expired on 18 June 2020)

(iii) Meetings of the Nomination Committee

The Nomination Committee should convene at least one meeting each year. In 2020, the Nomination Committee held four meetings during the Reporting Period. The attendance record of the meetings of the Nomination Committee is set out in the table below:

Name of Director	Attendance in Person/ Number of Meetings	Attendance by Alternate/ Number of Meetings
Yang Jun(1)	1/1	–
Chen Haifeng(1)	1/1	–
Wu Haijun	4/4	–
Zhang Yimin(2)	3/3	–
Du Weifeng(2)	3/3	–

(1) Mr. Yang Jun and Mr. Chen Haifeng served as member of the Nomination Committee on 18 June 2020.

(2) Mr. Zhang Yimin and Mr. Du Weifeng left the post as member of the Nomination Committee as their term expired on 18 June 2020.

(iv) The Work of the Nomination Committee during the Reporting Period

During the Reporting Period, the Nomination Committee reviewed the structure, number and composition of the board of directors, and assessed the independence of the independent non-executive directors.

The Nomination Committee also reviewed the composition of the board at the diversified level. At present, the board of directors of the company has 13 directors, including 6 executive directors, 2 non-executive directors and 5 independent non-executive directors. The six executive directors are from state-owned enterprises and hold important positions such as chairman, general manager, deputy general manager or chief financial officer. They have rich experience in enterprise management. The two non-executive directors have senior professional and technical titles of comprehensive management and senior accountants, rich experience in enterprise management, finance, finance and investment development management, and have a deep understanding of the chemical industry. The four independent non-executive directors are professors of accounting, researchers of law, financial professionals and scholars of business administration with rich professional experience. The board of directors of the company has one female director who provides professional advice to the company in different areas. The diversified portfolio of the company's board of directors provides a wide range of professional advice to the board of directors, so as to ensure that the board of directors can effectively perform its duties, promote the company's corporate performance and sustainable development. The nominating committee considers that the board of directors is sufficiently diversified in terms of age, cultural and educational background, professional experience, skills and knowledge. In selecting directors, the Nomination Committee will pay special attention to other aspects such as gender and race, so as to achieve the goal of diversification of the board of directors. For the gender, age and term of service of board members, please refer to Chapter V – directors, supervisors, senior management and employees.

(v) Board Diversity Policy

The Company has adopted a Board Diversity Policy which sets out the approach to achieve diversity of the Board. The Company recognizes and embraces the benefits of having a diverse Board and sees increasing diversity at the Board level as an essential element in maintaining the Company's competitive advantage.

According to the Diversity Policy of the board of directors and in order to achieve sustainable and balanced development, the company regards the increasing diversify of the board of directors as the key element to support its strategic objectives and maintain sustainable development. When setting the composition of board members, the company consider the diversity of board members from many aspects, including but not limited to gender, age, cultural and educational background, professional experience, skills, knowledge and service tenure. All appointments of the board of directors are based on the principle of "talents are the only people to be appointed". According to the specific needs and business model of the company, the benefits of diversity of members of the board of directors are fully considered under objective conditions. The selection of directors will be based on a wide range of criteria, including but not limited to gender, age, cultural and educational background, race, professional experience, skills, knowledge and tenure of service. The final decision will be based on the strengths of the candidates and the contribution they can make to the board. The composition of the board of directors (including gender, age and term of service) will be disclosed in the corporate governance report every year.

The nomination committee will report on the composition of the board of directors at the diversified level in the corporate governance report every year and monitor the implementation of this policy.

(vi) Director Nomination Policy

The Board has delegated its responsibilities and authority for selection and appointment of Directors to the Nomination Committee of the Company.

The Company has adopted a Director Nomination Policy which sets out the selection criteria and process and the Board succession planning considerations in relation to nomination and appointment of Directors of the Company and aims to ensure that the Board has a balance of skills, experience and diversity of perspectives appropriate to the Company and the continuity of the Board and appropriate leadership at Board level.

The Director Nomination Policy sets out the factors for assessing the suitability and the potential contribution to the Board of a proposed candidate, including the following:

- Character and integrity;
- Qualifications including professional qualifications, skills, knowledge, experience and diversity aspects under the Board Diversity Policy that are relevant to the Company's business and corporate strategy;
- Any measurable objectives adopted for achieving diversity on the Board;
- Requirement for the Board to have independent non-executive directors in accordance with the Hong Kong Listing Rules and whether the candidate would be considered independent with reference to the independence guidelines set out in the Hong Kong Listing Rules;
- Any potential contributions the candidate can bring to the Board in terms of qualifications, skills, experience, independence and gender diversity;
- Willingness and ability to devote adequate time to discharge duties as a member of the Board and/or Board committee(s) of the Company;
- Such other perspectives that are appropriate to the Company's business and succession plan and where applicable, may be adopted and/or amended by the Board and/or the Nomination Committee from time to time for nomination of directors and succession planning;
- Other conditions asset out in the Company's articles of association (if any).

The Director Nomination Policy also sets out the procedures for the selection and appointment of new Directors and re-election of Directors at general meetings. During the Reporting Period and up to the date of this Annual Report, there were changes in the composition of the Board and details of the changes are set out in the section headed "Composition of the Board" of this Corporate Governance Report.

The Nomination Committee will review the Director Nomination Policy, as appropriate, to ensure its effectiveness.

4. The Strategy Committee

(i) Role and Functions of the Strategy Committee

The major duties of the Strategy Committee are to conduct researches and give recommendations to the Board on major investment decisions, projects and major issues that affect the Company's development, and to monitor the Company's long-term development strategic plan.

(ii) Members of the Strategy Committee

The Strategy Committee comprises three Executive Directors, one Non-executive Director and one Independent Non-executive Director.

Chairman:	Wu Haijun, *Executive Director*
Vice Chairman:	Guan Zemin, *Executive Director* (served from 18 June 2020)
Members:	Huang Fei, *Executive Director* (served from 18 June 2020) Xie Zheng Lin, *Non-Executive Director* (served from 18 June 2020) Gao Song, *Independent Non-Executive Director* (served from 18 June 2020) Zhou Meiyun, *Executive Director* (resigned from 30 September 2020) Lei Dianwu, *Non-executive Director* (term expired on 18 June 2020) Mo Zhenglin, *Non-executive Director* (term expired on 18 June 2020) Li Yuanqin, *Independent Non-executive Director* (term expired on 18 June 2020)

(iii) Meetings of the Strategy Committee

In 2020, the Strategy Committee did not hold any meeting during the Reporting Period.

(iv) The Work of the Strategy Committee during the Reporting Period

During the Reporting Period, the Strategic Committee, aiming at building a "leading domestic and world-class" refining and chemical enterprise and relying on the internal and external forces of the enterprise, carried out strategic research on cracking the bottleneck of development, carried out research on the Company's phased strategic direction and implementation plan, the promotion of new material industry, the development of fine chemical business and other topics, and put forward suggestions for the company's "14th five year plan" development plan and specified the medium and long-term development ideas and objectives of the Company, striving to gradually build Shanghai Petrochemical into an internationally competitive refining and chemical enterprise around 2035.

5. Corporate Governance Functions

The Board is responsible for performing the functions set out in code provision D.3.1 of the Corporate Governance Code.

The Board reviewed the Company's corporate governance policies and practices, training and continuous professional development of Directors and senior management, the Company's policies and practices on compliance with legal and regulatory requirements, the compliance of the Model Code for Securities Transactions, and the Company's compliance with the Corporate Governance Code and disclosure in this Corporate Governance Report.

6. Supervisory Committee

The Company's Tenth Session of the Supervisory Committee comprised six members, including three Employee Representative Supervisors (one of whom had served as Chairperson of the committee), one External Supervisor and two Independent Supervisors.

The Supervisors are appointed for a fixed term of office and the term of office of each Supervisor during the Reporting Period are set out in the section headed "Directors, Supervisors, Senior Management and Employees" on pages 99 to 100 of this annual report.

In 2020, the Supervisory Committee convened 5 meetings with a record of attendance as follows:

Name of Supervisor	Position	Attendance in Person/ Number of Meetings	Attendance by Alternate/ Number of Meetings
Ma Yanhui	Employee Representative Supervisor and Chairperson	4/5	1/5
Zhang Feng	Employee Representative Supervisor	5/5	–
Chen Hongjun	Employee Representative Supervisor	5/5	–
Zhang Xiaofeng	External Supervisor	2/3	1/3
Zheng Yunrui	Independent Supervisor	5/5	–
Choi Ting Ki	Independent Supervisor	5/5	–
Zhai Yalin[(1)]	External Supervisor	2/2	–

Note:

(1) Mr. Zhai Yalin resigned as External Supervisor on 18 June 2020.

The Company's Supervisory Committee established and refined the check-and-balance system of the Company and promoted and regulated the corporate governance structure in accordance with the relevant laws and regulations, including the Company Law of the PRC and the Code of Corporate Governance for Listed Companies of the PRC. The Supervisory Committee diligently discharges its supervisory duties and exercises supervision over the management's compliance with the relevant laws and regulations, including the Company Law and the Code of Corporate Governance for Listed Companies of the PRC. It also supervises the enforcement of the resolutions passed at general meetings and Board meetings, compliance with decision-making procedures and the implementation of the internal control system. The Supervisory Committee also examines the financial system and the financial situation of the Company in a conscientious manner, thereby ensuring the orderly operations of the Company and safeguarding shareholders' interests.

(5) Risk Management and Internal Controls

The Board acknowledges its responsibility for the risk management and internal control systems and the review of their effectiveness. Such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Board ensures that risk management and internal control systems of the Company are sound and effective to safeguard the shareholders' interests and its assets. The Board has the overall responsibility for evaluating and determining the nature and extent of the risks it is willing to take in achieving the Company's strategic objectives, and establishing and maintaining appropriate and effective risk management and internal control systems.

The Audit Committee assists the Board in leading the management and overseeing their design, implementation and monitoring of the risk management and internal control systems.

The Company has developed and adopted various internal control and risk management procedures and guidelines including the Internal Control Manual, the SINOPEC Comprehensive Risk Management Procedures and SINOPEC Comprehensive Risk Management Implementation Programme with defined authority for implementation by key business processes and office functions, including project management, sales, financial reporting, human resources and information technology.

All divisions conducted internal control assessment regularly to identify risks that potentially impact the business of the Group and various aspects including key operational and financial processes, regulatory compliance and information security, etc.

The management, in coordination with division heads, assessed the likelihood of risk occurrence, provided treatment plans, monitored the risk management progress, and reported to the Audit Committee and the Board on all findings and the effectiveness of the systems.

The Internal Audit Department is responsible for performing independent review of the adequacy and effectiveness of the risk management and internal control systems. The Internal Audit Department examined key issues in relation to the accounting practices and all material controls and provided its findings and recommendations for improvement to the Audit Committee. The Company has engaged PricewaterhouseCoopers Zhong Tian LLP to conduct an audit on the effectiveness of the internal control over financial reporting of the Company according to the guidelines set out in the Audit Guidelines for Enterprise Internal Control (the "Guidelines") and the Report on Internal Control over Financial Reporting was issued pursuant to the Guidelines.

The Company has developed its disclosure policy which provides a general guide to the Company's Directors, officers, senior management and relevant employees in handling confidential information, monitoring information disclosure and responding to enquiries. The Company has in place a "System for the Registration and Management of Inside Information" and an "Information Disclosure Management System" which were regularly reviewed by the Board to administer the registration and management of persons with access to the Company's insider information including but not limited to the Directors, Supervisors and senior management, strengthen the confidentially of the flow of inside information, monitoring information disclosure to safeguard the leakage of inside information and responding to enquiries. Control procedures have been implemented to ensure that unauthorized access and use of inside information are strictly prohibited.

1. Implementation of internal control

Internal control task force is the leading unit of the internal control work of the Company with the President and the Chief Financial Officer as chief and deputy chief, respectively, and an internal control office was established under the task force. It is responsible for organizing and coordinating the establishment, implementation and daily operation of internal control, as well as the submission of work reports on the inspection and supervision of internal control to the Audit Committee on a regular basis. A supervisory working network consisting of special personnel of each department (unit) responsible for internal control function was established within the Company. The internal control supervisors, on behalf of their own departments, and administrative heads each carry out internal control work within their own scope.

Since the implementation of the internal control system of the Company in 2004, the Company has strictly complied with the requirements of internal control regulations of the CSRC. Combined with corporate management and internal controls, the Internal Control Manual was reviewed annually so as to improve the internal control business process, to specify responsibilities of different departments and positions in charge of the respective control processes, and to urge staff to perform internal control responsibility. The 2019 version of the Internal Control Manual specifies 22 categories, 55 processes and a total of 1,539 control points.

In 2011, the Company launched an internal control management information system and built a dynamic validation and correction system of system data to continuously improve the internal control management information system annually. At the same time, the internal control office actively guides the respective departments responsible for different processes and the secondary units for the online management of internal control and gradually enforces online enquiry and online quarterly testing under the Internal Control Manual.

2. Implementation of comprehensive risk management

In 2011, the Company set up a comprehensive risk management task force with key heads of the Company as leaders. The task force has set up an office in the Corporate Management Department of the Company and functions as the daily risk managing organ of the Company.

In 2013, based on the then "Integrated Management System" and other professional management systems, the Company extensively carried out risk management status research, arranged and analysed existing issues and learnt from the successful experience and typical practices of domestic and overseas advanced enterprises and prepared the SINOPEC Comprehensive Risk Management Procedures, which are included in the Integrated Management System. The risk management procedures specify five basic processes of comprehensive risk management, namely risk information collection, risk evaluation, risk response, monitoring and warning, and supervisory assessment and improvement. Through risk identification and assessment, the Company conducts analysis of the effectiveness of the existing internal control system and professional management and creates foundation system of the Company for the establishment of the risk warning system and risk response strategy and measures.

In 2016, the Company developed the SINOPEC Comprehensive Risk Management Implementation Programme according to control capability, management strength and company management conditions, and standardized assessment methods and standards. The Company launched resources management, interest rate and Forex rate special risk identification, and evaluation work to enhance the comprehensive risk management of the Company.

Pursuant to the planning and requirements of State-Owned Assets Supervision and Administration Commission of the State Council, the Company is focusing on its goal of establishing a refining and petrochemical enterprise which is "leading domestically, first-class globally". The Company vigorously implements annual risk assessment work, organizes some of the Company's leaders, key department heads to participate in the material and significant online risk identification evaluation to start and perform comprehensive risk management of the Company to provide foundation for the establishment of the risk warning system and risk response strategy and measures. On the basis of the revised Internal Control Manual, the Company organized the persons in charge of the business process to comprehensively identify, analyse and assess material and significant tier 3 risks and attend to tier 4 risks. The Company has preliminary set up the "SINOPEC Risk Database" and improved the key information maintenance of "Risk Level Rating" and "Risk Response Measures" in the system.

The Company set up a comprehensive risk management office which is responsible for collecting and organizing risk information regarding the Company as well as domestic and foreign industry. It sorts out, analyzes and summarizes, forms a risk list, and regularly completes and updates the risk list. The Company set up an internal control office to establish risk assessment work standards, procedures and management rules, formulate company risk assessment plans, and organize risk assessment task.

Through the implementation of effective supervision and evaluation and improved supervision, the Company effectively promotes the Company's overall risk management, and forms a closed-loop management mechanism for self-improvement and continuous optimization. Internal supervision of the Company is divided into daily supervision and special supervision. Daily supervision refers to the routine and continuous supervision and inspection of the Company's establishment and implementation of internal control; special supervision refers to the situation where the Company undergoes major adjustments or changes in its development strategy, organizational structure, business activities, business processes, and key positions, there will be a targeted supervision and inspection of one or more aspects of internal control. The scope and frequency of special supervision depends on the impact of the risk and the effectiveness of the control.

The Company has established a comprehensive internal inspection and evaluation mechanism, designating internal audit as the Company's responsible division to supervise and improve risk management, and the audit department is responsible for the independent supervision and evaluation of the setting up of the risk management system and the effectiveness of implementation, reporting according to prescribed procedures and monitoring the progress. The Board is responsible for the supervision of the Company's internal control evaluation work, identifies the Company's major internal control deficiencies, reviews the relevant rectification measures and oversees the management in the implementation of the measures, reviews and approves the internal control evaluation report. The Supervisory Committee supervises the Board's establishment and implementation of internal control.

The management has reported to the Board and the Audit Committee on the effectiveness of the risk management and internal control systems for the Reporting Period. The Board, as supported by the Audit Committee as well as the management report on the internal audit findings, reviewed the risk management and internal control systems, including the financial, operational and compliance controls, for the Reporting Period, and considered that such systems are effective and adequate. The annual review also covered the financial reporting and internal audit function and staff qualifications, experiences and relevant resources.

For further details of the risk management and internal controls of the Company, please refer to the section headed "Internal Control" on pages 123 to 125 of this annual report.

(6) Directors' Responsibilities in relation to the Financial Statements

The Directors acknowledge their responsibilities for preparing the financial statements of the Company for the year ended 31 December 2020.

The Directors are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

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

During the Reporting Period, the management provided to members of the Board with monthly information on the Company's production and financial analysis, as well as Xinjinshan Post (《新金山報》), a newspaper published by the Company that covers recent developments in the Company's production and operations. In addition, Directors including Independent Non-executive Directors were also able to learn about the latest updates on the Company's business and information disclosure on the Company's website in a timely manner.

The statements of the independent auditor of the Company (both international and domestic) about their reporting responsibilities on the financial statements are set out in the respective Report of the Independent Auditor and Report of the PRC Auditor on pages 153 to 157 and pages 273 to 277, respectively of this annual report.

(7) Auditors' Remuneration

An analysis of the remuneration paid to the external auditors of the Company, Messrs. PricewaterhouseCoopers and PricewaterhouseCoopers Zhong Tian LLP, in respect of audit services and non-audit services for the Reporting Period is set out in the table below:

Auditor	Service Category	Fees Paid/Payable
PricewaterhouseCoopers	– Audit services	RMB3,000,000
	– Non-audit services	RMB0
PricewaterhouseCoopers Zhong Tian LLP	– Audit services	RMB4,800,000
	– Non-audit services	RMB0

(8) Company Secretary

Currently, Ms. Chan Sze Ting of Tricor Services Limited, external service provider, is the company secretary of the Company and she was appointed as the company secretary on 26 April 2018. Ms. Chan's primary contact person in the Company is Mr. Wu Haijun, Executive Director and Chairman of the Board. Mr. Huang Fei was appointed as secretary to the board and joint company secretary on 18 June 2020.

All Directors have access to the advice and services of the company secretary on corporate governance and board practices and matters.

(9) Shareholders' Rights

The Company engages shareholders through various communication channels and the "Work System of Investor Relations" is in place to ensure that shareholders' views and concerns are appropriately addressed.

To safeguard shareholder interests and rights, separate resolution should be proposed for each substantially separate issue at general meetings, including the election of individual Director. All resolutions put forward at general meetings will be voted on by poll and poll results will be posted on the websites of the Hong Kong Stock Exchange, the Shanghai Stock Exchange and the Company after each general meeting.

The rights of shareholders holding ordinary shares of the Company are also set out in the Articles of Association. Upon written requests of the shareholders and verification of their identities and shareholding by the Company, they will be allowed to access to relevant information as permitted by law, administrative regulations and the Articles of Association.

1. Convening an Extraordinary General Meeting

Pursuant to Article 63(3) of the Articles of Association, the Board shall convene an extraordinary general meeting within two months upon written requisition by the shareholders individually or jointly holding 10% or more of the issued and outstanding voting shares of the Company.

2. Putting Forward Proposals at General Meeting

Pursuant to Article 65 of the Articles of Association, when the Company convenes a shareholders' general meeting, the Board, the Supervisory Committee and shareholders who individually or jointly hold shares with 3% or more of the total voting rights of the Company shall have the right to move motions in writing for shareholders' meetings. Shareholders who individually or jointly hold 3% or more of the shares of the Company may propose and submit in writing an extraordinary motion to the convener ten (10) days prior to the convening of the shareholders' general meeting. The convener shall issue a supplementary notice of the shareholders' general meeting within two (2) days upon receipt of such motion and shall make an announcement on the content of the extraordinary motion.

3. Putting Forward Enquiries to the Board

For putting forward any enquiries to the Board of the Company, shareholders may send written enquiries to the Company. The Company will not normally deal with verbal or anonymous enquiries.

4. Contact Details

Shareholders may send their enquiries or requests as mentioned above to the Company's registered address as follows:

48 Jinyi Road
Jinshan District
Shanghai
The People's Republic of China

For the attention of Mr. Huang Fei, Secretary to the Board

For the avoidance of doubt, shareholder(s) must deposit and send the original duly signed written requisition, notice or statement, or enquiry (as the case may be) to the above address and provide their full name, contact details and identification in order to give effect thereto. Shareholders' information may be disclosed as required by law.

(10) Investor Relations

The Company considers that effective communication with shareholders is essential for enhancing investor relations and investors' understanding of the Group's business performance and strategies. The Company maintains communications with its shareholders. The Company's major communication channels include annual general meeting, other general meetings, the Company's website, email, fax and telephone numbers of the Secretary Office of the Board. Through the above communication channels, shareholders may adequately express their opinions or exercise their rights.

The Company is committed to enhancing its relationship with investors. The Chairman presides over and participates in major investor relations activities (including general meetings, results presentations, press conferences, significant events and roadshows, important domestic and overseas capital market conferences and major financial media interviews, etc.) and maintains contact with shareholders to ensure that the views of the shareholders can be conveyed to the entire Board.

During the Reporting Period, the Company continued to strengthen the management of investor relations, implement in good faith the "Work System of Investor Relations", engage in active interaction and communications with investors and submit investors' opinions and suggestions to the Company's management in a timely manner.

In principle, the Company convenes results briefings every six months after the release of its annual and interim results. In 2020, the Company held two large-scale results briefings and press conferences in Hong Kong while several "one-to-one" meetings were held within and outside China. The Company has also welcomed hundreds of domestic and foreign investors to its headquarters, and replied to telephone queries and letters from investors, intermediaries and fund managers. In addition, the Directors and senior management also actively attended capital market meetings organized by securities research companies and investment banks.

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

(11) Relevant policies of shareholders

The Company has formulated a shareholder communication policy to ensure that the opinions and concerns of shareholders are properly addressed, and the policy is regularly reviewed to ensure its effectiveness.

The Company has formulated a dividend policy. According to the Articles of Association, the Company's net profit attributable to the parent company was positive and the accumulated undistributed profit was positive. While the Company's cash flow can meet its normal operation and sustainable development, the Company shall carry out cash dividends, and the annual cash distribution shall not be less than 30% of the net profit attributable to the parent company realized in that year. For details, please refer to the formulation, implementation or adjustment of cash dividend policy in Section IV of Chapter III.

pwc 羅兵咸永道

To the Shareholders of Sinopec Shanghai Petrochemical Company Limited
(incorporated in the People's Republic of China with limited liability)

Opinion

What we have audited

The consolidated financial statements of Sinopec Shanghai Petrochemical Company Limited (the "Company") and its subsidiaries (the "Group") set out on pages 158 to 272, which comprise:

- the consolidated balance sheet as at 31 December 2020;
- the consolidated income statement for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2020, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

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

Independence

We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code.

羅兵咸永道

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter identified in our audit is related to net realizable value ("NRV") of raw materials, work in progress and finished goods.

Key Audit Matter	How our audit addressed the Key Audit Matter
NRV of raw materials, work in progress and finished goods Refer to Notes 2.16 "Inventories", 4 "Critical accounting estimates and assumptions" and 21 "Inventories" to the consolidated financial statements. The Group is principally engaged in processing of crude oil into petroleum products and other chemical products. The crude oil can be processed into various finished goods by different processing procedures. Inventories are valued at the lower of cost and NRV. As at 31 December 2020, the gross balances of raw materials, work in progress and finished goods were RMB 3,856,848 thousands, against which NRV provision of RMB 168,733 thousands were set aside. The NRV is determined based on the estimated selling prices less the estimated costs to completion, if relevant, other costs necessary to make the sale, and the related taxes. Determination of estimated selling prices of work in progress and finished goods, estimated costs to completion, other costs necessary to make the sale and the related taxes requires significant management judgement, taking into consideration of historical information and future market trend. We focused on this area because of the magnitude of the amounts and the significance of management judgements involved.	We obtained an understanding of the management's internal control and assessment process of NRV of raw materials, work in progress and finished goods and assessed the inherent risk of material misstatement by considering the degree of estimation uncertainty and level of other inherent risk factors such as subjectivity and changes. We evaluated and tested the controls over the determination of NRV of raw materials, work in progress and finished goods. We evaluated the estimates of selling price for work in progress and finished goods on a sample basis including: (i) For work in progress and finished goods that had been sold after 31 December 2020, we compared the actual selling prices against the estimated selling prices; (ii) For work in progress and finished goods that had not been sold after 31 December 2020 but with available selling prices in the domestic market, we performed independent research of the market price information and compared them against the estimated selling prices; (iii) For work in progress and finished goods that had not been sold after 31 December 2020 but with no available selling prices in the domestic market, we compared the estimated selling prices against the recent selling prices. We also independently evaluated the future market trend factors which management considered in determining the estimated selling prices, including changes in market supplies, customer demands, technology developments, the relevant State tariffs and the State's guidance prices by corroborating with public data or research information and referencing to our industry knowledge. We assessed the reasonableness and accuracy of estimated costs to completion, other costs necessary to make the sale and related taxes by comparing with the historical costs to completion, other costs necessary to make the sale and the related taxes for the similar inventories. We found that management's judgements in determining the NRV were supported by the evidence we gathered.

pwc 羅兵咸永道

Other Information

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Directors and Those Charged with Governance for the Consolidated Financial Statements

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

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

羅兵咸永道

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

pwc 羅兵咸永道

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements *(Continued)*

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is CHAN KWONG TAK.

PricewaterhouseCoopers
Certified Public Accountants

Hong Kong, 24 March 2021

Consolidated Income Statement

For the year ended 31 December 2020

	Note	Year ended 31 December 2020 RMB'000	2019 RMB'000
Revenue	5	74,623,575	100,269,667
Taxes and surcharges		(13,062,710)	(12,213,927)
Net sales		61,560,865	88,055,740
Cost of sales	10	(61,901,114)	(86,467,995)
Gross (loss)/profit		(340,249)	1,587,745
Selling and administrative expenses	10	(486,323)	(549,885)
Net reversal of impairment losses on financial assets	3.1(c)	120,916	59
Other operating income	6	148,676	150,714
Other operating expenses	7	(24,686)	(21,925)
Other gains – net	8	115,430	153,864
Operating (loss)/profit		(466,236)	1,320,572
Finance income	9	431,228	416,747
Finance expenses	9	(98,954)	(53,784)
Finance income – net		332,274	362,963
Share of net profit of associates and joint ventures accounted for using the equity method	20	724,740	972,593

For the year ended 31 December 2020

	Note	Year ended 31 December	
		2020	2019
		RMB'000	RMB'000
Profit before income tax		590,778	2,656,128
Income tax benefit/(expense)	12	65,620	(428,963)
Profit for the year		656,398	2,227,165
Profit attributable to:			
– Owners of the Company		645,072	2,215,728
– Non-controlling interests		11,326	11,437
		656,398	2,227,165
Earnings per share attributable to owners of the Company for the year (expressed in RMB per share)			
Basic earnings per share	13	RMB0.060	RMB0.205
Diluted earnings per share	13	RMB0.060	RMB0.205

The above consolidated income statement should be read in conjunction with the accompanying notes.

Wu Haijun
Chairman

Du Jun
Vice General Manager and Chief Financial Officer

Consolidated Statement of Comprehensive Income

For the year ended 31 December 2020

	Note	Year ended 31 December 2020 RMB'000	2019 RMB'000
Profit for the year		656,398	2,227,165
Other comprehensive income			
Items that may be reclassified to profit or loss			
Share of other comprehensive (loss)/income of associates and joint ventures accounted for using the equity method	27	(11,512)	7,449
Other comprehensive (loss)/income for the year, net of tax		(11,512)	7,449
Total comprehensive income for the year		644,886	2,234,614
Attributable to:			
– Owners of the Company		633,560	2,223,177
– Non-controlling interests		11,326	11,437
Total comprehensive income for the year		644,886	2,234,614

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

Wu Haijun
Chairman

Du Jun
Vice General Manager and Chief Financial Officer

Consolidated Balance Sheet

As at 31 December 2020

	Note	As at 31 December 2020 RMB'000	As at 31 December 2019 RMB'000
Assets			
Non-current assets			
Property, plant and equipment	16	11,713,022	11,300,797
Right-of-use assets	15	410,801	343,860
Investment properties	17	367,586	367,468
Construction in progress	18	1,710,124	1,815,549
Investments accounted for using the equity method	20	5,387,834	5,208,758
Deferred tax assets	12	252,121	150,832
Financial assets at fair value through other comprehensive income	22(d)	5,000	5,000
Time deposits with banks	22(c)	7,042,840	3,511,234
Other non-current assets	14	424,959	481,414
		27,314,287	23,184,912
Current assets			
Inventories	21	3,888,746	6,754,434
Financial assets at fair value through other comprehensive income	22(d)	1,207,114	1,540,921
Financial assets at fair value through profit or loss	22(e)	–	3,318,407
Derivative financial assets	3.1(a)	–	263
Trade receivables	22(a)	113,163	120,739
Other receivables	22(a)	18,101	26,101
Prepayments	23	19,552	23,767
Amounts due from related parties	22(a), 23, 28(c)	1,092,316	1,565,993
Cash and cash equivalents	22(b)	6,916,408	7,449,699
Time deposits with banks	22(c)	4,049,443	1,508,839
		17,304,843	22,309,163
Total assets		44,619,130	45,494,075

As at 31 December 2020

	Note	As at 31 December 2020 RMB'000	2019 RMB'000
Equity and liabilities			
Equity attributable to owners of the Company			
Share capital	26	10,823,814	10,823,814
Reserves	27	18,374,176	19,039,474
		29,197,990	29,863,288
Non-controlling interests		136,985	130,560
Total equity		29,334,975	29,993,848
Liabilities			
Non-current liabilities			
Lease liabilities	15	3,119	10,593
Deferred tax liabilities	12	35,357	–
Deferred income	25	13,433	10,005
		51,909	20,598
Current liabilities			
Borrowings	22(f)	1,548,000	1,547,600
Short-term bonds	22(g)	3,017,811	–
Lease liabilities	15	9,352	11,450
Derivative financial liabilities	3.1(a)	–	799
Contract liabilities	24	495,404	655,117
Trade and other payables	22(h)	2,820,083	3,563,435
Amounts due to related parties	22(h), 28(c)	3,656,841	5,708,394
Current tax liabilities		3,420,824	3,577,018
Staff salaries and welfares payable		244,506	189,547
Income tax payable		19,425	226,269
		15,232,246	15,479,629
Total liabilities		15,284,155	15,500,227
Total equity and liabilities		44,619,130	45,494,075

The above consolidated balance sheet should be read in conjunction with the accompanying notes.

Wu Haijun
Chairman

Du Jun
Vice General Manager and Chief Financial Officer

Consolidated Statement of Changes in Equity

For the year ended 31 December 2020

	Note	Attributable to owners of the Company				Non-controlling interests	Total equity
		Share capital	Other reserves	Retained earnings	Total		
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at 1 January 2019		10,823,814	4,361,940	15,160,309	30,346,063	116,378	30,462,441
Profit for the year		–	–	2,215,728	2,215,728	11,437	2,227,165
Other comprehensive income	27	–	7,449	–	7,449	–	7,449
Total comprehensive income for the year		–	7,449	2,215,728	2,223,177	11,437	2,234,614
Dividends proposed and approved		–	–	(2,705,952)	(2,705,952)	–	(2,705,952)
Dividends paid by subsidiaries to non-controlling interests		–	–	–	–	(3,266)	(3,266)
Appropriation of safety production fund	27	–	2	(2)	–	–	–
Non-controlling interests of disposed subsidiary		–	–	–	–	6,011	6,011
Balance at 31 December 2019		10,823,814	4,369,391	14,670,083	29,863,288	130,560	29,993,848

For the year ended 31 December 2020

	Note	Attributable to owners of the Company				Non-controlling interests	Total equity
		Share capital	Other reserves	Retained earnings	Total		
		RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at 1 January 2020		10,823,814	4,369,391	14,670,083	29,863,288	130,560	29,993,848
Profit for the year		–	–	645,072	645,072	11,326	656,398
Other comprehensive loss	27	–	(11,512)	–	(11,512)	–	(11,512)
Total comprehensive (loss)/income for the year		–	(11,512)	645,072	633,560	11,326	644,886
Dividends proposed and approved	29	–	–	(1,298,858)	(1,298,858)	–	(1,298,858)
Dividends paid by subsidiaries to non-controlling interests		–	–	–	–	(4,901)	(4,901)
Appropriation of safety production fund	27	–	88,460	(88,460)	–	–	–
Balance at 31 December 2020		10,823,814	4,446,339	13,927,837	29,197,990	136,985	29,334,975

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

Wu Haijun
Chairman

Du Jun
Vice General Manager and Chief Financial Officer

Consolidated Statement of Cash Flows

For the year ended 31 December 2020

	Note	Year ended 31 December 2020 RMB'000	2019 RMB'000
Cash flows from operating activities			
Cash generated from operations	30	1,995,087	5,655,676
Interest paid to related parties		(213)	(2,126)
Interest paid		(71,156)	(61,304)
Income tax paid		(243,870)	(534,467)
Net cash generated from operating activities		1,679,848	5,057,779
Cash flows from investing activities			
Dividends received from joint ventures and associates		561,755	594,868
Interest received from related parties		2,088	1,295
Interest received from banks excluded structured deposits		275,626	445,105
Interest received from structured deposits		132,690	86,848
Net losses from settlement of derivative financial instrument		(912)	(15,316)
Net proceeds from disposal of property, plant and equipment	30(b)	59,642	67,503
Cash received from structured deposits		10,900,000	3,200,000
Cash received from time deposits within one year		500,000	4,100,000
Cash held by the subsidiary before acquisition	19	54	–
Cash payment for time deposits above one year		(3,500,000)	(3,500,000)
Cash payment for time deposits within one year		(3,000,000)	(4,100,000)
Cash payment for structured deposits		(7,600,000)	(3,800,000)
Cash payment for acquisition of an associate	20	(27,603)	(248,184)
Cash payment for acquisition of a subsidiary	19	(340,369)	–
Cash payment for equity instruments		–	(5,000)
Payments for sale of financial assets at fair value through other comprehensive income		(9,513)	(19,513)
Cash held by the subsidiary before disposal		–	(404)
Purchases of property, plant and equipment and other long-term assets from related parties		(178,324)	(83,447)
Purchases of property, plant and equipment and other long-term assets from third parties		(1,662,662)	(1,346,964)
Net cash used in investing activities		(3,887,528)	(4,623,209)

For the year ended 31 December 2020

	Note	Year ended 31 December 2020 RMB'000	2019 RMB'000
Cash flows from financing activities			
Proceeds from borrowings from banks		3,458,100	4,755,100
Proceeds from short-term bonds		2,998,469	–
Repayments of borrowings to banks		(3,460,556)	(3,695,208)
Dividends paid to the Company's shareholders		(1,293,736)	(2,704,864)
Dividends paid by subsidiaries to non-controlling interests		(4,901)	(3,266)
Principal elements of lease payments	30(a)	(15,586)	(89,124)
Net cash generated from/(used in) financing activities		1,681,790	(1,737,362)
Net decrease in cash and cash equivalents		(525,890)	(1,302,792)
Cash and cash equivalents at beginning of the year	22(b)	7,449,699	8,741,893
Exchange (losses)/gains on cash and cash equivalents		(7,401)	10,598
Cash and cash equivalents at end of the year	22(b)	6,916,408	7,449,699

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

Wu Haijun
Chairman

Du Jun
Vice General Manager and Chief Financial Officer

1 General information

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

The Company completed its initial public offerings in 1993. Its shares were listed on the Stock Exchange of Hong Kong Limited ("H shares") and the New York Stock Exchange in the form of American Depositary Shares ("ADS") on 26 July 1993, and were also listed on the Shanghai Stock Exchange ("ordinary A shares") on 8 November 1993.

Sinopec Group completed its reorganization on 25 February 2000. After the reorganization, China Petroleum & Chemical Corporation ("Sinopec Corp.") was established. As part of the reorganization, 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..

The Company changed its name to Sinopec Shanghai Petrochemical Company Limited on 12 October 2000, and Sinopec Corp. was the largest shareholder of the Company.

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. Meanwhile, Sinopec Corp. also committed in the Share Segregation Reform Resolution that a scheme of converting surplus to share capital (no less than 4 shares for every 10 shares) will be proposed on the board of directors and shareholders meetings within 6 months after the circulation date.

1 General information *(continued)*

The 15th meeting of the 7th term of Board of Directors was held on 28 August 2013 and the Company proposed and passed a resolution regarding interim cash dividend for the first half of 2013 and the conversion of share premium and surplus reserve to share capital. The resolution included a distribution of 5 shares and a cash dividend distribution of RMB0.5 (tax included) for every 10 shares based on the 7,200,000 thousands ordinary shares as at 30 June 2013. Among the 5 shares distributed, 3.36 shares were converted from share premium of RMB2,420,841 thousands and 1.64 shares were converted from surplus reserves of RMB1,179,159 thousands. The resolution was approved by the extraordinary general meeting of shareholders, A share class shareholders meeting and H share class shareholders meeting on 22 October 2013, respectively.

The first tranche of the Share Option Incentive Scheme was exercised on 29 August 2017, and the Company received cash payment of RMB54,580 thousands from 199 grantees. As a result, ordinary A shares of 14,177 thousands were registered on 27 September 2017.

The second tranche of the Share Option Incentive Scheme was exercised on 12 January 2018, and the Company received cash payment of RMB37,102 thousands from 185 grantees, led to an increase of RMB9,637 thousands in share capital.

According to the board resolution of the Company on 28 December 2018, the third tranche was not exercised due to the failure on satisfying the non-market exercise conditions.

As at 31 December 2020, total shares of the Company were 10,823,814 thousands (31 December 2019: 10,823,814 thousands).

The Company and its subsidiaries (“the Group”) are principally engaged in processing crude oil into synthetic fibers, resins and plastics, intermediate petrochemicals and petroleum products.

These consolidated financial statements are presented in thousands of Renminbi Yuan (RMB), unless otherwise stated. These financial statements have been approved for issue by the Board of Directors on 24 March 2021.

2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with International Financial Reporting Standards (“IFRS”) and interpretations issued by the IFRS Interpretations Committee (“IFRS IC”) applicable to companies reporting under IFRS. The consolidated financial statements comply with IFRS as issued by the International Accounting Standards Board (“IASB”). The consolidated financial statements have been prepared on a historical cost basis, except for certain financial assets and liabilities (including derivative instruments) measured at fair value.

2 Summary of significant accounting policies *(continued)*

2.1 Basis of preparation *(continued)*

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

2.1.1 Changes in accounting policy and disclosures

(a) New and amended standards adopted by the Group

The Group has applied the following standards and amendments for the first time for their annual reporting period commencing 1 January 2020:

- Definition of Material – Amendments to IAS 1 and IAS 8
- Definition of a Business – Amendments to IFRS 3
- Interest Rate Benchmark Reform – Amendments to IFRS 9, IAS 39 and IFRS 7
- Revised Conceptual Framework for Financial Reporting
- Covid-19-related Rent Concessions – Amendments to IFRS 16

The amendments listed above did not have any impact on the amounts recognized in prior periods and are not expected to significantly affect the current or future periods.

(b) New standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2020 reporting periods and have not been early adopted by the Group:

- IFRS 17 'Insurance Contracts', effective for the accounting period beginning on or after 1 January 2023;
- Classification of Liabilities as Current or Non-current – Amendments to IAS 1, effective for the accounting period beginning on or after 1 January 2023;

2 Summary of significant accounting policies *(continued)*

2.1 Basis of preparation *(continued)*

2.1.1 Changes in accounting policy and disclosures *(continued)*

(b) New standards and interpretations not yet adopted (continued)

- Property, Plant and Equipment: Proceeds before intended use – Amendments to IAS 16, effective for the accounting period beginning on or after 1 January 2022;
- Reference to the Conceptual Framework – Amendments to IFRS 3, effective for the accounting period beginning on or after 1 January 2022;
- Onerous Contracts – Cost of Fulfilling a Contract Amendments to IAS 37, effective for the accounting period beginning on or after 1 January 2022;
- Annual Improvements to IFRS Standards 2018 – 2020 Cycle, effective for the accounting period beginning on or after 1 January 2022;
- Interest rate benchmark (IBOR) reform – phase 2, effective for the accounting period beginning on or after 1 January 2021, and
- Sale or contribution of assets between an investor and its associate or joint venture – Amendments to IFRS 10 and IAS 28, effective date has not been finalized.

These standards are not expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

2.2 Subsidiaries

2.2.1 Consolidation

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

2 Summary of significant accounting policies *(continued)*

2.2 Subsidiaries *(continued)*

2.2.1 Consolidation *(continued)*

(a) Business combinations

The acquisition method of accounting is used to account for all business combinations by the Group, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the:

- fair values of the assets transferred
- liabilities incurred to the former owners of the acquired business
- equity interests issued by the Group
- fair value of any asset or liability resulting from a contingent consideration arrangement, and
- fair value of any pre-existing equity interest in the subsidiary.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. The Group recognizes any non-controlling interest in the acquired entity on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets.

Acquisition-related costs are expensed as incurred.

The excess of the:

- consideration transferred,
- amount of any non-controlling interest in the acquired entity, and
- acquisition-date fair value of any previous equity interest in the acquired entity

2 Summary of significant accounting policies *(continued)*

2.2 Subsidiaries *(continued)*

2.2.1 Consolidation *(continued)*

(a) Business combinations (continued)

Over the fair value of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the business acquired, the difference is recognized directly in the income statement as a bargain purchase.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date. Any gains or losses arising from such remeasurement are recognized in the income statement.

Inter-company transactions, balances and unrealized gains on transactions between group companies are eliminated. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated balance sheet, consolidated income statement, statement of comprehensive income and changes in equity respectively.

(b) Changes in ownership interests

The Group treats transactions with non-controlling interests that do not result in loss of control as transactions with equity owners of the Group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognized in a separate reserve within equity attributable to owners of the Group.

2 Summary of significant accounting policies *(continued)*

2.2 Subsidiaries *(continued)*

2.2.1 Consolidation *(continued)*

(b) Changes in ownership interests (continued)

When the Group ceases to consolidate or equity account for an investment because of a loss of control, joint control or significant influence, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognized in the income statement. This fair value becomes the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognized in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognized in other comprehensive income are reclassified to profit or loss.

If the ownership interest in a joint venture or an associate is reduced but joint control or significant influence is retained, only a proportionate share of the amounts previously recognized in other comprehensive income are reclassified to profit or loss where appropriate.

2.2.2 Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee’s net assets including goodwill.

Investments in joint ventures and associates are accounted for using the equity method of accounting.

2 Summary of significant accounting policies *(continued)*

2.3 Associates

Associates are all entities over which the Group has significant influence but not control or joint control. This is generally the case where the Group holds between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognized at cost, and the carrying amount is increased or decreased to recognize the investor's share of the profit or loss of the investee after the date of acquisition. The Group's investments in associates include goodwill identified on acquisition. Upon the acquisition of the ownership interest in an associate, any difference between the cost of the associate and the Group's share of the net fair value of the associate's identifiable assets and liabilities is accounted for as goodwill.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognized in other comprehensive income is reclassified to profit or loss where appropriate.

The Group's share of post-acquisition profit or loss is recognized in the income statement, and its share of post-acquisition movements in other comprehensive income is recognized in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognizes the amount adjacent to share of net profit of associates and joint ventures accounted for using the equity method in the income statement.

Profits and losses resulting from upstream and downstream transactions between the Group and its associates are recognized in the Group's financial statements only to the extent of unrelated investor's interests in the associates. Unrealized losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

Gain or losses on dilution of equity interest in associates are recognized in the income statement.

2 Summary of significant accounting policies *(continued)*

2.4 Joint arrangements

Under IFRS 11 'Joint Arrangements' investments in joint arrangements are classified as either joint operations or joint ventures. The classification depends on the contractual rights and obligations of each investor, rather than the legal structure of the joint arrangement. The Group has assessed the nature of its joint arrangements and determined them to be joint ventures. Joint ventures are accounted for using the equity method.

Under the equity method of accounting, interests in joint ventures are initially recognized at cost and adjusted thereafter to recognize the Group's share of the post-acquisition profits or losses and movements in other comprehensive income. The Group's investments in joint ventures include goodwill identified on acquisition. Upon the acquisition of the ownership interest in a joint venture, any difference between the cost of the joint venture and the Group's share of the net fair value of the joint venture's identifiable assets and liabilities is accounted for as goodwill. When the Group's share of losses in a joint venture equals or exceeds its interests in the joint ventures, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the joint ventures.

Unrealized gains on transactions between the Group and its joint ventures are eliminated to the extent of the Group's interest in the joint ventures. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Group.

The carrying amount of equity-accounted investments is tested for impairment in accordance with the policy described in Note 2.11.

2.5 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors that makes strategic decisions.

2.6 Foreign currency translation

(a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency").

The consolidated financial statements are presented in RMB, which is the Company's functional and the Group's presentation currency.

2 Summary of significant accounting policies *(continued)*

2.6 Foreign currency translation *(continued)*

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions, and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates, are generally recognized in the income statement. They are deferred in equity if they relate to qualifying cash flow hedges and qualifying net investment hedges.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the income statement within Finance income or expenses. All other foreign exchange gains and losses are presented in the income statement within Other gains – net.

2.7 Property, plant and equipment

Property, plant and equipment is stated at historical cost less depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation on property, plant and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

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

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.11).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized within Other gains – net in the income statement.

2 Summary of significant accounting policies *(continued)*

2.8 Construction in progress

Construction in progress represents buildings, various plant and equipment under construction and pending installation, and is stated at cost less government grants that compensate the Company for the cost of construction, and impairment losses. Cost comprises direct costs of construction as well as interest charges, and foreign exchange differences on related borrowed funds to the extent that they are regarded as an adjustment to interest charges, during the period of construction. Construction in progress is transferred to property, plant and equipment when the asset is substantially ready for its intended use. No depreciation is provided in respect of construction in progress.

2.9 Investment properties

Investment properties are properties which are owned either to earn rental income and/or for capital appreciation.

Investment properties are stated in the balance sheet at cost less accumulated depreciation and impairment losses (Note 2.11). Depreciation is provided over their estimated useful lives on a straight-line basis, after taking into account their estimated residual values. Estimated useful lives of the Group's investment properties are 30-40 years.

2.10 Other non-current assets

Other non-current assets mainly represent patents and catalysts used in production. These assets are carried at cost less accumulated amortization and impairment losses. Other non-current assets are amortized on a straight-line basis over the respective periods of the rights and the estimated useful lives of the catalysts, as follows:

Patents	10-28 years
Catalyst	2-5 years

2.11 Impairment of non-financial assets

Intangible assets that have an indefinite useful life or intangible assets not ready to use are not subject to amortization and are tested annually for impairment. Assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized 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 of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

2 Summary of significant accounting policies *(continued)*

2.12 Investments and financial assets

2.12.1 Classification

The Group classifies its financial assets in the following measurement categories:

- those to be measured subsequently at fair value (either through other comprehensive income or through profit or loss), and
- those to be measured at amortized cost.

The classification depends on the Group's business model for managing the financial assets and the contractual terms of the cash flows.

For assets measured at fair value, gains and losses will either be recorded in the income statement or other comprehensive income ("OCI"). For investments in equity instruments that are not held for trading, this will depend on whether the Group has made an irrevocable election at the time of initial recognition to account for the equity investment at fair value through other comprehensive income ("FVOCI").

The Group reclassifies debt investments when and only when its business model for managing those assets changes.

2.12.2 Recognition and derecognition

Regular way purchases and sales of financial assets are recognized on trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognized when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

2 Summary of significant accounting policies *(continued)*

2.12 Investments and financial assets *(continued)*

2.12.3 Measurement

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss ("FVPL"), transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at FVPL are expensed in profit or loss.

Financial assets with embedded derivatives are considered in their entirety when determining whether their cash flows are solely payment of principal and interest.

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Group classifies its debt instruments:

- Amortized cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortized cost. Interest income from these financial assets is included in finance income using the effective interest rate method. Any gain or loss arising on derecognition is recognized directly in the income statement and presented in Other gains – net, together with foreign exchange gains and losses. Impairment losses are presented as separate line item in the consolidated income statement.

- FVOCI: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Movements in the carrying amount are taken through OCI, except for the recognition of impairment gains or losses, interest revenue and foreign exchange gains and losses which are recognized in the income statement. When the financial asset is derecognized, the cumulative gains or losses previously recognized in OCI is reclassified from equity to the income statement and recognized in Other gains – net. Interest income from these financial assets is included in finance income using the effective interest rate method. Foreign exchange gains and losses are presented in Other gains – net and impairment expenses are presented as separate line item in the consolidated income statement.

- FVPL: Assets that do not meet the criteria for amortized cost or FVOCI are measured at FVPL. A gain or loss on a debt investment that is subsequently measured at FVPL is recognized in the income statement and presented net within Other gains – net in the period in which it arises.

2 Summary of significant accounting policies *(continued)*

2.12 Investments and financial assets *(continued)*

2.12.3 Measurement *(continued)*

Equity instruments

The Group subsequently measures all equity investments at fair value. Where the Group's management has elected to present fair value gains and losses on equity investments in OCI, there is no subsequent reclassification of fair value gains and losses to profit or loss following the derecognition of the investment. Dividends from such investments continue to be recognized in profit or loss when the Group's right to receive payments is established.

Changes in the fair value of financial assets at FVPL are recognized in Other gains – net in the consolidated income statement as applicable. Impairment losses (and reversal of impairment losses) on equity investments measured at FVOCI are not reported separately from other changes in fair value.

2.12.4 Impairment

The Group assesses on a forward-looking basis the expected credit losses associated with its debt instruments carried at amortized cost and FVOCI. The impairment methodology applied depends on whether there has been a significant increase in credit risk.

For financial instruments that have low credit risk at the balance sheet date, except for receivables related to revenue, the Group assumes that there is no significant increase in credit risk since the initial recognition, on first stage, and measures the loss allowance at an amount equal to 12-month expected credit losses. If there has been a significant increase in credit risk or credit impairment has occurred since the initial recognition of a financial instrument, on second stage, the Group recognizes a loss allowance at an amount equal to lifetime expected credit losses. If credit impairment has occurred since the initial recognition of a financial instrument, on third stage, the Group recognizes a loss allowance at an amount equal to lifetime expected credit losses.

For trade receivables, the Group applies the simplified approach permitted by IFRS 9, which requires expected lifetime losses to be recognized from initial recognition of the receivables, see Note 3.1(b) for further details.

2.13 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

2 Summary of significant accounting policies *(continued)*

2.14 Derivative and hedging activities

Derivatives are initially recognized at fair value on the date a derivative contract is entered into, and they are subsequently remeasured to their fair value at the end of each reporting period. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument and, if so, the nature of the item being hedged. The Group designates certain derivatives as hedges of a particular risk associated with the cash flows of recognized assets and liabilities and highly probable forecast transactions (cash flow hedges).

At inception of the hedge relationship, the Group documents the economic relationship between hedging instruments and hedged items, including whether changes in the cash flows of the hedging instruments are expected to offset changes in the cash flows of hedged items. The Group documents its risk management objective and strategy for undertaking its hedge transactions.

The fair values of derivative financial instruments designated in hedge relationships are disclosed in Note 3.1(a). Movements in the hedging reserve in shareholders' equity are shown in Note 27. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months; it is classified as a current asset or liability when the remaining maturity of the hedged item is less than 12 months. Trading derivatives are classified as a current asset or liability.

Cash flow hedges that qualify for hedge accounting

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in the cash flow hedge reserve within equity. The gain or loss relating to the ineffective portion is recognized immediately in the income statement, within Other gains – net.

Where option contracts are used to hedge forecast transactions, the Group designates only the intrinsic value of the options as the hedging instrument.

Gains or losses relating to the effective portion of the change in intrinsic value of the options are recognized in the cash flow hedge reserve within equity. The changes in the time value of the options that relate to the hedged item ('aligned time value') are recognized within OCI in the costs of hedging reserve within equity.

When forward contracts are used to hedge forecast transactions, the Group generally designates only the change in fair value of the forward contract related to the spot component as the hedging instrument. Gains or losses relating to the effective portion of the change in the spot component of the forward contracts are recognized in the cash flow hedge reserve within equity. The change in the forward element of the contract that relates to the hedged item ('aligned forward element') is recognized within OCI in the costs of hedging reserve within equity. In some cases, the entity may designate the full change in fair value of the forward contract (including forward points) as the hedging instrument. In such cases, the gains or losses relating to the effective portion of the change in fair value of the entire forward contract are recognized in the cash flow hedge reserve within equity.

2 Summary of significant accounting policies *(continued)*

2.14 Derivative and hedging activities *(continued)*

Cash flow hedges that qualify for hedge accounting *(continued)*

Amounts accumulated in equity are reclassified in the periods when the hedged item affects the income statement, as follows:

- Where the hedged item subsequently results in the recognition of a non-financial asset (such as inventory), both the deferred hedging gains and losses and the deferred time value of the option contracts or deferred forward points, if any, are included within the initial cost of the asset. The deferred amounts are ultimately recognized in the income statement as the hedged item affects profit or loss (for example through cost of sales).

- The gain or loss relating to the effective portion of the interest rate swaps hedging variable borrowings is recognized in the income statement within finance cost at the same time as the interest expense on the hedged borrowings.

When a hedging instrument expires, or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative deferred gain or loss and deferred costs of hedging in equity at that time remains in equity until the forecast transaction occurs, resulting in the recognition of a non-financial asset such as inventory. When the forecast transaction is no longer expected to occur, the cumulative gain or loss and deferred costs of hedging that were reported in equity are immediately reclassified to Other gains – net.

Derivatives that do not qualify for hedge accounting

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognized immediately in the income statement and are included in Other gains – net.

2.15 Assets classified as held for sale

Assets, including non-current assets (or disposal groups) are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use and a sale is considered highly probable within 12 months. They are measured at the lower of their carrying amount and fair value less costs to sell, except for assets such as deferred tax assets, assets arising from employee benefits, financial assets and investment property that are carried at fair value and contractual rights under insurance contracts, which are specifically exempt from this requirement.

For the year ended 31 December 2020

2 Summary of significant accounting policies *(continued)*

2.15 Assets classified as held for sale *(continued)*

An impairment loss is recognized for any initial or subsequent write-down of the asset (or disposal group) to fair value less costs to sell. A gain is recognized for any subsequent increases in fair value less costs to sell of an asset (or disposal group), but not in excess of any cumulative impairment loss previously recognized. A gain or loss not previously recognized by the date of the sale of the asset that is classified as held for sale (or disposal group) is recognized at the date of derecognition.

The assets (including those that are part of a disposal group) are not depreciated or amortized while they are classified as held for sale. Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale continue to be recognized.

Assets classified as held for sale are presented separately in current assets of the balance sheet.

2.16 Inventories

Inventories are stated at the lower of cost and net realizable value. Cost is determined using the weighted average cost method. The cost of finished goods and work in progress comprises raw materials, direct labor, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realizable value is the estimated selling price in the ordinary course of business less the estimated costs of completion, the estimated costs necessary to make the sale and the related taxes.

2.17 Trade receivables and other receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection of trade receivables and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade receivables and other receivables are recognized initially at fair value plus transaction costs and subsequently measured at amortized cost using the effective interest method, less allowance for impairment. See Note 2.12.4 for a description of the Group's impairment policies.

2.18 Cash and cash equivalents

In the consolidated statement of cash flows, cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are presented within borrowings in current liabilities in the balance sheet.

For the year ended 31 December 2020

2 Summary of significant accounting policies *(continued)*

2.19 Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

2.20 Safety production fund

Under China's law and regulation, the Group is required to accrue safety production fund at a certain percentage of the sales of dangerous goods. The fund is earmarked for improving the safety of production. The fund is accrued from retained earnings to other reserves and converted back to retained earnings when used.

2.21 Trade and other payables

Trade and other payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade and other payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade and other payables are recognized initially at fair value plus transaction costs and subsequently measured at amortized cost using the effective interest method.

2.22 Borrowings

Borrowings are initially recognized at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the income statement over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognized as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalized as a pre-payment for liquidity services and amortized over the period of the facility to which it relates.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

2 Summary of significant accounting policies *(continued)*

2.23 Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

Other borrowing costs are expensed in the period in which they are incurred.

2.24 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognized in the income statement, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

(a) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company's subsidiaries, associates and joint ventures operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(b) Deferred income tax

Inside basis differences

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognized if they arise from the initial recognition of goodwill, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

2 Summary of significant accounting policies *(continued)*

2.24 Current and deferred income tax *(continued)*

(b) Deferred income tax *(continued)*

Outside basis differences

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries, associates and joint arrangements, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Generally the Group is unable to control the reversal of the temporary difference for associates. Only when there is an agreement in place that gives the Group the ability to control the reversal of the temporary difference in the foreseeable future, deferred tax liability in relation to taxable temporary differences arising from the associate's undistributed profits is not recognized.

Deferred income tax assets are recognized on deductible temporary differences arising from investments in subsidiaries, associates and joint arrangements only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilized.

(c) Offsetting

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2.25 Employee benefits

(a) Pension obligations

The PRC employees of the Group are covered by various PRC government-sponsored defined-contribution pension plans under which the employees are entitled to a monthly pension based on certain formulas. The relevant government agencies are responsible for the pension liability to these employees when they retire. The Group contributes on a monthly basis to these pension plans for the employees which are determined at a certain percentage of their salaries. Under these plans, the Group has no obligation for post-retirement benefits beyond the contribution made. Contributions to these plans are expensed as incurred and contributions paid to the defined contribution pension plans for a staff are not available to reduce the Group's future obligations to such defined-contribution pension plans even if the staff leaves the Group.

2 Summary of significant accounting policies *(continued)*

2.25 Employee benefits *(continued)*

(b) Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognizes termination benefits at the earlier of the following dates: (a) when the Group can no longer withdraw the offer of those benefits; and (b) when the entity recognizes costs for a restructuring that is within the scope of IAS 37 and involves the payment of terminations benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to present value.

2.26 Share-based payment

(a) Equity-settled share-based payment transactions

The Group operates a number of equity-settled, share-based compensation plans, under which the entity receives services from employees as consideration for equity instruments (options) of the Group. The fair value of the employee services received in exchange for the grant of the options is recognized as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted:

- including any market performance conditions such as an entity's share price;
- excluding the impact of any service and non-market performance vesting conditions such as profitability, sales growth targets and remaining an employee of the entity over a specified time period; and
- including the impact of any non-vesting conditions such as the requirement for employees to save or holding shares for a specified period of time.

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 recognizes the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

In addition, in some circumstances employees may provide services in advance of the grant date and therefore the grant date fair value is estimated for the purposes of recognizing the expense during the period between service commencement period and grant date.

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.

For the year ended 31 December 2020

2 Summary of significant accounting policies *(continued)*

2.26 Share-based payment *(continued)*

(b) Share-based payment transactions among Group entities

The grant by the Company of options over its equity instruments to the employees of subsidiary undertakings in the Group is treated as a capital contribution. The fair value of employee services received, measured by reference to the grant date fair value, is recognized over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity in the parent entity accounts.

2.27 Provisions

Provisions for environmental restoration, restructuring costs and legal claims are recognized when: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are not recognized for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

2.28 Revenue recognition

(a) Sales of petroleum and chemical products

The Group manufactures and sells petroleum and chemical products. Sales are recognized when control of the products has transferred, being when the products are delivered to and accepted by the customer. Delivery occurs when the products have been shipped to the specific location, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the products in accordance with the sales contract, or the Group has objective evidence that all criteria for acceptance have been satisfied. Advance from customers but goods not yet delivered is recorded as contract liabilities and is recognized as revenues when a customer obtains control over the relevant goods.

Revenue excludes value added tax and is after deduction of any estimated trade discounts.

2 Summary of significant accounting policies *(continued)*

2.28 Revenue recognition *(continued)*

(a) Sales of petroleum and chemical products *(continued)*

The Group has elected to apply the practical expedient that contract costs incurred related to contracts with an amortization period of less than one year have been expensed as incurred. The Group also applies the practical expedient in paragraph 121 of IFRS 15 and does not disclose information about remaining performance obligations that have original expected durations of one year or less.

(b) Overseas shipping services

The Group arranges overseas shipping services for the customer and revenue is recognized over time and based on the actual shipping service provided to the end of the reporting period as a proportion of the total services to be provided, because the customer receives and uses the benefits simultaneously. This is determined based on the actual passages of time (days) relative to the total expected shipping days.

2.29 Interest income

Interest income from financial assets at FVPL is included in Other gains – net, see Note 8 below. Interest income on financial assets at amortized cost and financial assets at FVOCI calculated using the effective interest method is recognized in the consolidated income statement as part of other income.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for financial assets that subsequently become credit-impaired. For credit-impaired financial assets the effective interest rate is applied to the net carrying amount of the financial asset (after deduction of the loss allowance).

Interest income is presented as Finance income where it is earned from financial assets that are held for cash management purposes, see Note 9 below.

2.30 Dividend income

Dividend income is recognized when the right to receive payment is established.

2 Summary of significant accounting policies *(continued)*

2.31 Government grants

Grants from the government are recognized at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognized in the income statement over the period necessary to match them with the costs that they are intended to compensate.

Grants that compensate the Group for the cost of an asset are deducted from the carrying amount of the asset and consequently are effectively recognized in the income statement over the useful life of the asset by way of reduced depreciation expense.

2.32 Leases

The Group leases various land, buildings, equipment, vehicles and others. Rental contracts of buildings, equipment, vehicles and others are typically made for fixed periods of 1 to 30 years. Rental contracts of land use rights are typically made for fixed periods of 30 to 50 years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The lease agreements do not impose any covenants, but leased assets may not be used as security for borrowing purposes.

Leases are recognized as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group.

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable,
- variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date,
- amounts expected to be payable by the Group under residual value guarantees,
- the exercise price of a purchase option if the Group is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the Group exercising that option.

2 Summary of significant accounting policies *(continued)*

2.32 Leases *(continued)*

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Group, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Group:

- where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received
- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held by the Group, which does not have recent third party financing, and
- makes adjustments specific to the lease, e.g., term, country, currency and security.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability,
- any lease payments made at or before the commencement date less any lease incentives received,
- any initial direct costs, and
- restoration costs.

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight-line basis, as follows:

Land use rights	30-50 years
Buildings	1-30 years
Equipment	1-2 years
Vehicles and others	1-5 years

2 Summary of significant accounting policies *(continued)*

2.32 Leases *(continued)*

Payments associated with short-term leases of equipment and vehicles are recognized on a straight-line basis as an expense in the income statement. Short-term leases are leases with a lease term of 12 months or less. A single discount rate was applied to the portfolio of the leases with reasonably similar characteristics.

Lease income from operating leases where the Group is a lessor is recognized in income on a straight-line basis over the lease term. Initial direct costs incurred in obtaining an operating lease are added to the carrying amount of the underlying asset and recognized as expense over the lease term on the same basis as lease income. The respective leased assets are included in the balance sheet based on their nature. The Group did not need to make any adjustments to the accounting for assets held as lessor as a result of adopting the new leasing standard. The respective leased assets are included in the balance sheet bases on their nature.

2.33 Dividend distribution

Dividend distribution to the Company's shareholders is recognized as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

2.34 Research and development costs

Research and development costs comprise all costs that are directly attributable to research and development activities or that can be allocated on a reasonable basis to such activities. Research and development costs are recognized as intangible assets when the following criteria are met:

- 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;
- 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 research and development expenditure that do not meet these criteria are recognized as an expense as incurred. Research and development costs previously recognized as an expense are not recognized as an asset in a subsequent period.

2 Summary of significant accounting policies *(continued)*

2.35 Related parties

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

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or the Group's parent.

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

(i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (i).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

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

2.36 Rounding of amounts

All amounts disclosed in the consolidated financial statements and notes have been rounded off to the nearest thousand currency units unless otherwise stated.

3 Financial risk management

3.1 Financial risk factors

The Group's activities exposed it to a variety of financial risks: market risk (including foreign exchange risk, cash flow and fair value interest rate risk and commodity price risk), credit risk and liquidity risk. The Group's overall risk management programmer focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance.

Where all relevant criteria are met, hedge accounting is applied to remove the accounting mismatch between the hedging instrument and the hedged item. This will effectively result in recognizing inventory at the fixed foreign currency rate for the hedged purchases.

(a) Derivatives

The Group has the following derivative financial instruments in the following line items in the balance sheet:

	As at 31 December	
	2020 RMB'000	2019 RMB'000
Current derivative financial instrument assets		
Foreign exchange options	–	263
Current derivative financial instrument liabilities		
Foreign exchange options	–	799

(i) Classification of derivatives

Derivatives are only used for economic hedging purposes and not as speculative investments. However, where derivatives do not meet the hedge accounting criteria, they are classified as 'held for trading' for accounting purposes and are accounted for at fair value through profit or loss. They are presented as current assets or liabilities to the extent they are expected to be settled within 12 months after the end of the reporting period.

The Group's accounting policy for its cash flow hedges is set out in Note 2.14.

3 Financial risk management *(continued)*

3.1 Financial risk factors *(continued)*

(a) Derivatives *(continued)*

(ii) Fair value measurement

For information about the methods and assumptions used in determining the fair value of derivatives refer to Note 3.3.

(iii) Hedging reserves

The Group's cash flow hedging reserve disclosed in Note 27 relate to the following hedging instruments:

	Swaps contracts RMB'000
As at 31 December 2019	–
Add: Change in fair value of hedging instrument recognized in OCI	(63,840)
Less: Reclassified to the cost of inventory – not included in OCI	63,840
As at 31 December 2020	–

(iv) Amounts recognized in the income statement

In addition to the amounts disclosed in the reconciliation of hedging reserves above, the following amounts were recognized in the income statement in relation to derivatives:

	2020 RMB'000	2019 RMB'000
Net losses on foreign exchange options not qualifying as hedges included in Other gains – net (Note 8)	(376)	(12,315)

Hedge effectiveness

Hedge effectiveness is determined at the inception of the hedge relationship, and through periodic prospective effectiveness assessments, to ensure that an economic relationship exists between the hedged item and hedging instrument.

For the year ended 31 December 2020

3 Financial risk management *(continued)*

3.1 Financial risk factors *(continued)*

(a) Derivatives *(continued)*

(iv) Amounts recognized in the income statement (continued)

Hedge effectiveness (continued)

The Group enters into commodity swaps contracts that have similar critical terms as the hedged item, such as reference rate, payment dates, transaction price, crude oil variety and crude oil quantity.

Hedge ineffectiveness for commodity swaps contracts may occur due to the changes in value of the hedged item. There was no recognized ineffectiveness during the year ended 31 December 2020 in relation to the commodity swaps.

(b) Market risk

(i) 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 recognized assets and liabilities (mainly trade receivables and payables), and future transactions denominated in foreign currencies, primarily with respect to US dollar. 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 minimize the foreign exchange risk. For the year ended 31 December 2020 and 31 December 2019, the Group uses foreign exchange option contracts to mitigate its exposure to foreign exchange risk respect to US dollar. As at 31 December 2020, there were no foreign exchange options that had not been matured. As at 31 December 2019, the nominal amount of US dollar foreign exchange options amounted to RMB40,754 thousands.

As at 31 December 2020, if US dollar had weakened/strengthened by 5% against RMB with all other variables held constant, the Group's net profit for the year would have been RMB2,401 thousands decreased/increased (31 December 2019: RMB13,699 thousands increased/decreased in net profit) before considering the impact of foreign exchange option contracts as a result of foreign exchange gains/losses on translation of foreign currencies denominated trade receivables and payables.

3 Financial risk management *(continued)*

3.1 Financial risk factors *(continued)*

(b) Market risk *(continued)*

(i) Foreign exchange risk (continued)

The aggregate net foreign exchange gains/(losses) recognized in the income statement were:

	2020 RMB'000	2019 RMB'000
Net foreign exchange gains included in Other gains – net (Note 8)	12,248	2,648
Net foreign exchange (losses)/gains included in Finance (expenses)/income (Note 9)	(5,514)	18,571
Total net foreign exchange recognized in profit before income tax for the year	6,734	21,219

(ii) Cash flow and fair value interest rate risk

The Group's interest rate risk arises from short-term interest bearing borrowings and short-term bonds. Borrowings obtained at variable rates expose the Group to cash flow interest rate risk. Borrowings obtained 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 31 December 2020, the Group's short-term borrowings denominated with floating rates amounted to RMB48,000 thousands, which represented 3% of total borrowing balance (31 December 2019: RMB47,600 thousands, representing 3% of total borrowing balance).

The Group's finance department at its headquarter 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. For the years ended 31 December 2020 and 31 December 2019, the Group did not enter into any interest rate swap agreements.

For the year ended 31 December 2020

3 Financial risk management *(continued)*

3.1 Financial risk factors *(continued)*

(b) Market risk *(continued)*

(ii) Cash flow and fair value interest rate risk (continued)

As at 31 December 2020, 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 RMB180 thousands (31 December 2019: RMB179 thousands), mainly as a result of higher/lower interest expense on floating rate borrowings.

(iii) Commodity price risk

The Group principally engages in processing crude oil into synthetic fibers, resins and plastics, intermediate petrochemicals and petroleum products. The selling price of petroleum products is periodically adjusted by government department based on the market price adjustment mechanism, and generally in connection with the crude oil price. The selling prices of synthetic fibers, resins and plastics and intermediate petrochemicals are market prices. For the year ended 31 December 2020, the Group used swaps contracts to manage a portion of this risk as the fluctuation of crude oil price could have significant impact on the Group.

As at 31 December 2020, the Group had no unexpired commodity contracts of crude oil designed as hedging instruments for cash flow hedges (31 December 2019: Nil).

(c) Credit risk

(i) Risk management

Credit risk is managed on group basis. It mainly arises from cash and cash equivalents, time deposits with banks, structured deposits, trade receivables, other receivables, bills receivable, etc.

Group expects that there is no significant credit risk associated with cash at bank (including time deposits and structured deposits) and bills receivable since they are deposits and bank acceptance bills 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.

3 Financial risk management *(continued)*

3.1 Financial risk factors *(continued)*

(c) Credit risk *(continued)*

(i) Risk management (continued)

In addition, the Group has policies to limit the credit exposure on trade receivables, other receivables and bills 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.

The Group considers the probability of default upon initial recognition of a financial asset and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period. To assess whether there is a significant increase in credit risk the Group compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition. It considers available reasonable and supportive forward-looking information. Especially the following indicators are incorporated:

– internal credit rating;

– external credit rating (as far as available);

– actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the debtors' ability to meet its obligations;

– actual or expected significant changes in the operating results of the debtors;

– significant increases in credit risk on other financial instruments of the same debtors;

– significant changes in the value of the collateral supporting the obligation or in the quality of third-party guarantees or credit enhancements;

– significant changes in the expected performance and behavior of the debtors, including changes in the payment status of debtors, etc.

3 Financial risk management *(continued)*

3.1 Financial risk factors *(continued)*

(c) Credit risk *(continued)*

(i) Risk management (continued)

Regardless of the analysis above, a significant increase in credit risk is presumed if a debtor is more than 30 days past due in making a contractual payment.

It has other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews regularly the recoverable amount of each individual trade receivables to ensure that adequate impairment losses are made for irrecoverable amounts. The Group has no significant concentrations of credit risk, with exposure spread over a large number of counterparties and costumers.

For other receivables, management makes periodic collective assessment as well as individual assessment on the recoverability of other receivables based on historical settlement records and forward-looking information. The management believe that there is no material credit risk inherent in the Group's outstanding balance of other receivable.

(ii) Impairment of financial assets

The Group has three types of financial assets that are subject to the expected credit loss model:

- Trade receivables for sales of goods and from the providing services,
- Other financial assets carried at amortised cost, and
- Debt instruments carried at FVOCI

While cash and cash equivalents, time deposits with banks and bills receivable are also subject to the impairment requirements of IFRS 9, the identified impairment loss was immaterial.

3 Financial risk management *(continued)*

3.1 Financial risk factors *(continued)*

(c) Credit risk *(continued)*

(ii) Impairment of financial assets (continued)

Trade receivables

The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables (including trade receivables with related parties) and financial assets at fair value through other comprehensive income.

To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due.

The expected credit loss rates are based on the payment profiles of sales over a period of 36 months before 31 December 2020 and 31 December 2019 respectively and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables.

Impairment losses on trade receivables are presented as Net reversal of impairment losses on financial assets within operating profit. Subsequent recoveries of amounts previously written off are credited against the same line item.

Other financial assets at amortised cost

Other financial assets at amortized cost include other receivables.

As at 31 December 2020 and 31 December 2019, the internal credit rating of other receivables were all performing. The Group has assessed that the expected credit losses for these receivables are not material under the 12 months expected losses method.

3 Financial risk management *(continued)*

3.1 Financial risk factors *(continued)*

(c) Credit risk *(continued)*

(ii) Impairment of financial assets (continued)

Management considered the internal credit risk of other receivable including receivables from related parties were performing as they have a low risk of default and the counterparties have a strong capacity to meet its contractual cash flow obligations in the near term, and thus the impairment provision recognized during the period was limited to 12 months expected losses.

The provision/(reversal) for loss allowance were recognized in the income statement in Net reversal of impairment losses on financial assets.

Trade and other receivables are written off where there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Group, and a failure to make contractual payments for a period of greater than 120 days past due.

Impairment losses on trade and other receivables are presented as net impairment losses within operating profit. Subsequent recoveries of amounts previously written off are credited against the same line item.

Debt instruments carried at FVOCI

Debt instruments carried at FVOCI include trade receivables and bills receivable with a business model which is achieved both by collecting contractual cash flows and selling of these assets. The loss allowance for debt instruments is recognized in the income statement and reduces the fair value loss otherwise recognized in OCI.

As at 31 December 2020 and 31 December 2019, no loss allowance was provided for financial assets at FVOCI.

3 Financial risk management *(continued)*

3.1 Financial risk factors *(continued)*

(c) Credit risk *(continued)*

(iii) Net reversal of impairment losses on financial assets recognized in the income statement

During the year, the following recoveries/(losses) were recognized in Net reversal of impairment losses on financial assets in relation to impaired financial assets:

	2020 RMB'000	2019 RMB'000
Impairment losses		
– movement in loss allowance for trade receivables	(634)	–
Recoveries on previously written off receivables (Note 22(a))	121,550	–
Reversal of previous impairment losses	–	59
Net reversal of impairment losses on financial assets	120,916	59

(iv) Financial assets at fair value through profit or loss

The Group is also exposed to credit risk in relation to investments such as structured deposits and derivative financial instruments, which are measured at fair value through profit or loss. The maximum exposure at the end of the reporting period is the carrying amount of these investments.

(d) Liquidity risk

Cash flow forecast is performed by the operating entities of the Group and aggregated by Group finance. Group finance monitors rolling forecasts of the Group's liquidity requirements to ensure it has sufficient cash to meet operational needs while maintaining sufficient headroom on its undrawn committed borrowing facilities from major financial institution 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.

3 Financial risk management *(continued)*

3.1 Financial risk factors *(continued)*

(d) Liquidity risk *(continued)*

The liquidity of the Group is primarily dependent on its ability to maintain adequate cash inflow from operations, the renewal of its short-term bank loans and its ability to obtain adequate external financing to support its working capital and meet its debt obligation when they become due. As at 31 December 2020, the Group had credit facilities with several PRC financial institutions which provided the Group to draw down or to guarantee the issuance of the bills of lading to RMB32,516,787 thousands, within which amounted to RMB27,350,766 thousands were unused. The maturity dates of the unused facility amounted to RMB14,167,750 thousands will be after 31 December 2021. Management assessed that all the facilities could be renewed upon the expiration dates.

Surplus cash held by the operating entities over and above balance required for working capital management are transferred to the Group treasury. As at 31 December 2020, the Group held cash and cash equivalents of RMB6,916,408 thousands (31 December 2019: RMB7,449,699 thousands) (Note 22(b)) and trade receivables (including trade receivables with related parties and those carried at FVOCI) of RMB1,469,431 thousands (31 December 2019: RMB2,376,098 thousands), that are expected to readily generate cash inflows for managing liquidity risk.

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

Contractual maturities of financial liabilities 31 December 2020	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
Non-derivatives					
Borrowings	1,558,702	–	–	–	1,558,702
Short-term bonds	3,023,614	–	–	–	3,023,614
Lease liabilities	9,373	2,136	1,090	103	12,702
Bills payables	26,196	–	–	–	26,196
Trade payables	1,294,138	–	–	–	1,294,138
Other payables	1,498,503	–	–	–	1,498,503
Amounts due to related parties	3,655,724	–	–	–	3,655,724
	11,066,250	2,136	1,090	103	11,069,579

3 Financial risk management *(continued)*

3.1 Financial risk factors *(continued)*

(d) Liquidity risk *(continued)*

Contractual maturities of financial liabilities 31 December 2019	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Over 5 years RMB'000	Total RMB'000
Non-derivatives					
Borrowings	1,575,176	–	–	–	1,575,176
Lease liabilities	11,700	8,846	2,435	495	23,476
Bills payables	673,900	–	–	–	673,900
Trade payables	2,142,402	–	–	–	2,142,402
Other payables	747,133	–	–	–	747,133
Amounts due to related parties	5,702,728	–	–	–	5,702,728
	10,853,039	8,846	2,435	495	10,864,815
Derivatives					
Derivative financial liabilities	799	–	–	–	799

3.2 Capital management

The Group's objectives when managing capital are 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, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings and short-term bonds less cash and cash equivalents. Total capital is calculated as equity as shown in the consolidated balance sheet plus net debt.

As cash and cash equivalents exceed total borrowings and short-term bonds, which was resulted primarily from profitability, there was no net debt as at 31 December 2020 and 31 December 2019.

3 Financial risk management *(continued)*

3.3 Fair value estimation

The table below analyses the Group's financial instruments carried at fair value as at 31 December 2020 and 31 December 2019 by level of the inputs to valuation techniques used to measure fair value. Such inputs are categorized into three levels within a fair value hierarchy as follows:

- The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and equity securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1.

- The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques which maximize the use of observable market data and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

- If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. This is the case for unlisted equity securities.

Recurring fair value measurements **As at 31 December 2020**	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Financial assets				
Financial assets at fair value through other comprehensive income				
Trade and bill receivables	–	1,207,114	–	1,207,114
Equity investments	–	–	5,000	5,000
	–	1,207,114	5,000	1,212,114

3 Financial risk management *(continued)*

3.3 Fair value estimation *(continued)*

Recurring fair value measurements **As at 31 December 2019**	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000
Financial assets				
Structured deposits	–	–	3,318,407	3,318,407
Derivative financial assets	–	263	–	263
Financial assets at fair value through other comprehensive income				
Trade and bill receivables	–	1,540,921	–	1,540,921
Equity investments	–	–	5,000	5,000
	–	1,541,184	3,323,407	4,864,591
Financial liabilities				
Derivative financial liabilities	–	799	–	799

The Group uses discounted cash flow model with inputted interest rate, which were influenced by historical fluctuation and the probability of market fluctuation, to evaluate the fair value of the structured deposits classified as Level 3 financial assets.

Fair value measurements using significant unobservable inputs (level 3)

The following table presents the changes in level 3 items for the year ended 31 December 2020:

	Equity investments RMB'000	Structured deposits RMB'000	Total RMB'000
As at 31 December 2019	5,000	3,318,407	3,323,407
Acquisitions	–	7,600,000	7,600,000
Disposals	–	(10,900,000)	(10,900,000)
Fair value change	–	(18,407)	(18,407)
As at 31 December 2020	5,000	–	5,000

3 Financial risk management *(continued)*

3.3 Fair value estimation *(continued)*

Financial assets and financial liabilities not measured at fair value mainly represent time deposits, trade receivables and other receivables, trade and other payables (except for the staff salaries and welfare payables and taxes payables) and borrowings. As at 31 December 2020 and 31 December 2019, these financial assets are expected to be collected in one year or less and these financial liabilities are due within one year or less. As a result, the carrying amounts of these financial assets and liabilities not measured at fair value are a reasonable approximation of their fair value.

4 Critical accounting estimates and assumptions

Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

(a) Net realizable value ("NRV") of inventories

The NRV is determined based on the estimated selling prices less the estimated costs to completion, if relevant, other costs necessary to make the sale, and the related taxes. Determination of estimated selling prices requires significant management judgement, taking into consideration of historical selling prices and future market trend. 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 the estimate.

(b) Impairments for non-financial assets

In determining the value in use, expected cash flows generated by the non-financial assets or the cash-generating unit are discounted to their present value. Management uses all readily available information in determining an amount that is a reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of sale volume, selling price and amount of operating costs.

(c) Useful life and residual value of property, plant and equipment

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

5 Segment information

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

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

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 investments accounted for using the equity method, deferred income tax assets, cash and cash equivalents, time deposits, structured deposits, entrusted lending and incomes relating to these assets (such as share of profit of investments accounted for using equity method and interest income) and borrowings and interest expenses.

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

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

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

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

(iv) The petroleum products segment is equipped with crude oil refinery facilities used to produce qualified refined gasoline, fuel, diesel oil, heavy oil and liquefied petroleum gas, and provide raw materials for the Group's downstream petrochemical processing facilities.

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

(vi) Other operating segments represent the operating segments which do not meet the quantitative threshold for determining reportable segments. These include investment property leasing, service provision and a variety of other commercial activities.

5 Segment information *(continued)*

2020	Synthetic fibers RMB'000	Resins and plastics RMB'000	Intermediate petrochemicals RMB'000	Petroleum products RMB'000	Trading of petrochemical products RMB'000	Other segments RMB'000	Total RMB'000
Total segment revenue	1,480,576	9,576,944	19,777,574	49,711,547	12,023,744	1,583,236	94,153,621
Inter – segment revenue	–	(101,057)	(11,526,322)	(6,631,343)	(438,634)	(832,690)	(19,530,046)
Revenue from external customers	1,480,576	9,475,887	8,251,252	43,080,204	11,585,110	750,546	74,623,575
Timing of revenue recognition							
At a point in time	1,480,576	9,475,887	8,251,252	43,080,204	11,583,709	750,546	74,622,174
Over time	–	–	–	–	1,401	–	1,401
	1,480,576	9,475,887	8,251,252	43,080,204	11,585,110	750,546	74,623,575
Total gross (loss)/profit	(338,633)	1,435,079	724,152	(2,232,013)	88,004	(16,838)	(340,249)

2019	Synthetic fibers RMB'000	Resins and plastics RMB'000	Intermediate petrochemicals RMB'000	Petroleum products RMB'000	Trading of petrochemical products RMB'000	Other segments RMB'000	Total RMB'000
Total segment revenue	2,200,229	10,304,812	24,698,643	66,754,731	21,881,214	1,502,840	127,342,469
Inter – segment revenue	–	(141,101)	(14,187,500)	(11,868,026)	(175,200)	(700,975)	(27,072,802)
Revenue from external customers	2,200,229	10,163,711	10,511,143	54,886,705	21,706,014	801,865	100,269,667
Timing of revenue recognition							
At a point in time	2,200,229	10,163,711	10,511,143	54,886,705	21,695,864	801,865	100,259,517
Over time	–	–	–	–	10,150	–	10,150
	2,200,229	10,163,711	10,511,143	54,886,705	21,706,014	801,865	100,269,667
Total gross (loss)/profit	(501,062)	542,015	649,435	750,850	121,193	25,314	1,587,745

5 Segment information *(continued)*

	2020 RMB'000	2019 RMB'000
Segment result – (loss)/profit from operations		
Petroleum products	(2,198,705)	705,469
Resins and plastics	1,262,029	401,454
Intermediate petrochemicals	581,597	413,914
Trading of petrochemical products	42,039	53,214
Synthetic fibers	(364,211)	(540,280)
Others	211,015	286,801
(Loss)/profit from operations	(466,236)	1,320,572
Finance income – net	332,274	362,963
Share of profit of investments accounted for using the equity method	724,740	972,593
Profit before income tax	590,778	2,656,128

Other profit and loss disclosures

	2020			2019		
	Depreciation and amortization RMB'000	Impairment loss RMB'000	Inventory write-down RMB'000	Depreciation and amortization RMB'000	Impairment loss RMB'000	Inventory write down RMB'000
Synthetic fibers	(78,030)	88,550	(39,657)	(68,589)	7	(48,844)
Resins and plastics	(138,204)	–	(26,382)	(125,464)	6	(12,073)
Intermediate petrochemicals	(465,425)	(55,204)	(15,418)	(497,469)	(478)	(9,094)
Petroleum products	(917,637)	–	(138,537)	(972,688)	38	(167)
Trading of petrochemical products	(19,938)	–	(788)	(211)	–	–
Others	(207,905)	–	(106)	(174,367)	–	–
	(1,827,139)	33,346	(220,888)	(1,838,788)	(427)	(70,178)

5 Segment information *(continued)*

	As at 31 December	
	2020	2019
	Total assets	Total assets
	RMB'000	RMB'000
Allocated assets		
Synthetic fibers	986,391	997,650
Resins and plastics	1,654,920	1,802,681
Intermediate petrochemicals	3,176,092	3,721,337
Petroleum products	11,344,760	14,014,403
Trading of petrochemical products	1,357,884	1,492,405
Others	2,432,339	2,294,668
Allocated assets	20,952,386	24,323,144
Unallocated assets		
Investments accounted for using the equity method	5,387,834	5,208,758
Cash and cash equivalents	6,916,408	7,449,699
Time deposits with banks	11,092,283	5,020,073
Deferred tax assets	252,121	150,832
Financial assets at fair value through profit or loss	–	3,318,407
Derivative financial assets	–	263
Others	18,098	22,899
Unallocated assets	23,666,744	21,170,931
Total assets	44,619,130	45,494,075

5 Segment information *(continued)*

	As at 31 December	
	2020 Total liabilities RMB'000	2019 Total liabilities RMB'000
Allocated liabilities		
Synthetic fibers	209,621	340,034
Resins and plastics	1,233,286	1,372,574
Intermediate petrochemicals	1,267,313	1,736,967
Petroleum products	6,669,419	8,482,596
Trading of petrochemical products	1,224,420	1,946,530
Others	78,928	73,127
Allocated liabilities	10,682,987	13,951,828
Unallocated liabilities		
Borrowings	1,548,000	1,547,600
Short-term bonds	3,017,811	–
Deferred tax liabilities	35,357	–
Derivative financial liabilities	–	799
Unallocated liabilities	4,601,168	1,548,399
Total liabilities	15,284,155	15,500,227

	2020 RMB'000	2019 RMB'000
Additions to property, plant and equipment, construction in progress, right-of-use assets, other non-current assets		
Synthetic fibers	496,125	294,515
Resins and plastics	139,212	74,633
Intermediate petrochemicals	278,788	204,021
Petroleum products	779,392	1,024,626
Trading of petrochemical products	378,292	89
Others	222,080	103,418
	2,293,889	1,701,302

5 Segment information *(continued)*

Entity-wide information

The Group's revenue from external customers are mainly within Mainland China in 2020 and 2019. As at 31 December 2020 and 31 December 2019, assets are also mainly within Mainland China.

Revenue of approximate RMB38,651,385 thousands (2019: RMB42,657,975 thousands) are derived from a single customer. These revenues are attributable to the petroleum products and others segments.

6 Other operating income

	2020 RMB'000	2019 RMB'000
Government grants (i)	61,296	69,678
Rental income from investment property (Note 17)	81,608	76,381
Others	5,772	4,655
	148,676	150,714

(i) Government grants

Grants related to R&D, other tax refund and subsidies of RMB60,859 thousands (2019: RMB69,241 thousands) are included in the government grants line item. There are no unfulfilled conditions or other contingencies attaching to these grants. The Group did not benefit directly from any other forms of government assistance.

Deferral and presentation of government grants

Government grants relating to the purchase of property, plant and equipment are included in non-current liabilities as deferred income and are credited to profit or loss on a straight-line basis over the expected lives of the related assets. For the year ended 31 December 2020, RMB437 thousands were included in the government grants line item (2019: RMB437 thousands).

7 Other operating expenses

	2020 RMB'000	2019 RMB'000
Cost related to lease of investment properties	(15,625)	(16,199)
Others	(9,061)	(5,726)
	(24,686)	(21,925)

8 Other gains – net

	2020 RMB'000	2019 RMB'000
Net (losses)/gains on disposal of land, property, plant and equipment	(1,212)	158,551
Gains from structured deposits	114,283	85,444
Net losses on foreign exchange option contracts	(376)	(12,315)
Losses from disposal of subsidiaries (Note 19)	–	(60,951)
Net foreign exchange gains	12,248	2,648
Losses on sale of FVOCI	(9,513)	(19,513)
	115,430	153,864

9 Finance income and expenses

	2020 RMB'000	2019 RMB'000
Net foreign exchange gains	–	18,571
Interest income	431,228	398,176
Finance income	431,228	416,747
Interest and finance charges paid/payable for lease liabilities and financial liabilities not at fair value through profit or loss	(101,732)	(59,378)
Less: amounts capitalized on qualifying assets	8,292	5,594
Net interest expenses	(93,440)	(53,784)
Net foreign exchange losses	(5,514)	–
Finance expenses	(98,954)	(53,784)
Finance income – net	332,274	362,963

10 Expense by nature

	2020 RMB'000	2019 RMB'000
Cost of raw material	42,082,307	57,101,961
Cost of trading products	11,467,420	21,566,364
Employee benefit expenses (Note 11)	3,143,219	3,147,372
Depreciation and amortization (Note 14, 16, 17)	1,794,486	1,736,790
Repairs and maintenance expenses	1,060,624	1,089,829
Change of goods in process and finished goods	862,652	446,779
Transportation costs	274,002	297,416
Inventory write-down (Note 21)	220,888	70,178
External processing fee	215,467	215,288
Sales commissions (Note 28)	104,598	125,641
Impairment loss (Note 16, 18)	87,570	486
Depreciation charge of right-of-use assets (Note 15)	32,653	101,998
Auditors' remuneration – audit services	7,800	7,800
Leasing expenses	3,731	2,961
Other expenses	1,030,020	1,107,017
Total cost of sales, selling and administrative expenses	62,387,437	87,017,880

11 Employee benefit expenses

	2020 RMB'000	2019 RMB'000
Wages and salaries	2,009,645	1,931,121
Social welfare costs	714,484	782,789
Others	419,090	433,462
Total employee benefit expense	3,143,219	3,147,372

(i) Five highest paid individuals

For the years ended 31 December 2020 and 31 December 2019, all 5 individuals with the highest emoluments are directors and supervisors whose emoluments are disclosed in Note 34(i).

12 Income tax

	2020 RMB'000	2019 RMB'000
– Current income tax	(37,027)	(460,720)
– Deferred taxation	102,647	31,757
Income tax benefit/(expense)	65,620	(428,963)

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

	2020 RMB'000	2019 RMB'000
Profit before income tax	590,778	2,656,128
Expected PRC income tax at the statutory tax rate of 25%	(147,695)	(664,032)
Tax effect of share of profit of investments accounted for using the equity method	178,685	239,562
Tax effect of other non-taxable income	54,379	7,459
Tax deductions for R&D expenses	11,863	7,500
Tax effect of non-deductible loss, expenses and costs	(51,543)	(42,906)
True up for final settlement of enterprise income taxes in respect of previous years	9,188	2,618
Tax losses for which no deferred income tax asset was recognized	(2,821)	(9,578)
Utilization of previously unrecognized tax losses	13,564	30,414
Actual income tax benefit/(expense)	65,620	(428,963)

For the year ended 31 December 2020

12 Income tax *(continued)*

The provision for PRC income tax is calculated at the rate of 25% (2019: 25%) on the estimated taxable income of the year ended 31 December 2020 determined in accordance with relevant income tax rules and regulations. The Group did not carry out business overseas and therefore does not incur overseas income taxes.

(i) The analysis of deferred tax assets and deferred tax liabilities is as follows:

	2020 RMB'000	2019 RMB'000
Deferred tax assets:		
– Deferred tax asset to be recovered after more than 12 months	246,900	219,557
– Deferred tax asset to be recovered within 12 months	255,646	117,625
	502,546	337,182
Deferred tax liabilities:		
– Deferred tax liabilities to be recovered after more than 12 months	(275,174)	(166,183)
– Deferred tax liabilities to be recovered within 12 months	(10,608)	(20,167)
	(285,782)	(186,350)
Deferred tax assets – net	252,121	150,832
Deferred tax liabilities – net	(35,357)	–

12 Income tax *(continued)*

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

	Balance as at 1 January 2020 RMB'000	Deducted/ (charged) to profit or loss RMB'000	Balance as at 31 December 2020 RMB'000
Deferred tax assets			
Impairment for bad and doubtful debts and provision for inventories	38,901	18,425	57,326
Provision for impairment losses in property, plant and equipment and construction in progress	207,632	18,803	226,435
Tax losses	1,986	85,813	87,799
Others	88,663	42,323	130,986
	337,182	165,364	502,546
Deferred tax liabilities			
Gains of financial assets at fair value	(4,604)	4,604	–
Difference in depreciation	(178,800)	(104,939)	(283,739)
Capitalization of borrowing costs	(2,946)	903	(2,043)
	(186,350)	(99,432)	(285,782)
Deferred tax assets – net	150,832	101,289	252,121
Deferred tax liabilities – net	–	(35,357)	(35,357)

12 Income tax *(continued)*

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

	Balance as at 1 January 2019 RMB'000	(Charged)/ deducted to profit or loss RMB'000	Balance as at 31 December 2019 RMB'000
Deferred tax assets			
Impairment for bad and doubtful debts and provision for inventories	39,606	(705)	38,901
Provision for impairment losses in property, plant and equipment and construction in progress	219,610	(11,978)	207,632
Others	9,417	81,232	90,649
	268,633	68,549	337,182
Deferred tax liabilities			
Gains of financial assets at fair value	–	(4,604)	(4,604)
Difference in depreciation	(145,709)	(33,091)	(178,800)
Capitalization of borrowing costs	(3,849)	903	(2,946)
	(149,558)	(36,792)	(186,350)
Deferred tax assets – net	119,075	31,757	150,832

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

12 Income tax *(continued)*

(iii) Deferred tax assets not recognized

As at 31 December 2020, certain subsidiaries of the Company did not recognize the deferred tax assets in respect of the impairment losses on property, plant and equipment amounting to RMB29,969 thousands (31 December 2019: RMB29,969 thousands), because it was not probable that the related tax benefit would be realized.

As at 31 December 2020, certain subsidiaries of the Company did not recognize the deferred tax assets in respect of unused tax losses of RMB72,699 thousands (31 December 2019: RMB121,723 thousands) carried forward for PRC income tax purpose because it was not probable that the related tax benefit would be realized.

Tax losses carried forward that are not recognized as deferred tax assets will expire in the following years:

	2020 RMB'000	2019 RMB'000
2020	–	17,775
2021	–	12,880
2022	12,687	12,687
2023	10,415	40,069
2024	38,312	38,312
2025	11,285	–
	72,699	121,723

13 Earnings per share

(a) Basic

Basic earnings per share is calculated by dividing the profit attributable to owners of the Company by the weighted average number of ordinary shares in issue during the year.

	2020 RMB'000	2019 RMB'000
Net profit attributable to owners of the Company	645,072	2,215,728
Weighted average number of ordinary shares in issue (thousands of shares)	10,823,814	10,823,814
Basic earnings per share (RMB per share)	RMB0.060	RMB0.205

13 Earnings per share *(continued)*

(b) Diluted

There were no dilutive potential ordinary shares, therefore diluted earnings per share is the same as basic earnings per share.

14 Other non-current assets

	Intangible assets RMB'000	Long-term prepaid expense RMB'000	Total RMB'000
As at 1 January 2019			
Cost	84,093	502,689	586,782
Accumulated amortization	(63,525)	—	(63,525)
Net book amount	20,568	502,689	523,257
Year ended 31 December 2019			
Opening net book amount	20,568	502,689	523,257
Additions	1,762	170,687	172,449
Charge for the year	(4,695)	(209,597)	(214,292)
Closing net book amount	17,635	463,779	481,414
As at 31 December 2019			
Cost	85,855	463,779	549,634
Accumulated amortization	(68,220)	—	(68,220)
Net book amount	17,635	463,779	481,414
Year ended 31 December 2020			
Opening net book amount	17,635	463,779	481,414
Additions	53	169,755	169,808
Charge for the year	(2,919)	(223,344)	(226,263)
Closing net book amount	14,769	410,190	424,959
As at 31 December 2020			
Cost	85,908	410,190	496,098
Accumulated amortization	(71,139)	—	(71,139)
Net book amount	14,769	410,190	424,959

For the year ended 31 December 2020, the amortization of RMB226,263 thousands (2019: RMB214,292 thousands) has been charged in Cost of sales.

15 Leases

(a) Amounts recognized in the balance sheet

The balance sheet shows the following amounts relating to leases:

	As at 31 December	
	2020 RMB'000	2019 RMB'000
Right-of-use assets		
Land use rights	397,808	320,212
Buildings	11,221	22,205
Equipment	879	168
Others	893	1,275
	410,801	343,860
Lease liabilities		
Current	9,352	11,450
Non-current	3,119	10,593
	12,471	22,043

For the year ended 31 December 2020, additions to the right-of-use assets were RMB109,238 thousands (2019: RMB33,980 thousands), including RMB102,283 thousands generated by the acquisition of a subsidiary (Note 19(a)).

(b) Amounts recognized in the income statement

The income statement shows the following amounts relating to leases:

	2020 RMB'000	2019 RMB'000
Depreciation charge of right-of-use assets		
Land use rights	(15,965)	(14,814)
Buildings	(15,481)	(12,541)
Equipment	(449)	(74,025)
Others	(758)	(618)
	(32,653)	(101,998)
Interest expense (included in Finance expenses)	(887)	(2,570)
Expense relating to short-term leases (included in Cost of sales)	(3,731)	(2,961)

The total cash outflow for leases in 2020 was RMB20,204 thousands (2019: RMB94,441 thousands).

16 Property, plant and equipment

	Buildings	Plant and machinery	Vehicles and other equipment	Total
	RMB'000	RMB'000	RMB'000	RMB'000
As at 1 January 2019				
Cost	3,229,642	41,007,229	1,785,889	46,022,760
Accumulated depreciation	(2,142,540)	(29,905,377)	(1,451,131)	(33,499,048)
Impairment loss	(53,872)	(815,329)	(8,121)	(877,322)
Net book amount	1,033,230	10,286,523	326,637	11,646,390
Year ended 31 December 2019				
Opening net book amount	1,033,230	10,286,523	326,637	11,646,390
Additions	–	99,041	15,578	114,619
Disposals	(4,114)	(60,503)	(5,988)	(70,605)
Reclassification	16,395	(82,604)	66,209	–
Transferred from construction in progress (Note 18)	26,655	999,412	97,553	1,123,620
Transferred from investment properties (Note 17)	6,924	–	–	6,924
Transferred to investment properties (Note 17)	(12,347)	–	–	(12,347)
Charge for the year	(92,123)	(1,346,725)	(68,956)	(1,507,804)
Closing net book amount	974,620	9,895,144	431,033	11,300,797
As at 31 December 2019				
Cost	3,336,375	41,455,159	1,871,684	46,663,218
Accumulated depreciation	(2,310,970)	(30,793,083)	(1,432,530)	(34,536,583)
Impairment loss	(50,785)	(766,932)	(8,121)	(825,838)
Net book amount	974,620	9,895,144	431,033	11,300,797

16 Property, plant and equipment *(continued)*

	Buildings RMB'000	Plant and machinery RMB'000	Vehicles and other equipment RMB'000	Total RMB'000
Year ended 31 December 2020				
Opening net book amount	974,620	9,895,144	431,033	11,300,797
Additions	707	228,153	65,380	294,240
Disposals	(7,020)	(42,246)	(2,866)	(52,132)
Impairment loss	(3,007)	(84,035)	(528)	(87,570)
Reclassification	22,878	(25,571)	2,693	–
Transferred from construction in progress (Note 18)	24,199	1,440,695	85,419	1,550,313
Acquisition of subsidiary (Note 19(a))	124,849	146,172	4,694	275,715
Transferred to investment properties (Note 17)	(15,302)	–	–	(15,302)
Charge for the year	(91,070)	(1,367,861)	(94,108)	(1,553,039)
Closing net book amount	1,030,854	10,190,451	491,717	11,713,022
As at 31 December 2020				
Cost	3,481,210	42,742,330	1,958,220	48,181,760
Accumulated depreciation	(2,396,564)	(31,700,912)	(1,457,854)	(35,555,330)
Impairment loss	(53,792)	(850,967)	(8,649)	(913,408)
Net book amount	1,030,854	10,190,451	491,717	11,713,022

For the year ended 31 December 2020, the amount of depreciation expense charged to Cost of sales and Selling and administrative expense were RMB1,543,891 thousands and RMB9,148 thousands, respectively (2019: RMB1,498,625 thousands and RMB9,179 thousands, respectively).

For the year ended 31 December 2020, impairment loss of RMB87,570 thousands has been recognized in Cost of sales for the excess of carrying amount over its recoverable amount.

For the year ended 31 December 2019, the written off of impairment loss of the Group amounted to RMB51,484 thousands due to the disposal of property, plant and equipment.

17 Investment properties

	RMB'000
As at 1 January 2019	
Cost	594,135
Accumulated depreciation	(217,396)
Net book amount	376,739
Year ended 31 December 2019	
Opening net book amount	376,739
Transferred from property plant and equipment (Note 16)	12,347
Transferred to property plant and equipment (Note 16)	(6,924)
Charge for the year	(14,694)
Closing net book amount	367,468
As at 31 December 2019	
Cost	602,659
Accumulated depreciation	(235,191)
Net book amount	367,468
Year ended 31 December 2020	
Opening net book amount	**367,468**
Transferred from property plant and equipment (Note 16)	**15,302**
Charge for the year	**(15,184)**
Closing net book amount	**367,586**
As at 31 December 2020	
Cost	**627,488**
Accumulated depreciation	**(259,902)**
Net book amount	**367,586**

As at 31 December 2020, the Group had no contractual obligations for future repairs and maintenance (31 December 2019: Nil).

Investment properties represent certain floors of an office building leased to other entities including related parties.

(a) The fair value of the investment properties of the Group as at 31 December 2020 was estimated by the directors to be approximately RMB1,202,626 thousands by reference to market values of similar properties in the nearby area (31 December 2019: RMB1,230,191 thousands). This fair value estimation was at level 3 of fair value hierarchy by using market observable inputs. The investment properties have not been valued by external independent appraisers.

17 Investment properties *(continued)*

(b) Rental income of RMB81,608 thousands was recognized in Other operating income by the Group for the year ended 31 December 2020 (2019: RMB76,381 thousands).

(c) Leasing arrangements

The investment properties are leased to tenants under operating leases with rentals payable monthly. There are no variable lease payments that depend on an index or rate. Where considered necessary to reduce credit risk, the Group may obtain bank guarantees for the term of the lease.

Minimum lease payments receivable on leases of investment properties are as follows:

	2020 RMB'000	2019 RMB'000
Within 1 year	51,396	43,322
Between 1 and 2 years	4,343	1,517
Above 2 years	629	–

18 Construction in progress

	2020 RMB'000	2019 RMB'000
As at 1 January	1,815,549	1,559,401
Additions	1,444,888	1,380,254
Transferred to property plant and equipment (Note 16)	(1,550,313)	(1,123,620)
Impairment loss	–	(486)
As at 31 December	1,710,124	1,815,549

As at 31 December 2020, the impairment loss in construction in progress were RMB24,486 thousands (31 December 2019: RMB34,661 thousands).

For the year ended 31 December 2020, the impairment write-off of the Group amounted to RMB10,175 thousands due to the disposal of construction in progress (2019: Nil).

For the year ended 31 December 2020, the Group capitalized borrowing costs amounting to RMB8,292 thousands (2019: RMB5,594 thousands) on qualifying assets. Borrowing costs were capitalized at the weighted average rate of its general borrowings of 2.79% (2019: 3.35%).

19 Subsidiaries

The following list contains the particulars of major subsidiaries of the Group, all of which are limited companies established and operated in the PRC.

Company	Registered capital '000	Percentage of equity directly held by the Company %	Percentage of equity held by the Group %	Percentage of equity held by non-controlling interests %	Principal activities
As at 31 December 2020					
Shanghai Petrochemical Investment Development Company Limited ("Toufa")	RMB1,000,000	100.00	100.00	–	Investment management
China Jinshan Associated Trading Corporation ("Jinmao")	RMB25,000	67.33	67.33	32.67	Import and export of petrochemical products and equipment
Shanghai Jinchang Engineering Plastics Company Limited ("Jinchang")	USD9,154	–	74.25	25.75	Production of polypropylene compound products
Shanghai Golden Phillips Petrochemical Company Limited ("Jinfei")	USD50,000	–	100.00	–	Production of polyethylene products
Shanghai Jinshan Trading Corporation ("JMGJ")	RMB100,000	–	67.33	32.67	Import and export of petrochemical products
Zhejiang Jinlian Petrochemical Storage and Transportation Co., Ltd. ("Jinlian") (a)	RMB400,000	–	100.00	–	Trading of petrochemical products

19 Subsidiaries *(continued)*

Company	Registered capital '000	Percentage of equity directly held by the Company %	Percentage of equity held by the Group %	Percentage of equity held by non-controlling interests %	Principal activities
As at 31 December 2019					
Toufa	RMB1,000,000	100.00	100.00	–	Investment management
Jinmao	RMB25,000	67.33	67.33	32.67	Import and export of petrochemical products and equipment
Jinchang	USD9,154	–	74.25	25.75	Production of polypropylene compound products
Jinfei	USD50,000	–	100.00	–	Production of polyethylene products
JMGJ	RMB100,000	–	67.33	32.67	Import and export of petrochemical products

The total comprehensive income attributable to non-controlling interests for the year ended 31 December 2020 is RMB11,326 thousands (2019: comprehensive loss amounted RMB11,437 thousands).

On 23 August 2019, the Group disposed 75% share of Zhejiang Jin Yong Acrylic Fiber Company Limited, a former subsidiary of the Group, due to its bankruptcy and liquidation. The disposal loss amounted RMB60,951 thousands was included in Other gains – net (Note 8) for the year ended 31 December 2019.

19 Subsidiaries *(continued)*

(a) On 30 June 2020, one of the Company's subsidiaries, Toufa acquired 100% share of Zhejiang Zhonghang Oil Petrochemical Storage and Transportation Co., Ltd., renamed as Jinlian, from China Aviation Oil Group Logistics Co., Ltd., with the total purchase consideration of RMB340,369 thousands.

The assets and liabilities recognized as a result of the acquisition as at 30 June 2020 are as follows:

	Fair value RMB'000
Cash and cash equivalents	54
Property, plant and equipment (Note 16)	275,715
Trade and other receivables	5
Right-of-use assets (Note 15)	102,283
Trade and other payables	(867)
Deferred tax liabilities	(36,715)
Net identifiable assets acquired	340,475
Add: Other operating income	(106)
Purchase consideration	340,369

The acquired business contributed revenue of RMB293,197 thousands and net loss of RMB11,024 thousands to the Group for the period from 1 July 2020 to 31 December 2020.

20 Investments accounted for using the equity method

The amounts recognized in the balance sheet are as follows:

	As at 31 December	
	2020 RMB'000	2019 RMB'000
Associates		
– Share of net assets	5,146,160	4,973,464
Joint ventures		
– Share of net assets	241,674	235,294
	5,387,834	5,208,758

20 Investments accounted for using the equity method *(continued)*

The amounts recognized in the share of profit of investments accounted for using the equity method are as follows:

	2020 RMB'000	2019 RMB'000
Associates	678,077	927,814
Joint ventures	46,663	44,779
	724,740	972,593

Investment in associates

	2020 RMB'000	2019 RMB'000
As at 1 January	4,973,464	4,297,265
Additions (a)	27,603	320,000
Share of profit	678,077	904,265
Other comprehensive (loss)/income	(11,512)	7,449
Cash dividends distribution	(521,472)	(555,515)
As at 31 December	5,146,160	4,973,464

Set out below are the material associates of the Group as at 31 December 2020. The associates as listed below have share capital consisting solely of ordinary shares, which are held directly by the Group; the country of incorporation or registration is also their principal place of business.

20 Investments accounted for using the equity method *(continued)*

Investment in associates *(continued)*

Principal activities of material associates as at 31 December 2020.

Name of entity	Place of business/ country of incorporation	% of ownership interest	Principal activities	Measurement method
Shanghai Secco Petrochemical Company Limited ("Shanghai Secco")	PRC	20.00	Manufacturing and distribution of chemical products	Equity
Shanghai Chemical Industry Park Development Company Limited ("Chemical Industry")	PRC	38.26	Planning, development and operation of the Chemical Industry Park in Shanghai, PRC	Equity
Shanghai Jinsen Hydrocarbon Resins Company Limited ("Jinsen")	PRC	40.00	Production of resins products	Equity
Shanghai Azbil Automation Company Limited ("Azbil")	PRC	40.00	Service and maintenance of building automation systems and products	Equity
Shanghai Shidian Energy Company Limited ("Shidian Energy") (b)	PRC	40.00	Electric power supply	Equity

20 Investments accounted for using the equity method *(continued)*

Investment in associates *(continued)*

Principal activities of material associates as at 31 December 2019.

Name of entity	Place of business/ country of incorporation	% of ownership interest	Principal activities	Measurement method
Shanghai Secco	PRC	20.00	Manufacturing and distribution of chemical products	Equity
Chemical Industry	PRC	38.26	Planning, development and operation of the Chemical Industry Park in Shanghai, PRC	Equity
Jinsen	PRC	40.00	Production of resins products	Equity
Azbil	PRC	40.00	Service and maintenance of building automation systems and products	Equity
Shidian Energy (b)	PRC	40.00	Electric power supply	Equity

Shanghai Secco, Chemical Industry, Jinsen, Azbil and Shidian Energy are private companies and there are no quoted market prices available for their shares.

There are no contingent liabilities relating to the Group's interest in the associates.

(a) In 2020, Toufa invested RMB27,603 thousands to acquire 29% share of Pinghu China Aviation Oil Port Co., Ltd..

(b) In 2019, Toufa invested RMB320,000 thousands to acquire 40% share of Shidian Energy, of which RMB71,816 thousands was contributed by property, plant and equipment at fair market price.

20 Investments accounted for using the equity method *(continued)*

Investment in associates *(continued)*

Summarized financial information for material associates

Set out below are the summarized financial information for the above associates.

Summarized balance sheet for material associates

As at 31 December 2020	Shanghai Secco RMB'000	Chemical Industry RMB'000	Jinsen RMB'000	Azbil RMB'000	Shidian Energy RMB'000
Current					
– Current assets	10,430,726	4,618,722	74,170	227,172	790,069
– Current liabilities	(2,783,216)	(1,761,431)	(10,481)	(73,450)	(20,650)
Non-current					
– Non-current assets	6,099,126	3,523,528	64,421	3,984	72,441
– Non-current liabilities	(32,482)	(528,237)	–	–	–
Net Assets	13,714,154	5,852,582	128,110	157,706	841,860

As at 31 December 2019	Shanghai Secco RMB'000	Chemical Industry RMB'000	Jinsen RMB'000	Azbil RMB'000	Shidian Energy RMB'000
Current					
– Current assets	11,858,124	4,356,339	85,302	204,965	745,425
– Current liabilities	(3,196,334)	(1,468,162)	(18,114)	(75,572)	(9,849)
Non-current					
– Non-current assets	5,020,292	3,153,858	69,154	3,049	69,588
– Non-current liabilities	(12,730)	(485,735)	–	–	–
Net Assets	13,669,352	5,556,300	136,342	132,442	805,164

20 Investments accounted for using the equity method *(continued)*

Investment in associates *(continued)*

Summarized statement of comprehensive income for material associates

2020	Shanghai Secco RMB'000	Chemical Industry RMB'000	Jinsen RMB'000	Azbil RMB'000	Shidian Energy RMB'000
Revenue	21,626,059	1,683,096	187,580	340,905	472,640
Post-tax profit/(loss) from continuing operations	2,412,802	404,117	(8,232)	48,264	36,696
Other comprehensive loss	–	(30,089)	–	–	–
Total comprehensive income/(loss)	2,412,802	374,028	(8,232)	48,264	36,696
Dividends declared by associate	2,368,000	85,000	–	23,000	–

2019	Shanghai Secco RMB'000	Chemical Industry RMB'000	Jinsen RMB'000	Azbil RMB'000	Shidian Energy RMB'000
Revenue	28,341,032	1,936,537	197,199	297,694	112,143
Post-tax profit/(loss) from continuing operations	3,383,582	609,540	(16,996)	38,448	5,166
Other comprehensive income	–	19,470	–	–	–
Total comprehensive income/(loss)	3,383,582	629,010	(16,996)	38,448	5,166
Dividends declared by associate	2,537,000	79,000	–	30,000	–

20 Investments accounted for using the equity method *(continued)*

Investment in associates *(continued)*

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.

Reconciliation of summarized financial information

Reconciliation of the summarized financial information presented to the carrying amount of its interest in material associates

2020	Shanghai Secco RMB'000	Chemical Industry RMB'000	Jinsen RMB'000	Azbil RMB'000	Shidian Energy RMB'000
Opening net assets 1 January	13,669,352	5,556,296	136,342	132,442	805,164
Profit/(loss) for the year	2,412,802	404,117	(8,232)	48,264	36,696
Other comprehensive loss	–	(30,089)	–	–	–
Increase in reserves (Note a)	–	7,258	–	–	–
Declared dividends	(2,368,000)	(85,000)	–	(23,000)	–
Closing net assets	13,714,154	5,852,582	128,110	157,706	841,860
% of ownership interest	20.00%	38.26%	40.00%	40.00%	40.00%
Interest in associates	2,742,832	2,239,198	51,244	63,083	336,744
Unrealized upstream and downstream transaction	(11,285)	–	–	–	(19,343)
Unentitled portion (Note a)	–	(331,407)	–	–	–
Carrying value	2,731,547	1,907,791	51,244	63,083	317,401

20 Investments accounted for using the equity method *(continued)*

Investment in associates *(continued)*

Reconciliation of summarized financial information *(continued)*

2019	Shanghai Secco RMB'000	Chemical Industry RMB'000	Jinsen RMB'000	Azbil RMB'000	Shidian Energy RMB'000
Opening net assets 1 January	12,822,770	5,057,821	153,338	123,994	—
Profit/(loss) for the year	3,383,582	609,540	(16,996)	38,448	5,166
Increase in share capital	–	–	–	–	800,000
Other comprehensive income	–	19,470	–	–	–
Decrease in reserves (Note a)	–	(51,535)	–	–	–
Declared dividends	(2,537,000)	(79,000)	–	(30,000)	–
Closing net assets	13,669,352	5,556,296	136,342	132,442	805,166
% of ownership interest	20.00%	38.26%	40.00%	40.00%	40.00%
Interest in associates	2,733,872	2,125,839	54,537	52,977	322,066
Unrealized upstream and downstream transaction	(9,512)	–	–	–	(22,708)
Unentitled portion (Note a)	–	(328,629)	–	–	–
Carrying value	2,724,360	1,797,210	54,537	52,977	299,358

Note a: Unentitled portion represented the earnings from sales of the lands injected by Government in Chemical Industry that cannot be shared by other shareholders.

20 Investments accounted for using the equity method *(continued)*

Investment in associates *(continued)*

Summarized financial information for other associates

	2020 RMB'000	2019 RMB'000
Aggregate carrying value of investments at 31 December	75,094	45,022
Aggregate amounts of the group's share of:		
Profit for the year	8,619	6,400
Total comprehensive income	8,619	6,400

Investment in joint ventures

	2020 RMB'000	2019 RMB'000
As at 1 January	235,294	229,868
Share of profit	46,663	44,779
Cash dividends distribution	(40,283)	(39,353)
As at 31 December	241,674	235,294

The joint venture listed below has share capital consisting solely of ordinary shares, which is held directly by the Group as at 31 December 2020 and 31 December 2019.

As at 31 December 2020 and 31 December 2019	Place of business/ country of incorporation	% of ownership interest	Principal activities	Measure-ment method
BOC-SPC Gases Company Limited ("BOC")	PRC	50.00	Production and sales of industrial gases	Equity
Shanghai Petrochemical Pressure Vessel Testing Center ("JYJC")	PRC	50.00	Provide inspection and testing service	Equity
Shanghai Petrochemical Yangu Gas Development Company Limited ("Yangu Gas")	PRC	50.00	Production and sales of industrial gases	Equity

BOC, JYJC and Yangu Gas are private companies and there are no quoted market prices available for their shares.

20 Investments accounted for using the equity method *(continued)*

Investment in joint ventures *(continued)*

Summarized financial information for joint ventures

Set out below are the summarized financial information for joint ventures which are accounted for using the equity method.

Summarized balance sheet for joint ventures

As at 31 December 2020	BOC RMB'000	JYJC RMB'000	Yangu Gas RMB'000
Current			
Cash and cash equivalents	233,898	13,281	62,878
Other current assets (excluding cash)	67,809	6,077	11,812
Total current assets	301,707	19,358	74,690
Total current liabilities	(57,153)	(2,453)	(3,463)
Non-current			
Total non-current assets	147,717	1,800	26,066
Total non-current liabilities	(21,417)	–	–
Net assets	370,854	18,705	97,293

As at 31 December 2019	BOC RMB'000	JYJC RMB'000	Yangu Gas RMB'000
Current			
Cash and cash equivalents	182,548	11,200	51,386
Other current assets (excluding cash)	64,837	9,557	12,565
Total current assets	247,385	20,757	63,951
Total current liabilities	(37,444)	(3,993)	(3,460)
Non-current			
Total non-current assets	181,372	1,937	36,972
Total non-current liabilities	(26,378)	–	–
Net assets	364,935	18,701	97,463

20 Investments accounted for using the equity method *(continued)*

Investment in joint ventures *(continued)*

Summarized statement of comprehensive income for joint ventures

2020	BOC RMB'000	JYJC RMB'000	Yangu Gas RMB'000
Revenue	420,160	21,674	58,463
Depreciation and amortization	(45,756)	(350)	(8,313)
Interest income	2,246	304	1,483
Interest expense	–	–	–
Profit from continuing operations	108,677	2,279	1,830
Income tax expense	(26,290)	(177)	–
Post-tax profit from continuing operations	82,387	2,102	1,830
Other comprehensive income	–	–	–
Total comprehensive income	82,387	2,102	1,830
Dividends declared by joint venture	76,468	2,098	2,000

2019	BOC RMB'000	JYJC RMB'000	Yangu Gas RMB'000
Revenue	414,374	29,290	55,302
Depreciation and amortization	(50,199)	–	(11,272)
Interest income	636	308	1,119
Interest expense	–	–	–
Profit from continuing operations	108,565	3,107	40
Income tax expense	(28,382)	(777)	–
Post-tax profit from continuing operations	80,183	2,330	40
Other comprehensive income	–	–	–
Total comprehensive income	80,183	2,330	40
Dividends declared by joint venture	77,800	906	–

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 joint ventures.

20 Investments accounted for using the equity method *(continued)*

Investment in joint ventures *(continued)*

Reconciliation of summarized financial information

Reconciliation of the summarized financial information presented to the carrying amount of its interest in material joint ventures

2020	BOC RMB'000	JYJC RMB'000	Yangu Gas RMB'000
Opening net assets 1 January	364,935	18,701	97,463
Profit for the year	82,387	2,102	1,830
Other comprehensive income	–	–	–
Declared dividends	(76,468)	(2,098)	(2,000)
Closing net assets	370,854	18,705	97,293
% of ownership interest	50.00%	50.00%	50.00%
Interest in joint ventures	185,427	9,352	48,648
Unrealized downstream transactions	(1,753)	–	–
Carrying value	183,674	9,352	48,648

2019	BOC RMB'000	JYJC RMB'000	Yangu Gas RMB'000
Opening net assets 1 January	362,552	17,277	97,423
Profit for the year	80,183	2,330	40
Other comprehensive income	–	–	–
Declared dividends	(77,800)	(906)	–
Closing net assets	364,935	18,701	97,463
% of ownership interest	50.00%	50.00%	50.00%
Interest in joint ventures	182,467	9,350	48,733
Unrealized downstream transactions	(5,256)	–	–
Carrying value	177,211	9,350	48,733

21 Inventories

	As at 31 December 2020			As at 31 December 2019		
	Gross carrying amount RMB'000	Provision for declines in the value of inventories RMB'000	Carrying amount RMB'000	Gross carrying amount RMB'000	Provision for declines in the value of inventories RMB'000	Carrying amount RMB'000
Raw materials	2,569,136	–	2,569,136	4,567,648	–	4,567,648
Work in progress	696,227	(122,081)	574,146	1,072,040	(78,981)	993,059
Finished goods	591,485	(46,652)	544,833	1,022,335	(33,763)	988,572
Spare parts and consumables	260,431	(59,800)	200,631	247,873	(42,718)	205,155
	4,117,279	(228,533)	3,888,746	6,909,896	(155,462)	6,754,434

The cost of inventories recognized in Cost of sales amounted to RMB53,622,798 thousands for the year ended 31 December 2020 (2019: RMB78,595,380 thousands) which excluded an inventory provision of RMB220,888 thousands (2019: RMB70,178 thousands).

As at 31 December 2020, the provision for inventory write-down was RMB228,533 thousands (31 December 2019: RMB155,462 thousands). For the year ended 31 December 2020, the Group sold certain finished goods and utilized certain spare parts and consumables which were previously provided for. The related provision of RMB147,817 thousands was reversed and included in Cost of sales in the consolidated income statement (2019: RMB72,945 thousands).

22 Financial assets and financial liabilities

The Group holds the following financial instruments:

		As at 31 December	
Financial assets	Note	2020	2019
		RMB'000	RMB'000
Financial assets at amortized cost			
Trade receivables	(a)	113,163	120,739
Other receivables	(a)	18,101	26,101
Amounts due from related parties excluded prepayments	(a)	1,065,539	1,521,187
Cash and cash equivalents	(b)	6,916,408	7,449,699
Time deposits with financial banks	(c)	11,092,283	5,020,073
Financial assets at fair value through other comprehensive income	(d)	1,212,114	1,545,921
Financial assets at fair value through profit or loss	(e)	–	3,318,407
Derivative financial assets		–	263
		20,417,608	19,002,390
Financial liabilities			
Financial liabilities at amortized cost			
Borrowings	(f)	1,548,000	1,547,600
Short-term bonds	(g)	3,017,811	–
Trade payables	(h)	1,294,138	2,142,402
Other payables	(h)	1,499,749	747,133
Bills payables	(h)	26,196	673,900
Amounts due to related parties excluded contract liabilities	(h)	3,655,724	5,708,394
Lease liabilities	15	12,471	22,043
Derivative financial liabilities		–	799
		11,054,089	10,842,271

The Company's exposure to various risks associated with the financial instruments is discussed in Note 3. The maximum exposure to credit risk at the end of the reporting period is the carrying amount of each class of financial assets mentioned above.

22 Financial assets and financial liabilities *(continued)*

(a) Trade and other receivables

	As at 31 December	
	2020	2019
	RMB'000	RMB'000
Trade receivables	113,797	120,739
Less: impairment provision	(634)	–
	113,163	120,739
Amounts due from related parties excluded prepayments (Note 28(c))	1,065,539	1,521,187
	1,178,702	1,641,926
Other receivables	18,240	26,240
Less: impairment provision	(139)	(139)
	18,101	26,101
	1,196,803	1,668,027

For the year ended 31 December 2020, certain associates and joint ventures of the Group declared dividends with total amount of RMB561,755 thousands to the Group (2019: RMB594,868 thousands). As at 31 December 2020 and 31 December 2019, all these declared dividends had been received by the Group.

Amounts due from related parties mainly represent trade-related balances, unsecured in nature and bear no interest.

The aging analysis based on invoice date of trade receivables and amounts due from related parties excluded prepayments (net of allowance for doubtful debts) is as follows:

	As at 31 December	
	2020	2019
	RMB'000	RMB'000
Within 1 year	1,177,222	1,641,926
1-2 year	1,480	–
2-3 year	–	–
	1,178,702	1,641,926

22 Financial assets and financial liabilities *(continued)*

(a) Trade and other receivables *(continued)*

Movements of the Group's impairment provision for trade and other receivables are as follows:

	2020 RMB'000	2019 RMB'000
As at 1 January	139	198
Reversal of previous impairment losses	–	(59)
Provision for loss allowance recognized in profit or loss	634	–
As at 31 December	773	139

For the year ended 31 December 2020, the Group recovered previously written off receivables amounted to RMB121,550 thousands due to the liquidation of Zhejiang Jin Yong Acrylic Fiber Company Limited, a former subsidiary of the Group (2019: Nil).

As at 31 December 2020 and 31 December 2019, no trade receivable was pledged as collateral.

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

(b) Cash and cash equivalents

	As at 31 December	
	2020 RMB'000	2019 RMB'000
Cash deposits with a related party (i)	5,667	67,015
Cash at bank and on hand	6,910,741	7,382,684
	6,916,408	7,449,699

(i) Cash deposits with a related party were cash deposits at Sinopec Finance Company Limited ("Sinopec Finance"), which is a financial institution.

22 Financial assets and financial liabilities *(continued)*

(c) Time deposits with banks

	As at 31 December	
	2020 RMB'000	2019 RMB'000
Time deposits with banks within one year	4,049,443	1,508,839
Time deposits with banks above one year	7,042,840	3,511,234
	11,092,283	5,020,073

As at 31 December 2020, interest rates of time deposits with banks within one year ranged from 3.15% to 4.10% per annum (31 December 2019: 3.95% to 4.10% per annum), which were presented as current assets. Time deposits with banks above one year were time deposits of three years with the interest rates from 3.85% to 4.20% per annum, which were presented as non-current assets in the balance sheet (31 December 2019: 4.13% to 4.18% per annum).

(d) Financial assets at fair value through other comprehensive income

	As at 31 December	
	2020 RMB'000	2019 RMB'000
Trade and bill receivables (i)	1,207,114	1,540,921
Equity investments (ii)	5,000	5,000
	1,212,114	1,545,921

(i) As at 31 December 2020, certain trade receivables and bills receivable were classified as financial assets at FVOCI, as the Group's business model is achieved both by collecting contractual cash flows and selling of these assets.

(ii) In July 2019, Toufa invested RMB5,000 thousands in Shanghai Carbon Fiber Composites Innovation Research Institute Co. Ltd to acquire 16.67% of its share.

22 Financial assets and financial liabilities *(continued)*

(e) Financial assets at fair value through profit or loss

	As at 31 December	
	2020	2019
	RMB'000	RMB'000
Structured deposits	–	3,318,407

As at 31 December 2019, financial assets at fair value through profit or loss are mainly structured deposits with banks, which are presented as current assets since they are expected to be collected within 6 months from the end of the reporting period.

(f) Borrowings

	As at 31 December	
	2020	2019
	RMB'000	RMB'000
Credit loans due within one year		
– Short term bank loans	1,548,000	1,547,600

The weighted average interest rate for the Group's borrowings was 2.79% for the year ended 31 December 2020 (2019: 3.35%).

As at 31 December 2020, no borrowings were secured by property, plant and equipment (31 December 2019: Nil).

22 Financial assets and financial liabilities *(continued)*

(g) Short-term bonds

	As at 31 December	
	2020	2019
	RMB'000	RMB'000
Short-term bonds	3,017,811	–

In August 2020, the Company issued 169-day short-term bonds of face value RMB3,000,000 thousands to institutional investors in inter-bank bond market. The effective yield of the short-term bonds is 1.70% per annum.

(h) Trade and other payables

	As at 31 December	
	2020	2019
	RMB'000	RMB'000
Trade payables	1,294,138	2,142,402
Bills payables	26,196	673,900
Amounts due to related parties excluded contract liabilities	3,655,724	5,708,394
	4,976,058	8,524,696
Interest payable	1,246	1,686
Dividends payable	29,522	29,144
Construction payable	299,205	277,184
Other liabilities	1,169,776	439,119
	1,499,749	747,133
	6,475,807	9,271,829

As at 31 December 2020 and 31 December 2019, all trade and other payables of the Group were non-interest bearing, and their fair value approximated their carrying amounts due to their short maturities.

22 Financial assets and financial liabilities *(continued)*

(h) Trade and other payables *(continued)*

Majority of amount due to related parties were trade payable for purchasing crude oil from related parties.

As at 31 December 2020 and 31 December 2019, the ageing analysis of the trade payables (including bills payables and amounts due to related parties with trading nature) based on invoice date was as follows:

	As at 31 December	
	2020 RMB'000	2019 RMB'000
Within one year	4,973,711	8,509,327
Between one and two years	1,973	11,209
Over two years	374	4,160
	4,976,058	8,524,696

23 Other current assets

	2020 RMB'000	2019 RMB'000
Prepayments	19,552	23,767
Prepayments due from related parties	26,777	44,806
	46,329	68,573

For the year ended 31 December 2020

24 Contract liabilities

	2020 RMB'000	2019 RMB'000
Contract liabilities	495,404	655,117

The contract liabilities of the Group are advance for goods from customers. Revenue amounted to RMB579,750 thousands has been recognized in the current year relates to carried – forward contract liabilities (2019: RMB446,702 thousands).

25 Deferred income

	2020 RMB'000	2019 RMB'000
As at 1 January	10,005	10,442
Additions	3,865	–
Amortization	(437)	(437)
As at 31 December	13,433	10,005

26 Share capital

	Ordinary A shares listed in PRC RMB'000	Foreign invested H shares listed overseas RMB'000	Total RMB'000
As at 31 December 2020 and 31 December 2019	7,328,814	3,495,000	10,823,814

27 Reserves

	Legal surplus RMB'000	Capital surplus RMB'000	Surplus reserve RMB'000	Other reserve RMB'000	Hedging RMB'000	Share premium RMB'000	Safety production fund RMB'000	Retained earnings RMB'000	Total RMB'000
Balance at 1 January 2019	4,072,476	13,739	101,355	10,389	–	106,846	57,135	15,160,309	19,522,249
Net profit attributable to shareholders of the Company	–	–	–	–	–	–	–	2,215,728	2,215,728
Dividends proposed and approved	–	–	–	–	–	–	–	(2,705,952)	(2,705,952)
Appropriation of safety production fund	–	–	–	–	–	–	2	(2)	–
Share of other comprehensive loss of investments accounted for using the equity method	–	–	–	7,449	–	–	–	–	7,449
Balance at 31 December 2019	4,072,476	13,739	101,355	17,838	–	106,846	57,137	14,670,083	19,039,474
Net profit attributable to shareholders of the Company	–	–	–	–	–	–	–	645,072	645,072
Dividends proposed and approved	–	–	–	–	–	–	–	(1,298,858)	(1,298,858)
Appropriation of safety production fund	–	–	–	–	–	–	88,460	(88,460)	–
Change in fair value of hedging instruments	–	–	–	–	(63,840)	–	–	–	(63,840)
Reclassified to cost of inventory	–	–	–	–	63,840	–	–	–	63,840
Share of other comprehensive income of investments accounted for using the equity method	–	–	–	(11,512)	–	–	–	–	(11,512)
Balance at 31 December 2020	4,072,476	13,739	101,355	6,326	–	106,846	145,597	13,927,837	18,374,176

For the year ended 31 December 2020

28 Related party transactions

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

Names of related parties	Relationship with the Company
Sinopec Group	Ultimate parent company
JYJC	Joint venture of the Group
BOC	Joint venture of the Group
Yangu Gas	Joint venture of the Group
Azbil	Associate of the Group
Chemical Industry	Associate of the Group
Jinsen	Associate of the Group
Secco	Associate of the Group
Shanghai Chemical Industry Park Logistics Company Limited	Associate of the Group
Shanghai Jinhuan Petroleum Naphthalene Development Company Limited	Associate of the Group
Shanghai Nam Kwong Petro-Chemical Company Limited	Associate of the Group
Shidian Energy	Associate of the Group
Pinghu Port	Associate of the Group
Anqing Refinery Shuguang Oxo Company Limited	Subsidiary of the immediate parent company
BASF Gao-Qiao Performance Chemicals (Shanghai) 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 (Nanjing) Company Limited	Subsidiary of the immediate parent company
China Petrochemical International Beijing Company Limited	Subsidiary of the immediate parent company
China Petrochemical International Ningbo Company Limited	Subsidiary of the immediate parent company
China Petrochemical International Shanghai Company Limited	Subsidiary of the immediate parent company
China Petrochemical International Tianjin Company Limited	Subsidiary of the immediate parent company
China Petrochemical International Wuhan Company Limited	Subsidiary of the immediate parent company

28 Related party transactions *(continued)*

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

Names of related parties	Relationship with the Company
China Petrochemical Technology Company Limited	Subsidiary of the immediate parent company
China Yanshan United Foreign Trade Co., Ltd.	Subsidiary of the immediate parent company
Dalian Frip Science and Technology Company Limited	Subsidiary of the immediate parent company
Epec Commercial Factoring Company Limited	Subsidiary of the immediate parent company
Epec E-commerce Co., Ltd.	Subsidiary of the immediate parent company
Fujian Gulei Petrochemical Company Limited	Subsidiary of the immediate parent company
Fujian Refining & Petrochemical Company Limited (FREP)	Subsidiary of the immediate parent company
Nanjing Yangzi Petrochemical Rubber Company Limited	Subsidiary of the immediate parent company
Ningbo Minggang Gas Company Limited	Subsidiary of the immediate parent company
Ningbo Eastsea Linefan Technology Company Limited	Subsidiary of the immediate parent company
Petro-CyberWorks Information Technology Company Limited	Subsidiary of the immediate parent company
Qingdao Sinosun Management System Certification Center Company Limited	Subsidiary of the immediate parent company
Rizhao Shihua Crude Oil Terminal Co., Ltd.	Subsidiary of the immediate parent company
Shanghai Jinshan Trading Corporation	Subsidiary of the immediate parent company
Shanghai KSD Bulk Solids Engineering Company Limited	Subsidiary of the immediate parent company
Shanghai Leader Catalyst Company Limited	Subsidiary of the immediate parent company
Shengli Oil Field Exploration And Development Research Institute	Subsidiary of the immediate parent company
Sinopec Baling Petrochemical Co., Ltd.	Subsidiary of the immediate parent company
Sinopec Beijing Research Institute of Chemical Industry	Subsidiary of the immediate parent company
Sinopec Catalyst Company Limited	Subsidiary of the immediate parent company
Sinopec Chemical Commercial Holding (Hong Kong) Company Limited	Subsidiary of the immediate parent company
Sinopec Chemical Commercial Holding Company Limited	Subsidiary of the immediate parent company

28 Related party transactions *(continued)*

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

Names of related parties	Relationship with the Company
Sinopec Chemical Sales (Guangdong) Co., Ltd.	Subsidiary of the immediate parent company
Sinopec Dalian (Fushun) Research Institute of Petroleum and Petrochemicals	Subsidiary of the immediate parent company
Sinopec Europe Company Limited	Subsidiary of the immediate parent company
Sinopec Fuel Oil Sales Co., Ltd.	Subsidiary of the immediate parent company
Sinopec Honeywell (Tianjin) Company Limited	Subsidiary of the immediate parent company
Sinopec International (Singapore) Pte. Ltd.	Subsidiary of the immediate parent company
Sinopec Japan Company Limited	Subsidiary of the immediate parent company
Sinopec Lubricant Co., Ltd. Shanghai Research Institute	Subsidiary of the immediate parent company
Sinopec Lubricating Oil Shanghai Research Institute Company Limited	Subsidiary of the immediate parent company
Sinopec Materials & Equipment (East China) Company Limited	Subsidiary of the immediate parent company
Sinopec Nanguang (Shanghai) Industrial Co., Ltd.	Subsidiary of the immediate parent company
Sinopec Petroleum Sales Co., Ltd.	Subsidiary of the immediate parent company
Sinopec Refinery Product Sales Company Limited	Subsidiary of the immediate parent company
Sinopec Research Institute of Petroleum Processing	Subsidiary of the immediate parent company
Sinopec Safety Engineering Institute	Subsidiary of the immediate parent company
Sinopec Sales Co., Ltd.	Subsidiary of the immediate parent company
Sinopec Shanghai Research Institute of Petrochemical Technology	Subsidiary of the immediate parent company
Sinopec Shanghai Gaoqiao Petrochemical Company Limited	Subsidiary of the immediate parent company
Sinopec Yangzi Petrochemical Company Limited	Subsidiary of the immediate parent company
Sinopec Yizheng Chemical Fibre Company Limited	Subsidiary of the immediate parent company
Sinopec Zhongyuan Petrol-Chemical Industry Co., Ltd.	Subsidiary of the immediate parent company
Sinopec International Company Limited	Subsidiary of the immediate parent company
Sinopec Nanjing Valve Supply Reserve Centers	Subsidiary of the immediate parent company
Sinopec Qingdao Refining&Chemical Company Limited	Subsidiary of the immediate parent company
Storage And Transportation Installation Company of Ningbo Engineering Company Limited	Subsidiary of the immediate parent company

28 Related party transactions *(continued)*

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

Names of related parties	Relationship with the Company
Unipec (Ningbo) International Logistics Company Limited	Subsidiary of the immediate parent company
Unipec (Qingdao) International Logistics Company Limited	Subsidiary of the immediate parent company
Unipec America, Inc	Subsidiary of the immediate parent company
Unipec Singapore	Subsidiary of the immediate parent company
Zhoushan Shihua Crude Oil Terminal Company Limited	Subsidiary of the immediate parent company
BASF-YPC Company Limited	Joint venture of the immediate parent company
Zhejiang Baling Hengyi Caprolactam Limited Company	Joint venture of the immediate parent company
Shanghai Changshi Shipping Co., Ltd.	Subsidiary of the ultimate parent company
Beijing Petrochemical Engineering Consulting Company Limited	Subsidiary of the ultimate parent company
Beijing Shihua Hotel	Subsidiary of the ultimate parent company
Beijing Victory Hotel Company Limited	Subsidiary of the ultimate parent company
China Petrochemical Press Company Limited	Subsidiary of the ultimate parent company
Jiangsu Jinling Opta Polymer Company Limited	Subsidiary of the ultimate parent company
National Petrochemical Project Risk Assessment Technology Center	Subsidiary of the ultimate parent company
Petrochemical Engineering Quality Supervision Centre	Subsidiary of the ultimate parent company
Shanghai Petrochemical Machinery Manufacture Limited Company	Subsidiary of the ultimate parent company
Shanghai Petrochemical Seawall Management Office	Subsidiary of the ultimate parent company
Shanghai Sanopec Company Limited	Subsidiary of the ultimate parent company
Sinopec Consulting Company Limited	Subsidiary of the ultimate parent company
Sinopec Economics & Development Research Institute	Subsidiary of the ultimate parent company
Sinopec Energy Saving Technology Service Company Limited	Subsidiary of the ultimate parent company
Sinopec Engineering Incorporation	Subsidiary of the ultimate parent company
Sinopec Finance	Subsidiary of the ultimate parent company
Sinopec Group Shanghai Training Center	Subsidiary of the ultimate parent company

28 Related party transactions *(continued)*

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

Names of related parties	Relationship with the Company
Sinopec International Travel Service Company Limited	Subsidiary of the ultimate parent company
Sinopec Luoyang Engineering Company Limited	Subsidiary of the ultimate parent company
Sinopec Management Institute	Subsidiary of the ultimate parent company
Sinopec Nanjing Chemical Industries Company Limited	Subsidiary of the ultimate parent company
Sinopec Nanjing Engineering Company Limited	Subsidiary of the ultimate parent company
Sinopec News	Subsidiary of the ultimate parent company
Sinopec Ningbo Engineering Company Limited	Subsidiary of the ultimate parent company
Sinopec Petroleum Commercial Reserve Company Limited	Subsidiary of the ultimate parent company
Sinopec Shanghai Engineering Company Limited	Subsidiary of the ultimate parent company
Sinopec Shared Services Company Limited	Subsidiary of the ultimate parent company
Sinopec Tendering Company Limited	Subsidiary of the ultimate parent company
Sinopec Zhongyuan Oilfield	Subsidiary of the ultimate parent company
Sinopec (Shenzhen) E-Commerce Company Limited	Subsidiary of the ultimate parent company
The Fifth Construction Company of Sinopec	Subsidiary of the ultimate parent company
The Fourth Construction Company of Sinopec	Subsidiary of the ultimate parent company
The Tenth Construction Company of Sinopec	Subsidiary of the ultimate parent company
Yihua Tory Polyester Film Company Limited	Subsidiary of the ultimate parent company
Shaoxing Huabin Petrochemical Co., Ltd.	Subsidiary of the ultimate parent company
Petrochemical Management Cadre College	Subsidiary of the ultimate parent company
Zhongan United Coal Chemical Co., Ltd.	Subsidiary of the ultimate parent company
China Economicbooks Co., Ltd.	Subsidiary of the ultimate parent company
Sinopec Shengli Petroleum Administration Co., Ltd.	Subsidiary of the ultimate parent company
Sinopec Beijing Yanshan Petrochemical Co., Ltd.	Subsidiary of the ultimate parent company
Sinopec Group Jiangsu Petroleum Exploration Bureau Co., Ltd. Yangzhou Science and Industry Lianchuang Branch	Subsidiary of the ultimate parent company
Sinopec Group Baichuan Economic and Trade Co., Ltd.	Subsidiary of the ultimate parent company
Sinopec Group Economic and Technology Research Institute Co., Ltd.	Subsidiary of the ultimate parent company
Sinopec Group Asset Management Co., Ltd.	Subsidiary of the ultimate parent company
Sinopec Nanjing Research Institute of Chemical Industry Co., Ltd	Subsidiary of the ultimate parent company
China Petrochemical Corp. Engineering Ration Management Station	Subsidiary of the ultimate parent company
Sinopec Guangzhou Engineering Co., Ltd.	Subsidiary of the ultimate parent company
Sinopec Petroleum Engineering Geophysics Ltd.	Subsidiary of the ultimate parent company
Beijing Yanshan Petrochemical Special Equipment Inspection Co., Ltd.	Subsidiary of the ultimate parent company

28 Related party transactions *(continued)*

The following is a summary of significant balances and transactions between the Group and its related parties except for the dividends received as disclosed in the forgoing Note 20.

(a) Most of the transactions undertaken by the Group during the year ended 31 December 2020 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 Group 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 were as follows:

	2020 RMB'000	2019 RMB'000
Sales of petroleum products	39,879,549	50,354,162
Sales other than petroleum products	6,790,568	8,642,514
Purchases of crude oil	27,934,926	43,886,966
Purchases other than crude oil	9,937,862	9,579,239
Sales commissions	104,598	125,619
Rental income	32,829	31,972

28 Related party transactions *(continued)*

(b) Other transactions between the Group and Sinopec Group and its subsidiaries, associates and joint ventures of the Group were as follows:

	2020 RMB'000	2019 RMB'000
Sales of goods and service fee income		
– Sinopec Group and its subsidiaries	14,870	7,724
– Associates and joint ventures of the Group	2,019,997	2,843,909
	2,034,867	2,851,633
Purchase		
– Sinopec Group and its subsidiaries	832,617	1,918,873
– Associates and joint ventures of the Group	3,648,664	4,579,969
	4,481,281	6,498,842
Insurance premiums expenses		
– Sinopec Group and its subsidiaries	107,495	108,223
Depreciation of right-of-use assets		
– Sinopec Group and its subsidiaries	9,388	80,552
– Joint ventures of the Group	155	88
	9,543	80,640
Interest expense of lease liabilities		
– Sinopec Group and its subsidiaries	205	2,285
– Joint ventures of the Group	8	19
	213	2,304
Interest income		
– Sinopec Finance	2,088	1,295
Construction and installation cost		
– Sinopec Group and its subsidiaries	233,591	143,560
Rental income		
– Associates and joint ventures of the Group	15,577	11,370
– Sinopec Group and its subsidiaries	464	461
	16,041	11,831

28 Related party transactions *(continued)*

(b) Other transactions between the Group and Sinopec Group and its subsidiaries, associates and joint ventures of the Group were as follows *(continued)*:

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 Note 28(a) and 28(b) were conducted in the ordinary course of business, on normal commercial terms and in accordance with the agreements governing such transactions.

(c) The relevant amounts due from/to Sinopec Corp., its subsidiaries and joint venture, Sinopec Group and its subsidiaries, associates and joint ventures of the Group, arising from purchases, sales and other transactions as disclosed in Note 28(a) and 28(b), are summarized as follows:

	As at 31 December	
	2020 RMB'000	2019 RMB'000
Amounts due from related parties		
– Sinopec Corp., its subsidiaries and joint ventures	1,054,127	1,505,836
– Associates and joint ventures of the Group	38,189	60,157
	1,092,316	1,565,993
Amounts due to related parties		
– Sinopec Corp., its subsidiaries and joint ventures	2,505,532	4,756,382
– Associates and joint ventures of the Group	889,035	749,459
– Sinopec Group and its subsidiaries	262,274	202,553
	3,656,841	5,708,394
Lease liabilities		
– Sinopec Group and its subsidiaries	8,453	15,571
– Joint ventures of the Group	574	698
	9,027	16,269
Cash deposits, maturing within 3 months		
– Sinopec Finance	5,667	67,015

28 Related party transactions *(continued)*

(d) As at 31 December 2020 and 31 December 2019, cash deposits with Sinopec Finance were at an interest rate of 0.35% per annum.

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

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

	Year ended 31 December	
	2020	2019
	RMB'000	RMB'000
Short-term employee benefits	9,859	9,120
Post-employment benefits	441	225
	10,300	9,345

(f) Contributions to defined contribution retirement plans

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

	Year ended 31 December	
	2020	2019
	RMB'000	RMB'000
Municipal retirement scheme costs	199,196	258,328
Supplementary retirement scheme costs	142,877	125,370

As at 31 December 2020 and 31 December 2019, there was no material outstanding contribution to the above defined contribution retirement plans.

28 Related party transactions *(continued)*

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

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

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

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

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.

(h) Commitments with related parties

Construction and installation cost

	As at 31 December	
	2020 RMB’000	2019 RMB’000
Sinopec Group and its subsidiaries	145,959	156,309

28 Related party transactions *(continued)*

(i) Investment commitments with related parties

	As at 31 December	
	2020	2019
	RMB'000	RMB'000
Capital contribution to Shanghai Secco (i)	111,263	111,263
Capital contribution to Shidian Energy (ii)	80,000	80,000
	191,263	191,263

(i) Pursuant to the resolution of the 18th meeting of the 7th term of Board of Directors on 5 December 2013, the Group was approved to make capital contribution of USD30,017 thousands (RMB182,804 thousands equivalent) to Shanghai Secco, an associate of the Group. As at 31 December 2020, the Company has contributed RMB71,541 thousands to Shanghai Secco.

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.

(ii) Pursuant to the articles of association of Shidian Energy in August 2019, Toufa agreed to make capital contribution of RMB400,000 thousands to acquire 40% share of Shidian Energy. As at 31 December 2020, Toufa has contributed RMB320,000 thousands to Shidian Energy, and the rest of the capital contribution to Shidian Energy should be paid before January 2022 in accordance with the agreement.

Except for the above disclosed in Note 28(h) and 28(i), the Group had no other material commitments with related parties as at 31 December 2020, which are contracted, but not included in the financial statements.

29 Dividend

An annual dividend in respect of the year ended 31 December 2020 of RMB0.1 per share, amounting to a total dividend of RMB1,082,381 thousands, was approved by the Board of Directors on 24 March 2021. This financial statement has not reflected such dividend payable.

An annual dividend in respect of the year ended 31 December 2019 of RMB0.12 per share, amounting to a total dividend of RMB1,298,858 thousands, was approved by the Board of Directors on 25 March 2020.

30 Cash generated from operations

Reconciliation of profit before income tax to cash used in operation:

	Year ended 31 December	
	2020 RMB'000	2019 RMB'000
Profit before income tax	590,778	2,656,128
Adjustment items:		
Interest income	(339,505)	(398,176)
Share of profit of investments accounted for using the equity method	(724,740)	(972,593)
Losses on disposal of subsidiary	–	60,951
Net losses on foreign exchange option contracts	376	12,315
Gains from structured deposits	(114,283)	(85,444)
Payments for sale of FVOCI	9,513	19,513
Interest expense	64,169	53,784
Foreign exchange losses/(gains)	5,514	(18,571)
Depreciation of property, plant and equipment	1,553,039	1,507,804
Depreciation of investment property	15,184	14,694
Depreciation of right-of-use assets	32,653	101,998
Amortization of other non-current assets	226,263	214,292
Impairment loss on property, plant, equipment and construction in progress	87,570	486
Losses/(gains) on disposal of property, plant and equipment and other long-term assets-net	1,212	(158,551)
Profit on operation before change of working capital	1,407,743	3,008,630
Decrease in inventories	2,865,687	1,366,441
Decrease/(increase) in operation receivables	308,333	(92,354)
Decrease in operation payables	(1,008,800)	(487,877)
(Decrease)/increase in balances to related parties – net	(1,577,876)	1,860,836
Cash generated from operating activities	1,995,087	5,655,676

30 Cash generated from operations *(continued)*

(a) Reconciliation of liabilities arising from financing activities

	Borrowings	Lease liabilities	Short-term bonds	Total
	RMB'000	RMB'000	RMB'000	RMB'000
As at 31 December 2018	497,249	76,731	–	573,980
Financing cash flows	1,059,892	(89,124)	–	970,768
Addition of lease liabilities	–	34,436	–	34,436
Foreign exchange movements	(9,541)	–	–	(9,541)
As at 31 December 2019	1,547,600	22,043	–	1,569,643
Financing cash flows	(2,456)	(15,586)	2,998,469	2,980,427
Addition of lease liabilities	–	6,014	–	6,014
Foreign exchange movements	2,856	–	–	2,856
As at 31 December 2020	1,548,000	12,471	2,998,469	4,558,940

(b) In the statement of cash flows, proceeds from sale of property, plant and equipment comprise:

	2020	2019
	RMB'000	RMB'000
Net book amount	60,854	23,113
(Gains)/losses on disposal of property, plant and equipment – net	(1,212)	44,390
Net proceeds from disposal of property, plant and equipment	59,642	67,503

30 Cash generated from operations *(continued)*

(c) Non-cash investing activities

	2020 RMB'000	2019 RMB'000
Purchase of non-current assets settled by bills	65,800	73,812

31 Commitments

Capital commitments

	As at 31 December	
	2020 RMB'000	2019 RMB'000
Property, plant and equipment		
Contracted but not provided for	585,870	247,220

32 Subsequent event

A dividend in respect of the year ended 31 December 2020 of RMB0.1 per share, amounting to a total dividend of RMB1,082,381 thousands, was proposed by the Board of Directors on 24 March 2021.

For the year ended 31 December 2020

33 Balance sheet and reserve movement of the Company

	As at 31 December 2020 RMB'000	As at 31 December 2019 RMB'000
Assets		
Non-current assets		
Property, plant and equipment	11,279,484	11,101,389
Right-of-use assets	296,371	319,434
Investment properties	396,676	397,573
Construction in progress	1,694,937	1,814,985
Investments in subsidiaries	2,048,328	1,848,328
Investments accounted for using the equity method	4,594,451	4,476,683
Deferred tax assets	238,040	138,648
Time deposits with banks	7,042,840	3,511,234
Other non-current assets	402,304	455,391
	27,993,431	24,063,665
Current assets		
Inventories	3,685,456	6,368,389
Financial assets at fair value through other comprehensive income	735,262	669,889
Financial assets at fair value through profit or loss	–	3,318,407
Trade receivables	1,484	2,114
Other receivables	6,447	12,627
Prepayments	6,559	3,099
Amounts due from related parties	975,952	1,354,793
Cash and cash equivalents	5,460,067	5,754,440
Time deposits with banks	4,049,441	1,508,839
	14,920,668	18,992,597
Total assets	42,914,099	43,056,262

33 Balance sheet and reserve movement of the Company *(continued)*

	As at 31 December 2020 RMB'000	As at 31 December 2019 RMB'000
Equity and liabilities		
Equity attributable to owners of the Company		
Share capital	10,823,814	10,823,814
Reserves (a)	17,697,677	18,620,152
Total equity	28,521,491	29,443,966
Liabilities		
Non-current liabilities		
Lease liabilities	1,911	8,860
Deferred income	13,433	10,005
	15,344	18,865
Current liabilities		
Borrowings	1,500,000	1,500,000
Short-term bonds	3,017,811	–
Lease liabilities	7,897	10,059
Contract liabilities	423,838	597,688
Trade and other payables	2,287,762	2,420,912
Amounts due to related parties	3,507,497	5,104,639
Current tax liabilities	3,392,922	3,558,441
Staff salaries and welfares payable	239,537	183,912
Income tax payable	–	217,780
	14,377,264	13,593,431
Total liabilities	14,392,608	13,612,296
Total equity and liabilities	42,914,099	43,056,262

The balance sheet of the Company was approved by the Board of Directors on 24 March 2021 and were signed on its behalf.

Wu Haijun
Chairman

Du Jun
Vice General Manager and Chief Financial Officer

33 Balance sheet and reserve movement of the Company *(continued)*

(a) Reserve movement of the Company

	Legal Surplus RMB'000	Capital surplus RMB'000	Surplus reserve RMB'000	Other reserve RMB'000	Hedging RMB'000	Share premium RMB'000	Safety production fund RMB'000	Retained earnings RMB'000	Total RMB'000
Balance at 1 January 2019	4,072,476	4,180	101,355	10,389	–	106,846	57,135	14,965,864	19,318,245
Net profit attributable to shareholders of the Company	–	–	–	–	–	–	–	2,000,410	2,000,410
Dividends proposed and approved	–	–	–	–	–	–	–	(2,705,952)	(2,705,952)
Share of other comprehensive income of investments accounted for using the equity method	–	–	–	7,449	–	–	–	–	7,449
Balance at 31 December 2019	4,072,476	4,180	101,355	17,838	–	106,846	57,135	14,260,322	18,620,152
Net profit attributable to shareholders of the Company	–	–	–	–	–	–	–	387,895	387,895
Dividends proposed and approved	–	–	–	–	–	–	–	(1,298,858)	(1,298,858)
Appropriation of safety production fund	–	–	–	–	–	–	88,462	(88,462)	–
Change in fair value of hedging instruments	–	–	–	–	(63,840)	–	–	–	(63,840)
Reclassified to cost of inventory	–	–	–	–	63,840	–	–	–	63,840
Share of other comprehensive income of investments accounted for using the equity method	–	–	–	(11,512)	–	–	–	–	(11,512)
Balance at 31 December 2020	4,072,476	4,180	101,355	6,326	–	106,846	145,597	13,260,897	17,697,677

34 Benefits and interests of directors and supervisors

(i) Directors' and supervisors' emoluments:

	2020				
	Salaries and other benefits RMB'000	Retirement scheme contributions RMB'000	Discretionary bonus RMB'000	Fees RMB'000	Total RMB'000
Executive Directors					
Wu Haijun	359	44	799	–	1,202
Guan Zemin (a)	367	41	397	–	805
Jin Qiang	354	44	716	–	1,114
Jin Wenmin	250	44	721	–	1,015
Huang Xiangyu (b)	275	39	440	–	754
Huang Fei (c)	217	39	426	–	682
Zhou Meiyun (d)	181	33	668	–	882
Non-executive directors					
Xie Zhenglin (e)	–	–	–	–	–
Peng Kun (f)	96	25	246	–	367
Independent non-executive directors					
Li Yuanqin	–	–	–	150	150
Tang Song (g)	–	–	–	75	75
Chen Haifeng (h)	–	–	–	75	75
Yang Jun (i)	–	–	–	75	75
Gao Song (j)	–	–	–	75	75
Zhang Yimin (k)	–	–	–	75	75
Liu Yunhong (l)	–	–	–	75	75
Du Weifeng (m)	–	–	–	75	75
Supervisors					
Ma Yanhui	332	42	720	–	1,094
Zhang Feng	148	40	485	–	673
Chen Hongjun	159	38	485	–	682
Zheng Yunrui	100	–	–	–	100
Cai Tingji	100	–	–	–	100
	2,958	429	6,103	675	10,145

34 Benefits and interests of directors and supervisors

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

(a) Appointed in February 2020.

(b) Appointed in June 2020.

(c) Appointed in June 2020.

(d) Resigned in September 2020.

(e) Appointed in June 2020.

(f) Appointed in June 2020.

(g) Appointed in June 2020.

(h) Appointed in June 2020.

(i) Appointed in June 2020.

(j) Appointed in June 2020.

(k) Resigned in June 2020.

(l) Resigned in June 2020.

(m) Resigned in June 2020.

34 Benefits and interests of directors and supervisors *(continued)*

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

	2019				
	Salaries and other benefits RMB'000	Retirement scheme contributions RMB'000	Discretionary bonus RMB'000	Fees RMB'000	Total RMB'000
Executive Directors					
Wu Haijun	343	26	557	–	926
Shi Wei (a)	329	26	797	–	1,152
Jin Qiang	289	26	745	–	1,060
Guo Xiaojun (b)	283	26	751	–	1,060
Zhou Meiyun	248	26	709	–	983
Jin Wenmin	260	26	721	–	1,007
Independent non- executive directors					
Zhang Yimin	–	–	–	150	150
Liu Yunhong	–	–	–	150	150
Du Weifeng	–	–	–	150	150
Li Yuanqin	–	–	–	150	150
Supervisors					
Ma Yanhui	267	22	685	–	974
Zuo Qiang (c)	102	15	324	–	441
Li Xiaoxia (d)	102	14	529	–	645
Zhang Feng (e)	31	9	107	–	147
Chen Hongjun (f)	34	9	110	–	153
Zheng Yunrui	100	–	–	–	100
Cai Tingji	100	–	–	–	100
	2,488	225	6,035	600	9,348

34 Benefits and interests of directors and supervisors *(continued)*

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

(a) Resigned in December 2019.

(b) Resigned in December 2019.

(c) Resigned in September 2019.

(d) Resigned in September 2019.

(e) Appointed in October 2019.

(f) Appointed in October 2019.

(ii) Directors' retirement benefits

No specific retirement benefits were paid to directors in respect of services in connection with the management of the affairs of the company or its subsidiary undertaking (2019: Nil).

(iii) Directors' material interests in transactions, arrangements or contracts

No significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

普華永道

PwC ZT Shen Zi (2021) No. 10008
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To the Shareholders of Sinopec Shanghai Petrochemical Company Limited,
(Incorporated in the People's Republic of China with limited liability)

Opinion

What we have audited

We have audited the accompanying financial statements of Sinopec Shanghai Petrochemical Company Limited (hereinafter "SPC"), which comprise:

- the consolidated and company balance sheets as at 31 December 2020;
- the consolidated and company income statements for the year then ended;
- the consolidated and company cash flow statements for the year then ended;
- the consolidated and company statements of changes in shareholders' equity for the year then ended;
- notes to the financial statements.

Our opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated and company's financial position of SPC as at 31 December 2020, and their financial performance and cash flows for the year then ended in accordance with the requirements of Accounting Standards for Business Enterprises ("CASs").

Basis for Opinion

We conducted our audit in accordance with China Standards on Auditing ("CSAs"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are independent of SPC in accordance with the Code of Ethics for Professional Accountants of the Chinese Institute of Certified Public Accountants ("CICPA Code"), and we have fulfilled our other ethical responsibilities in accordance with the CICPA Code.

pwc 普華永道

PwC ZT Shen Zi (2021) No. 10008

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Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter identified in our audit was related to net realizable value ("NRV") of raw materials, work in progress and finished goods:

Key Audit Matter	How our audit addressed the Key Audit Matter
NRV of material, work in progress and finished goods Refer to Notes 2.10 "Inventories", 2.31 "Critical accounting estimates and assumptions" and 4.8 "Inventories" to the consolidated financial statements. The Group is principally engaged in processing of crude oil into petroleum products and other chemical products. The crude oil can be processed into various finished goods by different processing procedures. Inventories are valued at the lower of cost and NRV. As at 31 December 2020, the gross balances of raw materials, work in progress and finished goods were RMB3,856,848thousand, against which provisions of RMB168,733 thousand were set aside. The NRV is determined based on the estimated selling prices less the estimated costs to completion, other costs necessary to make the sale, and the related taxes. Determination of estimated selling prices of work in progress and finished goods, estimated costs to completion, other costs necessary to make the sale and the related taxes requires significant management judgement, taking into consideration of historical information and future market trend. We focused on this area because of the magnitude of the amounts and the significance of management judgements involved.	We understood, evaluated and tested the controls over the determination of net realisable value of raw materials, work in progress and finished goods and assess the inherent risk of significant misstatement by considering the degree of uncertainty in estimation and the level of other inherent risk factors such as subjectivity and change. We evaluated and tested the controls over the determination of NRV of raw materials, work in progress and finished goods. We evaluated the estimates of selling price for work in progress and finished goods on a sample basis including: For work in progress and finished goods that had been sold after 31 December 2020, we compared on a sample basis the actual selling prices against the estimated selling prices. For work in progress and finished goods that had not been sold after 31 December 2020, if the selling prices were available in the domestic market, we performed independent research of the market price information and compared them against the estimated selling prices. if there were no selling prices available in the domestic market, we compared the estimated selling prices against the recent selling prices. We also independently evaluated the future market trend factors which management considered in determining the estimated selling prices, including possible changes in market supplies, customer demands, technology developments, the relevant State tariffs and the State's guidance prices by corroborating with public data or research information, checking subsequent outcomes of these factors and reference to our industry knowledge. We assessed the reasonableness and the accuracy of the estimated costs to completion, other costs necessary to make the sale and the related taxes by comparing with the historical costs to completion, other costs necessary to make the sale and the related taxes for the similar inventories. We found that management's judgements in determining the NRV were supported by the evidence we gathered.

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Other Information

The directors of SPC are responsible for the other information. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Directors and Those Charged with Governance for the Consolidated Financial Statements

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

In preparing the consolidated financial statements, the directors are responsible for assessing the SPC's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the SPC or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the SPC's financial reporting process.

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Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether these financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with CSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with CSAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the SPC's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the SPC to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the SPC to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the SPC audit. We remain solely responsible for our audit opinion.

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Auditor's Responsibilities for the Audit of the Consolidated Financial Statements *(countinued)*

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

PricewaterhouseCoopers Zhong Tian LLP

Signing CPA

Huang, Zhe Jun (Engagement Partner)

Signing CPA

Chen, Jiao Jiao

Shanghai, the People's Republic of China

24 March 2021

Consolidated and Company Balance Sheets

As at 31 December 2020
(All amounts in thousands of Renminbi Yuan unless otherwise stated)
[English Translation for Reference Only]

Assets	Note	31 December 2020 Consolidated	31 December 2019 Consolidated	31 December 2020 Company	31 December 2019 Company
Current Assets					
Cash at bank and on hand	4(1)	7,920,852	8,958,538	6,464,509	7,263,279
Derivative financial assets	4(2)	–	263	–	–
Financial assets at fair value through profit or loss	4(3), 13(1)	–	3,318,407	–	3,318,407
Accounts receivable	4(4), 13(2)	1,145,504	1,639,916	919,061	1,310,449
Financial assets at fair value through other comprehensive income	4(5)	1,217,114	1,540,921	745,262	669,889
Advances to suppliers	4(6)	33,741	56,602	30,972	47,547
Other receivables	4(7), 13(3)	41,299	28,111	26,932	14,637
Inventories	4(8)	3,888,746	6,754,434	3,685,456	6,368,389
Other current asset	4(9)	3,057,587	11,971	3,048,476	–
Total Current Assets		17,304,843	22,309,163	14,920,668	18,992,597
Non-Current Assets					
Long-term equity investments	4(10),13(4)	5,497,834	5,328,758	6,797,666	6,489,898
Other equity instrument investments		5,000	5,000	–	–
Investment properties	4(11)	367,586	367,468	396,676	397,573
Property, plant and equipment	4(12),13(5)	11,733,065	11,322,850	11,299,527	11,123,442
Construction in progress	4(13)	1,710,124	1,815,549	1,694,937	1,814,985
Right-of-use assets	4(14)	12,993	23,648	10,366	20,520
Intangible assets	4(15)	412,576	337,846	286,005	298,914
Long-term prepaid expenses	4(16)	410,191	463,780	402,304	455,391
Deferred tax assets	4(17)	252,121	150,832	238,040	138,648
Other non-current assets	4(18)	7,042,840	3,511,234	7,042,840	3,511,234
Total Non-current assets		27,444,330	23,326,965	28,168,361	24,250,605
Total assets		44,749,173	45,636,128	43,089,029	43,243,202

As at 31 December 2020
(All amounts in thousands of Renminbi Yuan unless otherwise stated)
[English Translation for Reference Only]

Liabilities & Equity	Note	31 December 2020 Consolidated	31 December 2019 Consolidated	31 December 2020 Company	31 December 2019 Company
Current Liabilities					
Short term borrowings	4(20)	1,548,000	1,547,600	1,500,000	1,500,000
Derivative financial liabilities	4(2)	–	799	–	–
Note payable	4(21)	139,360	733,900	96,196	715,000
Accounts payable	4(22)	4,671,635	7,664,296	3,892,330	5,951,568
Contract liabilities	4(23)	496,521	660,783	425,385	601,912
Employee benefits payable	4(24)	244,506	189,547	239,537	183,912
Taxes payable	4(25)	3,385,910	3,803,287	3,346,544	3,776,221
Other payable	4(26)	1,664,812	867,967	1,805,186	854,759
Non-current liabilities within one year	4(28)	9,352	11,450	7,897	10,059
Other current liabilities	4(27)	3,072,150	–	3,064,189	–
Total Current Liabilities		15,232,246	15,479,629	14,377,264	13,593,431
Non-Current Liabilities					
Lease liabilities	4(29)	3,119	10,593	1,911	8,860
Deferred revenue	4(30)	123,433	130,005	123,433	130,005
Deferred income tax	4(17)	35,357	–	–	–
Total Non-Current Liabilities		161,909	140,598	125,344	138,865
Total Liabilities		15,394,155	15,620,227	14,502,608	13,732,296
Equity					
Share capital	1, 4(31)	10,823,814	10,823,814	10,823,814	10,823,814
Capital surplus	4(32)	610,327	610,327	600,768	600,768
Other comprehensive income	4(33)	6,326	17,838	6,326	17,838
Specific reserve	4(34)	145,597	57,137	145,597	57,135
Surplus reserve	4(35)	6,474,103	6,437,010	6,474,103	6,437,010
Undistributed profits	4(36)	11,157,866	11,939,215	10,535,813	11,574,341
Total equity attributable to equity shareholders of the Company		29,218,033	29,885,341	28,586,421	29,510,906
Non-Controlling Interests	4(37)	136,985	130,560	–	–
Total Equity		29,355,018	30,015,901	28,586,421	29,510,906
Total Liabilities and Shareholders' Equity		44,749,173	45,636,128	43,089,029	43,243,202

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

Wu Haijun	**Du Jun**	**Yang Yating**
Chairman	*Director Chief Financial Officer and Vice General Manager*	*Accounting Chief*

Consolidated and Company Income Statements

For the year ended 31 December 2020
(All amounts in thousands of Renminbi Yuan unless otherwise stated)
[English Translation for Reference Only]

Items	Note	2020 Consolidated	2019 Consolidated	2020 Company	2019 Company
Revenue	4(38),13(6)	74,705,183	100,346,048	62,484,867	78,110,863
Less: Cost of sales	4(38),13(6)	59,089,119	83,781,040	47,199,995	61,858,808
Taxes and surcharges	4(39)	13,062,710	12,213,927	13,047,369	12,192,123
Selling and distribution expenses	4(40)	479,260	532,455	387,719	438,545
General and administrative expenses	4(41)	2,459,328	2,500,287	2,341,604	2,380,251
R&D expenses	4(42)	110,625	92,964	100,231	84,404
Finance income – net	4(43)	(337,459)	(348,181)	(307,334)	(311,456)
Including: finance expense		93,440	53,784	91,745	51,429
financial income		(431,228)	(398,176)	(399,403)	(363,282)
Other income	4(45)	60,859	63,826	56,470	60,325
Investment income	4(46),13(7)	837,005	953,661	762,335	972,758
Including: Share of profits of associates and joint ventures		714,740	962,593	625,402	899,926
(Losses)/gains from changes in fair values	4(47)	(17,871)	1,597	(18,407)	2,153
Net reversal of impairment losses on financial assets	4(48)	120,916	59	100,811	54
Asset impairment losses	4(49)	(308,458)	(70,664)	(304,348)	(70,248)
Gains on disposal of assets	4(50)	102,609	176,324	15,284	14,267
Operating profit		636,660	2,698,359	327,428	2,447,497
Add: Non-operating income	4(51)	16,209	20,507	14,125	14,509
Less: Non-operating expenses	4(52)	79,053	64,750	79,009	64,744
Total profit		573,816	2,654,116	262,544	2,397,262
Less: Income tax (benefits)/expenses	4(53)	(65,620)	428,963	(108,387)	398,862

For the year ended 31 December 2020
(All amounts in thousands of Renminbi Yuan unless otherwise stated)
[English Translation for Reference Only]

Items	Note	2020 Consolidated	2019 Consolidated	2020 Company	2019 Company
Net profit		639,436	2,225,153	370,931	1,998,400
Attributable to shareholders of the Company		628,110	2,213,716	–	–
Non-controlling interests		11,326	11,437	–	–
Profit from continuing operations		639,436	2,225,153	370,931	1,998,400
Profit from discontinued operations		–	–	–	–
Other comprehensive (loss)/income					
Items that may be reclassified to profit or loss					
Share of other comprehensive (loss)/income of associates and joint ventures accounted for using the equity method	4(33)	(11,512)	7,449	(11,512)	7,449
Total comprehensive income		627,924	2,232,602	359,419	2,005,849
Attributable to shareholders of the Company		616,598	2,221,165	–	–
Non-controlling interests		11,326	11,437	–	–
Earnings per share					
Basic earnings per share (RMB Yuan)	4(54)	0.058	0.205	–	–
Diluted earnings per share (RMB Yuan)	4(54)	0.058	0.205	–	–

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

Wu Haijun	**Du Jun**	**Yang Yating**
Chairman	*Director Chief Financial Officer and Vice General Manager*	*Accounting Chief*

Consolidated and Company Cash Flow Statements

For the year ended 31 December 2020
(All amounts in thousands of Renminbi Yuan unless otherwise stated)
[English Translation for Reference Only]

Items	Note	2020 Consolidated	2019 Consolidated	2020 Company	2019 Company
Cash flows generated from operating activities					
Cash received from sales of goods or rendering of services		82,393,263	110,126,469	69,043,869	86,465,346
Refund of taxes and surcharges		32,653	31,470	30,094	29,972
Cash received relating to other operating activities	4(55)	245,595	42,075	191,701	34,281
Sub-total of cash inflows		82,671,511	110,200,014	69,265,664	86,529,599
Cash paid for goods and services		(62,496,107)	(86,975,385)	(49,357,778)	(63,816,421)
Cash paid to and on behalf of employees		(3,078,075)	(3,092,019)	(2,899,936)	(2,911,994)
Payments of taxes and surcharges		(14,960,574)	(14,580,917)	(14,877,946)	(14,490,704)
Cash paid relating to other operating activities	4(55)	(385,538)	(430,484)	(192,855)	(437,534)
Sub-total of cash outflows		(80,920,294)	(105,078,805)	(67,328,515)	(81,656,653)
Net cash flows generated from operating activities	4(56),13(8)	1,751,217	5,121,209	1,937,149	4,872,946
Cash flows used in investing activities					
Cash received from returns on investments		561,755	594,868	516,221	544,358
Net cash received from disposal of fixed assets and other long-term assets		59,642	67,503	(38,176)	62,728
Cash received relating to other investing activities	4(55)	11,810,404	7,833,248	11,404,807	7,593,709
Sub-total of cash inflows		12,431,801	8,495,619	11,882,852	8,200,795
Cash paid to acquire fixed assets, intangible assets and other long-term assets		(1,840,986)	(1,430,411)	(1,832,005)	(1,421,904)
Cash received from acquisition of subsidiaries and other business units		(367,918)	(253,184)	(200,000)	(327,943)
Cash held by the Company on the day of loss of control		–	(404)	–	–
Cash paid relating to other investing activities	4(55)	(14,110,425)	(11,434,829)	(13,702,099)	(11,415,904)
Sub-total of cash outflows		(16,319,329)	(13,118,828)	(15,734,104)	(13,165,751)
Net cash flows used in investing activities		(3,887,528)	(4,623,209)	(3,851,252)	(4,964,956)

For the year ended 31 December 2020
(All amounts in thousands of Renminbi Yuan unless otherwise stated)
[English Translation for Reference Only]

Items	Note	2020 Consolidated	2019 Consolidated	2020 Company	2019 Company
Cash flows generated from/(used in) financing activities					
Cash received from borrowings		3,458,100	4,755,100	3,398,107	4,700,000
Cash received from short-terms bonds		2,998,469	–	2,998,469	–
Sub-total of cash inflows		6,456,569	4,755,100	6,396,576	4,700,000
Cash repayments of borrowings		(3,460,556)	(3,695,208)	(3,400,969)	(3,621,775)
Cash paid for distribution of dividends or profits and interest expenses		(1,370,006)	(2,771,560)	(1,363,200)	(2,764,402)
Including: Cash payments for dividends or profits to non-controlling shareholders of subsidiaries		(4,901)	(3,266)	–	–
Cash paid relating to other financing activities	4(55)	(15,586)	(89,124)	(12,677)	(86,386)
Sub-total of cash outflows		(4,846,148)	(6,555,892)	(4,776,846)	(6,472,563)
Net cash flows generated from/(used in) financing activities		1,610,421	(1,800,792)	1,619,730	(1,772,563)
Exchange (losses)/gains on cash and cash equivalents		(7,401)	10,598	–	–
Net decrease in cash and cash equivalents		(533,291)	(1,292,194)	(294,373)	(1,864,573)
Add: Cash and cash equivalents at beginning of the year	4(56),13(8)	7,449,699	8,741,893	5,754,440	7,619,013
Cash and cash equivalents at end of the year	4(56)	6,916,408	7,449,699	5,460,067	5,754,440

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

Wu Haijun	**Du Jun**	**Yang Yating**
Chairman	*Director Chief Financial Officer and Vice General Manager*	*Accounting Chief*

Consolidated Statement of Changes in Shareholders' Equity

For the year ended 31 December 2020
(All amounts in thousands of Renminbi Yuan unless otherwise stated)
[English Translation for Reference Only]

Items	Note	Share capital	Capital surplus	Other comprehensive income	Specific reserve	Surplus reserve	Undistributed profits	Non-controlling interests	Total equity
		Attributable to equity shareholders of the Company							
Balance at 31 December 2018		10,823,814	610,327	10,389	57,135	6,237,170	12,631,291	116,378	30,486,504
Movements for the year ended 31 December 2019									
Total comprehensive income									
Net profit for the year		–	–	–	–	–	2,213,716	11,437	2,225,153
Other comprehensive income	4(33)	–	–	7,449	–	–	–	–	7,449
Appropriation of profits									
Appropriation to surplus reserves	4(35)	–	–	–	–	199,840	(199,840)	–	–
Distributions to shareholders	4(36)	–	–	–	–	–	(2,705,952)	(3,266)	(2,709,218)
Specific reserve									
Accrued	4(34)	–	–	–	138,028	–	–	–	138,028
Utilised	4(34)	–	–	–	(138,026)	–	–	–	(138,026)
Equity change of minority shareholder		–	–	–	–	–	–	6,011	6,011
Balance at 31 December 2019		10,823,814	610,327	17,838	57,137	6,437,010	11,939,215	130,560	30,015,901

Items	Note	Share capital	Capital surplus	Other comprehensive income	Specific reserve	Surplus reserve	Undistributed profits	Non-controlling interests	Total equity
		Attributable to equity shareholders of the Company							
Movements for the year ended 31 December 2020									
Total comprehensive income									
Net profit for the year		–	–	–	–	–	628,110	11,326	639,436
Other comprehensive loss	4(33)	–	–	(11,512)	–	–	–	–	(11,512)
Appropriation of profits									
Appropriation to surplus reserves	4(35)	–	–	–	–	37,093	(37,093)	–	–
Distributions to shareholders	4(36)	–	–	–	–	–	(1,298,858)	(4,901)	(1,303,759)
Specific reserve									
Accrued	4(34)	–	–	–	139,173	–	–	–	139,173
Utilised	4(34)	–	–	–	(50,713)	–	–	–	(50,713)
Others		–	–	–	–	–	(73,508)	–	(73,508)
Balance at 31 December 2020		10,823,814	610,327	6,326	145,597	6,474,103	11,157,866	136,985	29,355,018

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

Wu Haijun	**Du Jun**	**Yang Yating**
Chairman	*Director Chief Financial Officer and Vice General Manager*	*Accounting Chief*

Statement of Changes in Shareholders' Equity

For the year ended 31 December 2020
(All amounts in thousands of Renminbi Yuan unless otherwise stated)
[English Translation for Reference Only]

Items	Note	Share capital	Capital surplus	Other comprehensive income	Specific reserve	Surplus reserve	Undistributed profits	Total equity
Balance at 31 December 2018		10,823,814	600,768	10,389	57,135	6,237,170	12,481,733	30,211,009
Movements for the year ended 31 December 2019								
Total comprehensive income								
Net profit for the year		–	–	–	–	–	1,998,400	1,998,400
Other comprehensive income		–	–	7,449	–	–	–	7,449
Appropriation of profits								
Appropriation to surplus reserves		–	–	–	–	199,840	(199,840)	–
Distributions to shareholders		–	–	–	–	–	(2,705,952)	(2,705,952)
Specific reserve								
Accrued		–	–	–	131,763	–	–	131,763
Utilised		–	–	–	(131,763)	–	–	(131,763)
Balance at 31 December 2019		10,823,814	600,768	17,838	57,135	6,437,010	11,574,341	29,510,906
Movements for the year ended 31 December 2020								
Total comprehensive income								
Net profit for the year		–	–	–	–	–	370,931	370,931
Other comprehensive loss		–	–	(11,512)	–	–	–	(11,512)
Appropriation of profits								
Appropriation to surplus reserves		–	–	–	–	37,093	(37,093)	–
Distributions to shareholders		–	–	–	–	–	(1,298,858)	(1,298,858)
Specific reserve								
Accrued		–	–	–	132,482	–	–	132,482
Utilised		–	–	–	(44,020)	–	–	(44,020)
Others		–	–	–	–	–	(73,508)	(73,508)
Balance at 31 December 2020		10,823,814	600,768	6,326	145,597	6,474,103	10,535,813	28,586,421

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

Wu Haijun	**Du Jun**	**Yang Yating**
Chairman	*Director Chief Financial Officer and Vice General Manager*	*Accounting Chief*

For the year ended 31 December 2020
(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 reorganization on 25 February 2000. After the reorganization, China Petroleum & Chemical Corporation ("Sinopec Corp.") was established. As part of the reorganization, 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.

Ordinary A shares of RMB14,176,600 and 9,636,900 were registered on 27 September 2017 and 12 January 2019.

As at 31 December 2020, total shares of the Company were 10,823,813,500, 1 Yuan per share. Detailed changes to share capital refers to Note 4(31).

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.

The newly incorporated subsidiaries in this year mainly include Zhejiang Jinlian Petrochemical Storage and Transportation Co., Ltd. ("Jinlian"), as detailed in Note 5 (1).

These financial statements were authorised for issue by the Board of Directors on 24 March 2021.

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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 the provision of inventories (Note 2(10)), depreciation of fixed assets (Note 2(13)), and impairment of long-term assets (Note 2(18)).

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

(1) Basis of preparation

The financial statements are prepared in accordance with the Accounting Standard for Business Enterprises – Basic Standard, and the specific accounting standards and other relevant regulations issued by the Ministry of Finance on 15 February 2006 and in subsequent periods (hereafter collectively referred to as "the Accounting Standard for Business Enterprises" or "CAS").

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 year ended 31 December 2020 are in compliance with the Accounting Standards for Business Enterprises, and truly and completely present the financial position as at 31 December 2020 and the operating results, cash flows and other information for the year 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.

(4) Recording currency

The recording currency is Renminbi (RMB). Subsidiaries of the Company shall determine their accounting standard currency according to the main economic environment in which they operate.The financial statements are based on RMB.

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(All amounts in thousands of Renminbi Yuan unless otherwise stated)
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2 Summary of significant accounting policies and accounting estimates *(continued)*

(5) Business combinations

(a) Business combinations involving enterprises under common control

The Group 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 and the carrying amount of the consideration paid for the combination is treated as an adjustment to capital surplus (capital premium). If the capital surplus (capital premium) is not sufficient to absorb the difference, the remaining balance is adjusted against undistributed profits. 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.

(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 are inconsistent between the Company and subsidiaries, 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.

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' owners' equity and the portion of subsidiaries' net profits and losses and comprehensive incomes for the period not attributable to the Company are recognised as non-controlling interests, net profit attributed to non-controlling interests and total comprehensive incomes attributed to non-controlling interests and presented separately in the consolidated financial statements under owners' equity, net profits and total comprehensive income respectively. If the current loss shared by the minority shareholders of a subsidiary exceeds the share of the minority shareholders in the owner's equity of the subsidiary at the beginning of the period, the balance shall offset the minority shareholders' equity. 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. Unrealized 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. Unrealized 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.

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

(9) Financial Instruments

Financial assets refers to contracts when one side forms a financial asset while the other forms a financial liability or equity instrument. When the Group becomes one side of a financial instrument contract, the Group recognize a financial asset or a financial liability.

(a) Financial assets

(i) Financial assets classification and measurement

According to the business model of financial assets management and the characteristics of contract cash flow of financial assets, the Group divides financial assets into: (1) financial assets measured by amortized cost; (2) financial assets measured at fair value and recorded into other comprehensive income; (3) financial assets measured at fair value and recorded in current profit and loss.

Financial assets are measured at fair value at the time of initial recognition. For financial assets measured at fair value and whose changes are included in the current profit and loss, relevant transaction costs are directly included in the current profit and loss; For other categories of financial assets, the relevant transaction costs are included in the initial recognition amount. Accounts receivable or notes receivable arising from the sale of products or the provision of services, which do not contain or take no account of material financing elements, shall be initially recognized by the Group in accordance with the amount of consideration to which the Group is entitled to receive as expected.

Debt instruments

The debt instruments held by the Group refer to the instruments that meet the definition of financial liabilities from the perspective of the issuer and are measured in the following three ways:

Measured at amortized cost:

The Group's business model for managing such financial assets is to collect contract cash flow, and the contract cash flow characteristics of such financial assets are consistent with the basic lending arrangement, that is, the cash flow generated on a specific date is only the payment of principal and interest based on the amount of outstanding principal. The Group recognizes interest income for such financial assets in accordance with the real interest rate method. Such financial assets mainly include monetary funds, notes receivable and accounts receivable, other receivables and creditor's rights investment, etc. The Group shall list the creditor's rights investment that is due within one year (including one year) from the date of balance sheet as non-current assets that are due within one year; The creditor's right investment within one year (including one year) at the time of acquisition is listed as other current assets.

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

(9) Financial Instruments *(continued)*

(a) Financial assets *(continued)*

(i) Financial assets classification and measurement (continued)

Measured at fair value and recorded into other comprehensive income:

The Group's business model for managing such financial assets is both to collect contract cash flow and to sell, and the contract cash flow characteristics of such financial assets are consistent with the basic lending arrangements. Such financial assets are measured at fair value and their changes are included in other comprehensive income, but impairment losses or gains, exchange gains and losses and interest income calculated according to the real interest rate method are included in current profit and loss. Such financial assets are listed as other creditor's rights investments, and other creditor's rights investments that are due within one year (including one year) from the date of balance sheet are listed as non-current assets that are due within one year; Other creditor's rights investments with a maturity of one year (including one year) at the time of acquisition are listed as other current assets.

Measured at fair value and recorded in current profit and loss:

The Group will not be held in the amortized cost measurement and measurement at fair value and its changes into other comprehensive income of the debt instruments, measured at fair value and its changes into the current profits and losses, listed as a transactional. At the time of initial recognition, in order to eliminate or significantly reduce accounting mismatches, the Group designated some financial assets as financial assets measured at fair value and their changes recorded into the profits and losses of the current period. Those maturing more than one year from the balance sheet date and expected to be held for more than one year shall be listed as other non-current financial assets, while the rest shall be listed as trading financial assets.

Equity instruments

The Group will measure the equity instrument investment without its control, common control and significant influence according to the fair value and record its changes into the current profit and loss, and list it as a transactional financial asset; The assets that are expected to be held for more than one year from the balance sheet date are listed as other non-current financial assets.

In addition, the Group has designated some non-tradable equity instrument investments as financial assets measured at fair value and their changes included in other comprehensive income, and listed them as other equity instrument investments. The relevant dividend income of such financial assets is included in the current profit and loss.

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(All amounts in thousands of Renminbi Yuan unless otherwise stated)
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2 Summary of significant accounting policies and accounting estimates *(continued)*

(9) Financial Instruments *(continued)*

(a) Financial assets *(continued)*

(ii) Impairment

For financial assets measured at amortised cost and debt instrument investment measured at fair value with changes included in other comprehensive income, the Group recognizes loss reserves based on expected credit loss.

The Group considers the reasonable and reliable information about past events, current situation and forecast of future economic situation, takes the risk of default as the weight, calculates the probability weighted amount of the present value of the difference between the cash flow receivable under the contract and the cash flow expected to be received, and confirms the expected credit loss.

At each balance sheet date, the Group measures the expected credit losses of financial instruments at different stages. If the credit risk of the financial instrument does not increase significantly after the initial confirmation, it is in the first stage. The Group shall measure the loss reserve according to the expected credit loss in the next 12 months. Where the credit risk of a financial instrument has increased significantly since the initial confirmation but no credit impairment has occurred, it is in the second stage and the Group shall measure the loss reserve in accordance with the expected credit loss of the entire duration of the instrument; Where a credit impairment has occurred since the initial confirmation of the financial instrument, it is in the third stage and the Group shall measure the loss reserve according to the expected credit loss of the entire duration of the instrument.

For financial instruments with low credit risk on the balance sheet date, the Group assumes that the credit risk has not increased significantly since the initial recognition and measures the loss provision according to the expected credit loss in the next 12 months.

For the financial instruments in the first and second stages and with low credit risks, the Group shall calculate the interest income according to the book balance and the actual interest rate before deducting the impairment provisions. For financial instruments in the third stage, the interest income shall be calculated according to the amortized cost and the real interest rate after the book balance is deducted and the provision for impairment is drawn.

For accounts receivable and FVOCI formed by daily business activities such as selling goods and providing services, whether there is significant financing component or not, the Group shall measure the loss reserve according to the expected credit loss of the whole duration.

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

(9) Financial Instruments *(continued)*

(a) Financial assets *(continued)*

(ii) Impairment (continued)

When a single financial asset cannot assess the expected credit loss at a reasonable cost, the Group divides the receivables into several combinations according to the characteristics of credit risk, and calculates the expected credit loss on the basis of the combination.

For the financing of accounts receivable divided into portfolio and accounts receivable formed by daily business activities such as selling goods and providing services, the Group refers to the historical credit loss experience, combines the current situation and the forecast of future economic situation, calculates the expected credit loss through default risk exposure and the expected credit loss rate of the whole deposit period. In addition, for receivables financing and other receivables divided into portfolios, the Group calculates the expected credit loss by referring to the historical credit loss experience, combining with the current situation and the forecast of the future economic situation, and through the default risk exposure and the expected credit loss rate in the next 12 months or the whole duration.

The Group shall record the provision for loss accrued or brought back into the current profit and loss. For the debt instruments held by the Group, which are measured at fair value and whose changes are included in other comprehensive income, the Group shall adjust other comprehensive income when the impairment loss or profit is included in the current profit and loss.

(iii) Derecognition

Financial assets are derecognized when meet one of the following situations:(1) the right to receive cash flows has been ceased; (2) financial assets have been transferred and the Group has transferred substantially all the risks and rewards of ownership; (3) financial assets have been transferred. Although the Group neither transfers nor retains nearly all the risks and rewards in the ownership of the financial asset, it has relinquished control over the financial asset.

When the investment of other equity instruments is recognized after termination, the difference between the book value and the consideration received and the accumulated amount of the fair value change directly included in other comprehensive income shall be recorded into retained earnings.When the remaining financial assets are recognized, the difference between their book value and the sum of the consideration they received and the accumulated amount of the fair value change directly recorded in other comprehensive income shall be recorded into the current profit and loss.

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

(9) Financial Instruments *(continued)*

(b) Financial liabilities

At the time of initial recognition, financial liabilities are classified into financial liabilities measured at amortized cost and financial liabilities measured at fair value and their changes are included in the current profit and loss.

The financial liabilities of the Group are mainly financial liabilities measured by amortized cost, including notes payable and accounts payable, other payables, loans, etc. Such financial liabilities are initially measured according to their fair value after deducting transaction costs, and are subsequently measured by the effective interest rate method. Where the term is less than one year (including one year), it shall be listed as current liabilities; If the term is more than one year, but the term is due within one year (including one year) from the balance sheet date, it shall be listed as non-current liabilities that are due within one year; The rest are shown as non-current liabilities.

When the current obligation of the financial liability has been discharged in whole or in part, the Group shall terminate the recognition of the discharged part of the financial liability or obligation. The difference between the carrying amount of the part to be recognized and the consideration paid shall be recorded into the profit and loss of the current period.

(c) The determination of the fair value of financial instruments

The fair value of a financial instrument with an active market is determined by the quoted price in the active market. There is no active market for financial instruments, the use of valuation technology to determine their fair value. In valuation, the Group adopts valuation techniques that are applicable in the current situation and have sufficient data and other information available to support them, selects input values that are consistent with the characteristics of assets or liabilities considered by market participants in transactions of related assets or liabilities, and gives priority to relevant observable input values as far as possible. Use unobservable input values in cases where the relevant observable input values cannot be obtained or are not feasible to obtain.

(d) Derivative and hedging activities

Derivatives are initially recognized at fair value on the date a derivative contract is entered into, and they are subsequently remeasured to their fair value at the end of each reporting period. Gains and losses arising from the reassessment of the fair value of the derivative financial instruments shall be recorded into the profits and losses of the current period, except for meeting the requirements of hedge accounting.

Hedging instruments are financial instruments designated by the Group for hedging or whose cash flow changes are expected to offset the cash flow changes of the hedged items.

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(All amounts in thousands of Renminbi Yuan unless otherwise stated)
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2 Summary of significant accounting policies and accounting estimates *(continued)*

(9) Financial Instruments *(continued)*

(d) Derivative and hedging activities *(continued)*

The hedged item refers to the item that makes the Group face the risk of cash flow change and is designated as the hedged object and can be reliably measured. The hedged items designated by the Group are expected to expose the Group to the risk of changes in cash flow, and are purchased or sold at an undetermined future market price.

Hedging instruments are financial instruments designated by the Group for hedging or whose cash flow changes are expected to offset the cash flow changes of the hedged items.

If the hedging meets the following conditions at the same time, the Group determines that the hedging relationship meets the hedging effectiveness requirements:

(1) There is an economic relationship between the hedged item and the hedging instrument. The economic relationship makes the value of the hedging instrument and the hedged item change in the opposite direction because they face the same hedged risk.

(2) In the change of value caused by the economic relationship between the hedged item and the hedging instrument, the influence of credit risk is not dominant.

(3) The hedging ratio of the hedging relationship is equal to the ratio of the actual number of hedged items and the actual number of hedging instruments, but it does not reflect the imbalance of the relative weight of the hedged items and hedging instruments.

Cash flow hedging refers to the hedging of the risk exposure to changes in cash flow. The change of cash flow comes from the recognized assets or liabilities (for example, all or part of future interest payment of floating rate debt), the most likely expected transaction, or the specific risk related to the above project components, and will affect the Group's profit and loss. If the cash flow hedging meets the requirements for applying the hedging accounting method, it shall be handled in accordance with the following provisions:

- The accumulated gains or losses of the hedging instrument since the beginning of hedging;
- The accumulated change of the present value of the estimated future cash flow of the hedged item since the beginning of hedging.

The amount of cash flow hedging reserve included in other comprehensive income in each period is the change amount of cash flow hedging reserve in the current period.

The gains or losses arising from ineffective portion shall be included in the current profits and losses.

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

(9) Financial Instruments *(continued)*

(d) Derivative and hedging activities *(continued)*

When the hedged item is an expected transaction, and the expected transaction causes the Group to recognize a non-financial asset or non-financial liability, or the expected transaction of non-financial asset or non-financial liability to form a firm commitment applicable to fair value hedging accounting, the Group transfers out the amount of cash flow hedging reserve originally recognized in other comprehensive income and includes it in the asset or negative income Initial recognition amount of debt. This is not a reclassification adjustment and will not affect other comprehensive income.

For the cash flow hedging that does not belong to the above situation, the Group will transfer out the cash flow hedging reserve amount originally recognized in other comprehensive income during the same period when the hedged expected cash flow affects the profit and loss, and record it into the current profit and loss.

If the amount of cash flow hedging reserve recognized in other comprehensive income is a loss, and all or part of the loss is expected to be irreparable in the future accounting period, when the Group is expected to be irreparable, the part that is expected to be irreparable is transferred out of other comprehensive income and included in the current profit and loss.

When the hedging relationship no longer meets the risk management objective due to the change of risk management objective (that is, the entity no longer seeks to achieve the risk management objective), the hedging instrument has expired, been sold, the contract has been terminated or exercised, there is no economic relationship between the hedged item and the hedging instrument, or in the value change caused by the economic relationship between the hedged item and the hedging instrument, When the impact of credit risk begins to dominate, or hedging no longer meets the conditions of hedging accounting method, the Group will terminate the use of hedging accounting. If the future cash flow to be hedged is still expected to occur, the accumulated cash flow hedging reserve recognized in other comprehensive income shall be retained and treated in accordance with the above accounting policies for cash flow hedging. If the hedged future cash flow is no longer expected to occur, the amount of accumulated cash flow hedging reserve is transferred out from other comprehensive income and included in the current profit and loss. If the future cash flow to be hedged is no longer expected to occur, but it may still be expected to occur, the accumulated amount of cash flow hedging reserve shall be retained and treated according to the above accounting policy of cash flow hedging.

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

(10) Inventories

(a) Classification

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

(b) Valuation method of issued inventory

The cost of finished goods and work in progress include raw materials, direct labor and manufacturing expenses allocated in a systematic way under normal production capacity.

(c) Determination basis of net realizable value of inventory and calculation method of inventory falling price reserves

The provision for falling price of inventory shall be made according to the difference between the cost of inventory and its net realizable value. The net realizable value is determined by the estimated selling price of inventory minus the estimated cost to completion, estimated selling expenses and relevant taxes in daily activities.

(d) The inventory system of the Group adopts perpetual inventory system.

(e) Amortization method of low value consumables

Low value consumables are amortised by one-off write off method.

(11) Long-term equity investments

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

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(All amounts in thousands of Renminbi Yuan unless otherwise stated)
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2 Summary of significant accounting policies and accounting estimates *(continued)*

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

(a) Initial recognition

For long-term equity investments under common control acquired through a business combination: The initial investment cost of a long-term equity investment obtained through a business combination involving enterprises 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.

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.

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(All amounts in thousands of Renminbi Yuan unless otherwise stated)
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2 Summary of significant accounting policies and accounting estimates *(continued)*

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

(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 amount of long-term equity investments in subsidiaries, joint ventures and associates shall be reduced to the recoverable amount if the recoverable amount is below the carrying amount (Note 2(18)).

(12) 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.

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

(12) Investment properties *(continued)*

The investment property's estimated useful life, net residual value and depreciation (amortisation) 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(18)).

(13) Property, plant and equipment

(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 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.

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(All amounts in thousands of Renminbi Yuan unless otherwise stated)
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2 Summary of significant accounting policies and accounting estimates *(continued)*

(13) Property, plant and equipment *(continued)*

(b) Depreciation of fixed assets *(continued)*

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 residual values	Annual depreciation rates
Buildings	12-40 years	0% to 5%	2.4% to 8.3%
Plant and machinery	12-20 years	0% to 5%	4.8% to 8.3%
Vehicles and other equipment	4-20 years	0% to 5%	4.8% to 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(18)).

(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.

(14) 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(18)).

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

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

For the general borrowings obtained for the acquisition or construction of a qualifying fixed asset, the amount of borrowing costs eligible for capitalisation is determined by applying the weighted average effective interest rate of general borrowings used, 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 estimated future cash flows during the period of expected duration or shorter period applied discounted to the initial amount of the borrowings.

(16) 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 of 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.

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

(16) Intangible assets *(continued)*

(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;
- 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(18)).

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

(17) 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 amortized on a straight-line method within 2 to 5 years.

The leasehold improvement of the rented fixed assets through commercial lease is amortized according to the average duration of 5 years.

(18) 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. 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.

(19) 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.

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

(20) 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

The Group's employees participate in the basic pension plan set up and administered by local authorities of Ministry of Human Resource and Social Security. 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.

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

(20) 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.

(21) Profit distribution

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

(22) Share-based payments

(a) Types of Share-based payment

Share based payment is a transaction in which equity instruments are granted or liabilities determined on the basis of equity instruments in order to obtain services provided by employees. Equity instruments include the equity instruments of the Company itself, the parent company of the Company or other accounting entities of the same group. Share based payment is divided into equity settled share based payment and cash settled share based payment. The Group's stock option plan is equity settled share based payment.

Equity-settled share-based payment transactions

The Group's stock 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.

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

(22) 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. At the same time, carry forward the capital reserve confirmed in the waiting period.

(23) 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.

The estimated liabilities expected to be paid within one year from the balance sheet date are listed as current liabilities.

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

(24) Revenue

The Group shall, when the customer acquires control over the relevant goods or services, recognize the income at the amount of consideration to which it is expected to be entitled.

(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 recognizes revenue when goods are sent to designated place or customer take delivery of the goods from Group's designated warehouse, and confirmed receipt by customers according to the terms of contract.

The Group provides discounts based on the sales amount, and recognizes revenue based on the contract value exclude expected discounts.

(b) Rendering of services

Revenue from the rendering of services 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.

(25) Government grants

Government grants are transfers of monetary assets or non-monetary assets from the government to the Group at no consideration, including tax refund, financial subsidies etc.

A government grant is recognised when there is reasonable assurance that the grant will be received and that the Group will comply with the conditions attaching to the grant. If a government grant is in the form of a transfer of a monetary asset, it is measured at the amount that is received or receivable. If a government grant is in the form of a transfer of a non-monetary asset, it is measured at its fair value, or nominal amount when fair value not reliably measured.

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.

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

(25) Government grants *(continued)*

Government subsidies related to assets, write-off the book value of related assets, or recognized as deferred income and amortized into profit and loss within the service life of related assets in a reasonable and systematic way; And benefits related to government subsidies for compensating the related expenses or losses during the later, recognized as deferred income, cost and upon confirmation of the related expenses or losses, recorded into the profits and losses of the current or write-downs related cost, used for compensating the related expenses or losses incurred, directly recorded into the profits and losses of the current or write-downs related cost.

Government subsidies related to daily activities are included in operating profit, while government subsidies unrelated to daily activities are included in non-operating income and expenditure.

(26) 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.

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.

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

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

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.

(27) Leases

Lease is a kind of contract whereby, within a certain period of time, the lessor transfers the right of use of assets to lessee in order to obtain benefits.

The Group as the lessee

The Group recognized the right of use assets at the beginning of the lease period and the lease liabilities at the present value of the outstanding lease payments.Lease payments include fixed payments and payments to be made if it is reasonably determined that the option to buy or to terminate the lease option will be exercised.The variable rent, which is determined by a certain percentage of sales, is not included in the lease payment and is recorded into the current profit and loss when it actually occurs.The Group will be paid from the balance sheet date within one year (including one year) of the lease liabilities, as a non-current liabilities due within one year.

The right of use assets of the Group include leased houses and buildings, plant and machinery equipment, means of transport and others.The right of use assets are initially measured at cost, which includes the initial measurement of the lease liability, the lease payment paid on or before the lease period, the initial direct expenses, etc., and deducts the lease incentive received.Where the Group is able to reasonably determine the ownership of the leased assets upon the expiration of the lease term, depreciation of the leased assets shall be calculated and withdrawn within the remaining service life of the leased assets;If it is not reasonable to determine whether the ownership of the leased asset can be acquired at the end of the lease term, the depreciation shall be calculated within the shorter period between the lease term and the remaining useful life of the leased asset.When the recoverable amount is lower than the book value of the asset, the Group writes down the book value to the recoverable amount.

For short-term leases with a lease term of no more than 12 months, the Group chooses not to recognize the right of use assets and lease liabilities, and records the relevant rental expenses into the current profits and losses or related asset costs according to the straight-line method during each period of the lease term.

When the lease is changed and meets the following conditions at the same time, the Group will treat it as a separate lease: (1) the lease change expands the lease scope by increasing the right to use one or more leased assets; (2) the increased consideration is equivalent to the amount of the separate price of the extended part of the lease scope adjusted according to the contract situation.

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

(27) Leases *(continued)*

The Group as the lessee *(continued)*

When the change of lease is not accounted as a separate lease, the Group will redefine the lease term on the effective date of the change, and discount the changed lease payment amount with the revised discount rate to re measure the lease liabilities. If the lease scope is reduced or the lease period is shortened due to the change of the lease, the Group shall reduce the book value of the right of use assets accordingly, and include the relevant gains or losses of partial or complete termination of the lease into the current profit and loss. If other lease changes result in the remeasurement of lease liabilities, the Group shall adjust the book value of the right of use assets accordingly.

The Group as the lessor

Essentially, a lease that transfers almost all the risks and rewards associated with the ownership of the leased asset is a financial lease.Other leases are operating leases.

When the Group operates leased premises and buildings, the rental income from operating leases shall be recognized in accordance with the straight-line method during the lease term.

(28) Hold for sale and terminate operations

Non-current assets or disposal groups that meet the following conditions are classified as held for sale: (i) according to usual practice in similar sales transactions, the assets can be sold immediately under current circumstances, (ii) the Group has entered into a legally binding sale agreement with other parties and has obtained the relevant approval. And it is expected that the sale will be completed within one year.

Conform to the conditions of sale of non-current assets (not including financial assets, to the fair value of an investment real estate and deferred income tax assets), with the book value and the fair value minus the net amount after sale cost and what is low measurement, the fair value minus the net amount after sale cost is lower than the amount of the original book value, shall be recognized as asset impairment losses.

The assets and liabilities in the non-current assets and disposal group held for sale are classified as current assets and current liabilities and are separately listed in the balance sheet.

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

(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:

(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.

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

(29) Related parties *(continued)*

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

(m) enterprises or 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.

(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 revenues 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.

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

(31) Significant accounting policies and accounting estimates

The Group continuously evaluates important accounting estimates and key judgments based on historical experience and other factors, including reasonable expectations of future events.

(a) Critical accounting estimates and assumptions

(i) Classification

The classification depends on the Group's business model for managing the financial assets and the contractual terms of the cash flows.

The Group determines the business model for managing financial assets at the level of financial asset portfolio. The factors considered include the way to evaluate and report the performance of financial assets to key management personnel, the risks affecting the performance of financial assets and their management methods, and the way for relevant business management personnel to obtain remuneration, etc.

When evaluating whether the contractual cash flow of financial assets is consistent with the basic lending arrangements, the Group has the following main judgments: whether the time distribution or amount of the principal may change in the duration due to prepayment and other reasons; whether the interest only includes the time value of money, credit risk, other basic lending risks and the consideration of cost and profit. For example, does the amount of prepayment only reflect the outstanding principal and the interest based on the outstanding principal, as well as the reasonable compensation paid for the early termination of the contract.

(ii) Judgment on significant increase of credit risk

The Group's main criteria for judging significant increase in credit risk are overdue days exceeding 30 days, or significant changes in one or more of the following indicators: the debtor's business environment, internal and external credit rating, significant changes in actual or expected business results, significant decline in the value of collateral or the credit rating of the guarantor, etc.

The group's main criteria for judging whether credit impairment has occurred are that the overdue days exceed 90 days (i.e. default has occurred), or one or more of the following conditions are met: the debtor has major financial difficulties, other debt restructuring or is likely to go bankrupt, etc.

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

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

(b) Important accounting estimates and their key assumptions

The following important accounting estimates and key assumptions have important risks that will lead to significant adjustments in the book value of assets and liabilities in the next accounting year:

(i) 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.

(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.

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) 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.

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3 Taxation

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

Category	Tax base	Tax rate
Enterprise income tax (a)	Taxable income	25%
Value added tax ("VAT") (b)	Taxable value added amount (Tax payable is calculated using the taxable sales amount multiplied by the applicable tax rate less deductible VAT input of current year)	5%, 6%, 9% and 13%
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) Pursuant to the 'Circular on Enterprise Income Tax Policy concerning Deductions for Equipment and Appliances' (Cai Shui [2019] 54) issued by the State Administration of Taxation, during the period from 1 January 2018 to 31 December 2020, the cost of newly purchased equipment with the original cost less than RMB5 million can be fully deducted against taxable profit in the next month after the asset is put into use, instead of being depreciated annually for tax filing.

(b) Pursuant to the 'Announcement of Deepening the Value Added Tax Reform Policy' (Cai Shui [2019] 39) jointly issued by the Ministry of Finance and the State Administration of Taxation and General Administration of Customs, the applicable VAT rate of taxable sales behaviour, importing of goods and tangible movable property leasing is 13% and 9% respectively from 1 April 2019, while it was 16% and 13% before then.

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4 Notes to the consolidated financial statements

(1) Cash at bank and on hand

	31 December 2020	31 December 2019
Cash at bank	7,920,850	8,958,536
Other cash and cash equivalents	2	2
	7,920,852	8,958,538

Cash and cash equivalents listed in the cash flow statement:

	31 December 2020	31 December 2019
cash and cash equivalents	7,920,850	8,958,536
Less: Time deposit (a)	(1,004,442)	(1,508,837)
Cash and cash equivalents	6,916,408	7,449,699

(a) As at December 31 2020, the time deposit of RMB1,000,000 thousand is a time deposit of three months deposited by the Group with China CITIC Bank Shanghai Branch (December 31 2019: RMB1,500,000 thousand), the annual interest rate is 4.10% (December 31 2019: from 2.95% to 4.10%).

(2) Derivative financial assets and derivative financial liabilities

	31 December 2020	31 December 2019
Derivative financial assets		
Foreign exchange option contract	–	263
Derivative financial Liability		
Foreign exchange option contract	–	(799)

As at December 31 2020, no derivative financial assets and derivative financial liabilities are held by the Group.

As at December 31 2019, the derivative financial assets and derivative financial liabilities are mainly foreign exchange option contracts, with the total nominal amount of equivalent RMB40,754 thousand.

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

(3) Financial assets at fair value through profit or loss

	31 December 2020	31 December 2019
Structured deposit	–	3,318,407

As at December 31, 2019, financial assets at fair value through profit or loss are the Group's structural deposits with a maturity of less than six months. It is agreed in the contract that the guaranteed principal and income are linked to the exchange rate of US dollar against Japanese yen, the exchange rate of euro against US dollar, and the three-month LIBOR of US dollar in the international market.

(4) Accounts receivable

	31 December 2020	31 December 2019
Amounts due from related parties (Note 8(6))	1,032,341	1,519,177
Amounts due from third parties	113,797	120,739
	1,146,138	1,639,916
Less: provision for bad debts	(634)	–
	1,145,504	1,639,916

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

	31 December 2020	31 December 2019
Within one year	1,144,024	1,639,916
Over one year but within two years	2,114	–
	1,146,138	1,639,916

(b) As at December 31 2020, the top five receivables collected by the arrears are summarized and analyzed as follows:

	Amount	Provision	Percent of total amount
The total amount of accounts receivable in the top five accounts	1,043,012	–	91%

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

(4) Accounts receivable *(continued)*

(c) Provision

	31 December 2020	31 December 2019
Provision of Accounts receivable	(634)	–

For accounts receivable, whether or not there is significant financing component, the Group shall measure the loss reserve according to the expected credit loss of the whole duration.

(i) As at December 31 2020, the Group has no notes receivable and accounts receivable of single provision for bad debts (December 31 2019: Nil).

(ii) As at December 31 2020, the Group has no pledged accounts receivable (December 31 2019: Nil).

(iii) In the year of 2020, the Group does not have a large proportion of bad debt provision that has been fully withdrawn or withdrawn in previous years, but the accounts receivable that have been fully recovered or transferred in this year, or a large proportion of accounts receivable that have been recovered or transferred in this year (December 31 2019: Nil).

(d) Significant unwritten accounts receivable of the Group for the year 2020 (December 31 2019: Nil).

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

(5) Financial assets at fair value through other comprehensive income

	31 December 2020	31 December 2019
Financial assets at fair value through other comprehensive income	1,217,114	1,540,921

(a) Due to the requirement of cash management, the Group discounted and endorsed part of the bank acceptance notes. The business model of bank acceptance notes management is for the purpose of collecting cash flow of contracts and sales. Therefore, as at December 31, 2020, the Group classified RMB893,187 thousand notes receivable to financial assets measured at fair value and whose changes are included in other comprehensive income and disclosed in notes receivable and accounts receivable (December 31, 2019: RMB804,739 thousand).

(b) The Group has no single provision for impairment of the bank acceptance notes, with all provision was accrued by their expected credit loss. The Group considers that no bank acceptance notes has significant credit risk, and will not suffer significant loss due to the violation of banks.

(c) As at 31 December 2020, the Group had no pledged bank acceptance notes to issue letters of credit (31 December 2019: Nil).

(d) As at 31 December 2020, unmatured notes receivable that have been endorsed or discounted by the Group is as follows:

	Derecognized	Not derecognized
Bank acceptance notes	625,343	–

(e) The Group’s subsidiaries Shanghai Jinshan Trading Corporation (“JMGJ”) derecognized part of the accounts receivable for the non-recourse forfaiting business based on the requirement of daily cash management. The business model of accounts receiviable management is for the purpose of collecting cash flow of contracts and sales. I, including a sale contract as the goal. Therefore, as at December 31 2020, the Group classified RMB323,927thousand third party accounts receivable of subsidiaries to financial assets measured at fair value and whose changes are included in other comprehensive income and disclosed in notes receivable and accounts receivable (as at December 31, 2020: RMB736,182 thousand).

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

(5) Financial assets at fair value through other comprehensive income *(continued)*

(f) The analysis of accounts receivable terminated due to the transfer of financial assets is as follows:

In the year of 2020, the Group's subsidiaries China Jinshan Associated Trading Corporation ("Jinmao") and JMGJ derecognized RMB245,535 thousand accounts receivable due to the non-recourse forfaiting (2019: China Jinshan Associated Trading Corporation ("Jinmao") and JMGJ derecognized RMB3,095,035 thousand), which including the financial expense of RMB590 thousand (2019: RMB11,137 thousand).

(6) Advances to suppliers

	31 December 2020	31 December 2019
Amounts advance to related parties (Note 8(6))	26,777	44,806
Amounts advance to third parties	6,964	11,796
	33,741	56,602

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

	31 December 2020		31 December 2019	
	Amount	% of total balance	Amount	% of total balance
Within one year	33,741	100%	56,602	100%

(b) As at 31 December 2020, the total amount of the top five advances to suppliers are summarized as follows:

	Amount	**Percentage of total advances to suppliers (%)**
Total amount of the top five advances to suppliers	29,576	88%

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

(7) Other receivable

	31 December 2020	31 December 2019
Amounts due from related parties (Note 8(6))	23,198	2,010
Amounts due from third parties	18,240	26,240
	41,438	28,250
Less: provision for bad debts	(139)	(139)
	41,299	28,111

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

	31 December 2020	31 December 2019
Within one year	41,299	28,111
Over one year but within three years	–	–
Over three years	139	139
	41,438	28,250

(b) Provision movement

	First Stage					Third Stage		
	Expected credit loss in the next 12 months (Combined)		Expected credit loss in the next 12 months (Single)		Total	Expected credit loss over the duration (credit impairment has occurred)		Total
	Book value	Provision	Book value	Provision	Provision	Book value	Provision	Provision
31 December 2019	28,111	–	–	–	–	139	(139)	(139)
Add	503,081	–	–	–	–	–	–	–
Reverse	(489,893)	–	–	–	–	–	–	–
31 December 2020	41,299	–	–	–	–	139	(139)	(139)

As at December 31 2020 and December 31 2019,no other receivables are at the second stage in the Group.

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

(7) Other receivable *(continued)*

(c) In the year of 2020, the Group has not written off other significant receivables (2019: Nil).

(d) As at 31 December 2020, the top five other receivables are as follows:

	Nature	Amount	Ageing	Percentage of total other receivables	Provision for bad debts
China International Petrochemical Corporation Limited	Business transaction	20,873	Within one year	50%	–
State taxation administration, Shanghai Jinshan Bureau	Export tax rebates	10,348	Within one year	25%	–
Shanghai Yufan logistics Co., Ltd.	Business transaction	3,299	Within one year	8%	–
BOC-SPC Gases Company Limited "BOC"	Business transaction	1,886	Within one year	5%	–
China Railway Shanghai Bureau Group Co., Ltd. Hangzhou North Depot	Business transaction	1,198	Within one year	3%	–
		37,604		91%	–

(8) Inventories

(a) Inventories by categories are as follows:

	31 December 2020			31 December 2019		
	Book value	Provision for declines in the value of inventories	Carrying amount	Book value	Provision for declines in the value of inventories	Carrying amount
Raw materials	2,569,136	–	2,569,136	4,567,648	–	4,567,648
Work in progress	696,227	(122,081)	574,146	1,072,040	(78,981)	993,059
Finished goods	591,485	(46,652)	544,833	1,022,335	(33,763)	988,572
Spare parts and consumables	260,431	(59,800)	200,631	247,873	(42,718)	205,155
	4,117,279	(228,533)	3,888,746	6,909,896	(155,462)	6,754,434

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

(8) Inventories *(continued)*

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

	31 December 2019	Increase	Decrease reversal	Decrease write-off	31 December 2020
Raw material	–	1,528,198	(1,528,198)	–	–
Work in progress	78,981	64,932	–	(21,832)	122,081
Finished goods	33,763	138,874	–	(125,985)	46,652
Spare parts and consumables	42,718	17,082	–	–	59,800
	155,462	1,749,086	(1,528,198)	(147,817)	228,533

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

	Basis for determining net realisable value	**Main reasons for reversal/write-off**
Raw materials	The estimated selling price in the ordinary course of business, less the estimated costs to completion and estimated costs to make the sale and related taxes.	Price increased
Work in progress	Same as above	Sold in current year
Spare parts and consumables	The estimated selling price in the ordinary course of business, less the estimated costs to make the sale and related taxes.	Sold in current year
Finished goods	Same as above	NA

(9) Other current assets

	31 December 2020	31 December 2019
Time deposit (a)	3,044,999	–
VAT deductible	9,084	11,971
others	3,504	–
	3,057,587	11,971

(a) As of December 31, 2020, the Group's six-month fixed deposit at Shanghai Jinshan Branch of China Minsheng Bank is RMB15,000,000 thousands, and the one-year fixed deposit at Shanghai Jinshan Branch of China Guangfa bank is RMB15,000,000 thousands, with an annual interest rate range of 3.15% to 3.60% (December 31, 2019: Nil).

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

(10) Long-term equity investments

	31 December 2020	31 December 2019
Joint Ventures (a)	241,674	235,294
Associates (b)	5,256,160	5,093,464
	5,497,834	5,328,758
Less: provision for impairment of long-term equity investment	–	–
	5,497,834	5,328,758

(a) Joint Ventures

	31 December 2019	Current year movement: Additional/ negative investment	Net profit adjusted by equity method	Cash dividends declared in current year	Impairment provision	31 December 2020	Impairment provision
Joint ventures of subsidiaries							
Inspection and testing company "JYJC"	9,350	–	1,051	(1,049)	–	9,352	–
Shanghai Petrochemical Yangu Gas Development Company Limited "Yangu Gas"	48,733	–	915	(1,000)	–	48,648	–
BOC	177,211	–	44,697	(38,234)	–	183,674	–
	235,294	–	46,663	(40,283)	–	241,674	–

Interests in joint ventures, refer to Note 6(2).

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

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

(b) Associates

	31 December 2019	Current year movement: Additional/ negative investment	Net profit/ (loss) adjusted by equity method	Cash dividends declared in current year	Impairment provision	Change in other equity	31 December 2020	Impairment provision
Associates of the Company								
Shanghai Secco Petrochemical Company Limited "Shanghai Secco"	2,724,360	–	480,787	(473,600)	–	–	2,731,547	–
Shanghai Chemical Industry Park Development Company Limited "Chemical Industry"	1,917,210	–	144,615	(32,522)	–	(11,512)	2,017,791	–
Associates of subsidiaries								
Shanghai Jinsen Hydrocarbon Resins Company Limited "Jinsen"	299,358	–	18,043	–	–	–	317,401	–
Shanghai Azbil Automation Company Limited "Azbil"	52,977	–	19,306	(9,200)	–	–	63,083	–
Shanghai Shidian Energy Company Limited "Shidian Energy"	54,537	–	(3,293)	–	–	–	51,244	–
Others	45,022	27,603	8,619	(6,150)	–	–	75,094	–
	5,093,464	27,603	668,077	(521,472)	–	(11,512)	5,256,160	–

Interests in associates, refer to Note 6(2).

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

(11) Investment properties

	Buildings
Cost	
31 December 2019	602,659
Transfer from fixed assets (Note 4(12))	24,829
31 December 2020	627,488
Accumulated depreciation	
31 December 2019	235,191
Depreciation charged in current year	15,184
Transfer from property, plant and equipment (Note 4(12))	9,527
31 December 2020	259,902
Carrying amount	
31 December 2020	367,586
31 December 2019	367,468

In 2020, the depreciation amount of investment real estate is RMB15,184 thousand (2019: RMB14,694 thousand) without provision for impairment (2019: Nil).

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

(12) Property, plant and equipment

	Buildings	Plant and machinery	Vehicles and other equipment	Total
Cost				
31 December 2019	3,338,353	41,865,551	1,871,754	47,075,658
Reclassification in current year	52,599	(55,206)	2,607	–
Increase in current year				
Purchase	707	228,153	65,380	294,240
Transfer from CIP (Note 4(13))	24,199	1,440,695	85,419	1,550,313
Business combination under different control (Note 5(1))	124,849	146,172	4,694	275,715
Decrease in current year				
Disposal	(32,690)	(474,829)	(71,564)	(579,083)
Transfer to investment properties (Note 4(11))	(24,829)	–	–	(24,829)
31 December 2020	3,483,188	43,150,536	1,958,290	48,592,014
Accumulated depreciation				
31 December 2019	2,311,466	31,182,924	1,432,580	34,926,970
Reclassification in current year	29,721	(29,635)	(86)	–
Increase in current year				
Current year charges	91,134	1,369,803	94,112	1,555,049
Decrease in current year				
Disposal	(25,670)	(430,397)	(68,698)	(524,765)
Transfer to investment properties (Note 4(11))	(9,527)	–	–	(9,527)
31 December 2020	2,397,124	32,092,695	1,457,908	35,947,727
Provision for impairment				
31 December 2019	50,785	766,932	8,121	825,838
Increase in current year				
Provision	3,007	84,035	528	87,570
Decrease in current year				
Disposal	–	(2,186)	–	(2,186)
31 December 2020	53,792	848,781	8,649	911,222
Carrying amount				
31 December 2020	1,032,272	10,209,060	491,733	11,733,065
31 December 2019	976,102	9,915,695	431,053	11,322,850

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

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

In the year of 2020, the Group recognized impairment provision of RMB87,570 thousand for production facilities with excess capacity or backward production technology (2019: Nil).

In the year of 2020, the Group disposed the production facilities with impairment provisions and wrote off the impairment provisions of RMB2,186 thousand (2019: RMB51,484 thousand).

As at 31 December 2020 and 31 December 2019, the Group had no pledged fixed assets.

In the year of 2020, the depreciation expenses amounted to RMB1,555,049 thousand (2019: RMB1,509,814 thousand). The depreciation expenses charged to cost of sales, selling and distribution expenses, general and administrative expenses and R&D expenses were RMB1,430,105 thousand, RMB9,148 thousand, RMB111,525 thousand and RMB4,271 thousand, respectively (2019: RMB1,413,314 thousand, RMB9,179 thousand, RMB81,787 thousand, and 5,534 thousand respectively).

The amount of fixed assets transferred from construction in progress was RMB1,550,313 thousand (2019: RMB1,123,620 thousand).

(13) Construction in progress

	31 December 2020			31 December 2019		
	Original cost	Provision for impairment	Carrying amount	Original cost	Provision for impairment	Carrying amount
Construction in progress	1,734,610	(24,486)	1,710,124	1,850,210	(34,661)	1,815,549

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

(13) Construction in progress *(continued)*

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

Projects name	Budget	31 December 2019	Increase in current year	Transferred to fixed assets in current year (Note 4(12))	Disposal in current year	31 December 2020	Percentage of actual cost to budget	Project progress	Accumulative capitalized borrowing costs	Current year capitalized borrowing costs	Current year borrowing cost capitalizing rate	Source of funds
24000 T/a precursor fiber and 12000 T/a 48 K large tow carbon fiber project	3,489,638	-	280,000	-	-	280,000	8.02%	5.00%	229	229	2.79%	Equity funds and borrowings
100,000 tons/year EVA production equipment	1,131,520	239,332	18,521	-	-	257,853	22.79%	22.79%	1,081	-	-	Equity funds and borrowings
PAN carbon fiber project	847,794	147,463	57,000	(59,207)	-	145,256	36.88%	36.88%	5,475	2,375	2.79%	Equity funds and borrowings
Shanghai petrochemical third circuit 220KV power supply line project	283,000	112,887	11,600	-	-	124,487	50.99%	50.99%	-	-	-	Equity funds
Emergency cut-off function renovation project of tank area of storage department	76,766	54,351	9,000	-	-	63,351	82.52%	82.52%	-	-	-	Equity funds
Rectification project of hidden danger in central control room of olefin Department	99,940	-	49,997	-	-	49,997	50.03%	50.03%	-	-	-	Equity funds
2# 3# aromatics joint unit energy saving renovation	954,240	29,940	-	-	-	29,940	3.14%	3.14%	-	-	-	Equity funds
Spinning process optimization project of Jinyang plant	54,184	11,268	39,000	(25,000)	-	25,268	92.77%	95.00%	-	-	-	Equity funds
Management project of hidden danger of seawall safety	256,118	-	22,000	-	-	22,000	8.59%	5.00%	17	17	2.79%	Equity funds and borrowings
2# delayed coking device is safe and environment-friendly sealed coke removal transportation and waste gas treatment	85,474	-	20,000	-	-	20,000	23.40%	23.40%	-	-	-	Equity funds
Optimization and reconstruction project of domestic water pipe network	35,320	-	17,998	-	-	17,998	50.96%	50.96%	-	-	-	Equity funds
Centralized control relocation and reconstruction project of No.5 and No.6 units of thermal power department	37,930	-	12,971	-	-	12,971	34.20%	34.20%	-	-	-	Equity funds
Improvement project of clean water and sewage separation in tank farm of storage and transportation department	64,474	37,944	14,996	(52,940)	-	-	100.00%	100.00%	-	-	-	Equity funds
Oil cleaning project	781,657	477,977	260,000	(732,629)	-	5,348	94.41%	100.00%	7,356	5,671	2.79%	Equity funds and borrowings
35KV cable hidden trouble control project	29,240	24,873	1,600	(26,473)	-	-	100.00%	100.00%	-	-	-	Equity funds
Oil blending and optimization system project of storage and transportation department	26,191	23,000	1,250	(24,015)	-	235	92.59%	100.00%	3,779	-	-	Equity funds and borrowings
50000 T/a ethanolamine project	188,910	10,175	-	-	(10,175)	-	5.39%	0.00%	-	-	-	Equity funds
Equipment update of thermal power department	-	75,674	14,199	(63,038)	-	26,835	-	-	-	-	-	Equity funds
Equipment update of refining Department	-	56,562	17,622	(40,057)	-	34,127	-	-	-	-	-	Equity funds
Technical transformation of Ministry of environmental protection and water affairs	-	14,590	47,898	(56,196)	-	6,292	-	-	-	-	-	Equity funds
Information project of Ministry of information	-	22,363	28,787	(38,638)	-	12,512	-	-	-	-	-	Equity funds
Information project of Ministry of information	-	23,839	7,762	(21,504)	-	10,097	-	-	-	-	-	Equity funds
Polyester equipment update	-	42,642	311	(34,389)	-	8,564	-	-	-	-	-	Equity funds

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

(13) Construction in progress *(continued)*

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

Projects name	Budget	31 December 2019	Increase in current year	Transferred to fixed assets in current year (Note 4(12))	Disposal in current year	31 December 2020	Percentage of actual cost to budget	Project progress	Accumulative capitalized borrowing costs	Current year capitalized borrowing costs	Current year borrowing cost capitalizing rate	Source of funds
Production and operation of storage and transportation department	-	6,084	11,976	(5,671)	-	12,389	-	-	-	-	-	Equity funds
Technical transformation of the company headquarters	-	6,058	27,239	(23,099)	-	10,198	-	-	-	-	-	Equity funds
Technical transformation of storage and transportation department	-	3,060	15,498	(17,729)	-	829	-	-	-	-	-	Equity funds
Technical transformation Department of thermoelectricity	-	26,543	4,132	(18,333)	-	12,342	-	-	-	-	-	Equity funds
Equipment update of aromatics Department	-	333	26,755	(24,775)	-	2,313	-	-	-	-	-	Equity funds
Energy saving and environmental protection of public utilities	-	6,043	37,351	(17,281)	-	26,113	-	-	-	-	-	Equity funds
Energy saving and environmental protection of thermal power department	-	10,309	9,143	(8,695)	-	10,757	-	-	-	-	-	Equity funds
Energy saving and environmental protection of olefin Department	-	15,014	16,222	(20,076)	-	11,160	-	-	-	-	-	Equity funds
Company headquarters others	-	4,210	20,351	(17,956)	-	6,605	-	-	-	-	-	Equity funds
Technical transformation of aromatics Department	-	14,432	7,337	(18,780)	-	2,989	-	-	-	-	-	Equity funds
Energy saving and environmental protection of storage and transportation department	-	776	16,440	(9,131)	-	8,085	-	-	-	-	-	Equity funds
Technical transformation of acrylic fiber Department	-	21,012	27,642	(43,090)	-	5,564	-	-	-	-	-	Equity funds
Hidden danger management of storage and transportation department	-	5,063	3,256	(2,540)	-	5,779	-	-	-	-	-	Equity funds
System upgrade and development of Information Department	-	24,763	8,872	(21,997)	-	11,638	-	-	-	-	-	Equity funds
Production and operation of refining Department	-	12,647	4,054	(11,627)	-	5,074	-	-	-	-	-	Equity funds
Equipment update of storage and transportation department	-	2,739	17,588	(454)	-	19,873	-	-	-	-	-	Equity funds
Energy saving and environmental protection	-	30,445	18,160	(38,907)	-	9,698	-	-	-	-	-	Equity funds
Environmental protection, water conservation and environmental protection	-	3,054	33,074	(29,409)	-	6,719	-	-	-	-	-	Equity funds
Optimization and upgrading of Plastics Department	-	-	28,342	(36)	-	28,306	-	-	-	-	-	Equity funds
Hidden trouble treatment of thermal power department	-	-	15,159	(4,654)	-	10,505	-	-	-	-	-	Equity funds
Other sporadic projects	-	252,745	63,785	(41,987)	-	374,543	-	-	-	-	-	Equity funds
		1,850,210	1,444,888	(1,550,313)	(10,175)	1,734,610						
Less: provision for impairment		(34,661)	-	-	10,175	(24,486)						
		1,815,549	1,444,888	(1,550,313)	-	1,710,124				8,292		

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

(13) Construction in progress *(continued)*

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

In 2020, the capitalized amount of the Group's borrowing expenses is RMB8,292 thousand (2019: RMB5,594 thousand).

In 2020, the Group disposed the 50000 T/a ethanolamine project and wrote off the impairment provision of RMB10,175 thousands (2019: Nil).

As at December 31 2020, the balance of the impairment provision for the Group's construction in progress is the impairment provision for the long-term suspended the energy saving transformation of no. 2 and no. 3 aromatics combined plant with the amount of RMB24,486 thousand (December 31 2019: the balance of the impairment provision for the Group's construction in progress is the impairment provision for the long-term suspended 50,000-ton/year ethanolamine project and the energy saving transformation of no. 2 and no. 3 aromatics combined plant with the amount of RMB34,661 thousand).

(14) Right-of-use assets

	Buildings	Plant and machinery	Vehicles and other equipment	Total
Cost				
31 December 2019	33,277	74,086	1,780	109,143
Increase	5,419	1,160	376	6,955
Decrease	(2,570)	(73,979)	(270)	(76,819)
31 December 2020	36,126	1,267	1,886	39,279
Accumulated depreciation				
31 December 2019	11,072	73,918	505	85,495
Increase	15,481	449	758	16,688
Decrease	(1,648)	(73,979)	(270)	(75,897)
31 December 2020	24,905	388	993	26,286
Carrying amount				
31 December 2020	11,221	879	893	12,993
31 December 2019	22,205	168	1,275	23,648

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

(15) Intangible assets

	Land use rights	Other intangible assets	Total
Cost			
31 December 2019	700,821	100,140	800,961
Increase			
Business combination under different control (Note 5(1))	102,283	–	102,283
Purchase	–	53	53
Decrease	(17,537)	–	(17,537)
31 December 2020	785,567	100,193	885,760
Accumulated amortization			
31 December 2019	380,609	82,506	463,115
Charge in current year	15,965	2,919	18,884
Disposal in current year	(8,815)	–	(8,815)
31 December 2020	387,759	85,425	473,184
Carrying amount			
31 December 2020	397,808	14,768	412,576
31 December 2019	320,212	17,634	337,846

In 2020, amortization expenses of intangible assets amounted to RMB18,884 thousand (2019: RMB19,510 thousand).

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

(16) Long-term prepaid expenses

	31 December 2019	Increase	Amortisation	31 December 2020
Catalysts	455,390	168,938	(222,024)	402,304
Leaseholding improvements	7,878	–	(1,109)	6,769
Others	512	817	(211)	1,118
	463,780	169,755	(223,344)	410,191

(17) Deferred tax assets and deferred tax liabilities

(a) Deferred tax assets before offsetting

	31 December 2020		31 December 2019	
	Deductible temporary differences and deductible losses	Deferred tax assets	Deductible temporary differences and deductible losses	Deferred tax assets
Provision for bad debts and inventory	229,306	57,326	155,601	38,901
Provision for impairment of fixed assets	881,253	220,313	795,869	198,967
Provision for impairment of construction in progress	24,486	6,122	34,661	8,665
Accrued expenses	488,452	122,113	316,378	79,095
Deductible loss	351,197	87,799	7,944	1,986
Change in fair value	–	–	546	137
Other deferred tax assets	35,494	8,873	37,731	9,431
	2,010,188	502,546	1,348,730	337,182
Including:				
To be recovered within 12 months		255,646		117,624
To be recovered over 12 months		246,900		219,558
		502,546		337,182

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

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

(b) Deferred tax liabilities before offsetting

	31 December 2020		31 December 2019	
	Taxable temporary differences	Deferred tax liabilities	Taxable temporary differences	Deferred tax liabilities
Difference from depreciation and amortization	(1,134,957)	(283,739)	(715,201)	(178,800)
Capitalized borrowing costs	(8,174)	(2,043)	(11,784)	(2,946)
Change in fair value	–	–	(18,417)	(4,604)
	(1,143,131)	(285,782)	(745,402)	(186,350)
Including:				
To be recovered within 12 months		(10,608)		(20,167)
To be recovered over 12 months		(275,174)		(166,183)
		(285,782)		(186,350)

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

	31 December 2020	31 December 2019
Deductible temporary differences	29,969	29,969
Deductible losses	72,699	121,723
	102,668	151,692

In accordance with the accounting policy set out in note 2 (26), it is unlikely that some of the Group's subsidiaries will obtain sufficient future taxable profits to be used to offset the relevant future deductible losses. Therefore, the Group has not recognised deferred income tax assets for the cumulative deductible losses of the following subsidiaries. Under current tax law, these deductible losses expire between 2022 and 2025.

	31 December 2020	31 December 2019
Shanghai Petrochemical Investment Development Company Limited ("Toufa")	39,656	93,361
Shanghai Jinshan Hotel Company Limited ("Jinshan Hotel")	21,758	28,362
Jinlian	11,285	–
	72,699	121,723

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

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

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

	31 December 2020	31 December 2019
2020	–	17,775
2021	–	12,880
2022	12,687	12,687
2023	10,415	40,069
2024	38,312	38,312
2025	11,285	–
	72,699	121,723

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

	31 December 2020		31 December 2019	
	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	(250,425)	252,121	(186,350)	150,832
Deferred tax liabilities	250,425	(35,357)	186,350	–

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

(18) Other non-current assets

	31 December 2020	31 December 2019
Three-year fixed deposit	7,042,840	3,511,234

As at 31 December 2020, other non-current assets of the Group is three year fixed deposit with interest rate range from 3.85% to 4.20% per annum (31 December 2019: from 4.125% to 4.18%).

(19) Provision for assets impairment

	31 December 2019	Increase	Decrease: Reverse	Decrease: Sold	Decrease: Written off	31 December 2020
Notes receivable and accounts receivable provision Note (4(4))	–	634	–	–	–	634
Include: Single provision	–	–	–	–	–	–
Group provision	–	634	–	–	–	634
Provision for other receivable Note (4(7))	139	–	–	–	–	139
	139	634	–	–	–	773
Provision for inventory Note (4(8))	155,462	1,749,086	(1,528,198)	(147,817)	–	228,533
Provision for PPE Note (4(12))	825,838	87,570	–	–	(2,186)	911,222
Provision for CIP Note (4(13))	34,661	–	–	–	(10,175)	24,486
	1,015,961	1,836,656	(1,528,198)	(147,817)	(12,361)	1,164,241
	1,016,100	1,837,290	(1,528,198)	(147,817)	(12,361)	1,165,014

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

(20) Short-term borrowings

Classification of short-term borrowings

	Currency	31 December 2020	31 December 2019
Unsecured – bank borrowings	RMB	1,548,000	1,547,600

As at 31 December 2020, the weighted average interest rate of short-term borrowings ranged from 2.76% to 3.70%per annum (31 December 2019: from 2.92%to 4.35% per annum).

As at 31 December 2020 and 2019, there are no short-term borrowings which are due but have not been repaid.

(21) Notes payable

	31 December 2020	31 December 2019
Bank acceptance	139,360	733,900

(22) Accounts payable

	31 December 2020	31 December 2019
Related parties (Note 8(6))	3,377,497	5,521,894
Third parties	1,294,138	2,142,402
	4,671,635	7,664,296

As at 31 December 2020 and 31 December 2019, there are no individually significant accounts payable aged over one year.

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

(23) Contract liabilities

	31 December 2020	31 December 2019
Related parties (Note 8(6))	1,117	5,666
Third parties	495,404	655,117
	496,521	660,783

As at 31 December 2020 and 2019, there are no individually significant contract liabilities aged over one year.

(24) Employee benefits payable

	31 December 2020	31 December 2019
Short-term employee benefits payable (a)	222,831	168,995
Defined contribution plans payable (b)	21,675	20,552
	244,506	189,547

(a) Short-term employee benefits payable

	31 December 2019	Increase in current year	Decrease in current year	31 December 2020
Wages and salaries, bonuses, allowances and subsidies	150,567	2,009,645	(1,956,822)	203,390
Staff welfare	3,569	214,178	(214,178)	3,569
Social insurances	14,340	152,088	(151,303)	15,125
Including: Medical insurance	11,838	118,140	(117,583)	12,395
Work injury insurance	1,257	12,550	(12,460)	1,347
Maternity insurance	1,245	12,878	(12,740)	1,383
Supplementary medical insurance	–	8,520	(8,520)	–
Housing funds	–	191,387	(191,387)	–
Compensation for lay-off	–	20,060	(20,060)	–
Others	519	207,643	(207,415)	747
	168,995	2,795,001	(2,741,165)	222,831

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

(24) Employee benefits payable *(continued)*

(b) Defined contribution plans payable

	31 December 2019	Increase in current year	Decrease in current year	31 December 2020
Basic pensions	19,929	199,196	(198,108)	21,017
Unemployment insurance	623	6,145	(6,110)	658
Supplemental basic pensions	–	142,877	(142,877)	–
	20,552	348,218	(347,095)	21,675

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. In 2020, the Group's contribution to the above two plans amounted to RMB199,196 thousand and RMB142,877 thousand respectively (2019: RMB258,328 thousand and RMB125,370 thousand respectively).

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

(25) Taxes payable

	31 December 2020	31 December 2019
Consumption tax payable	2,784,600	2,935,211
Value added tax payable	356,104	221,932
City maintenance and construction tax payable	93,471	231,537
Educational surcharge payable	66,870	144,124
Individual income tax payable	33,771	23,580
Enterprise income tax payable	19,425	226,269
Land use tax payable	10,967	12,326
Others	20,702	8,308
	3,385,910	3,803,287

(26) Other payables

	31 December 2020	31 December 2019
Related parties (Note 8(6))	165,063	120,834
Third parties	1,468,981	716,303
A ordinary share dividend	29,522	29,144
Others	1,246	1,686
	1,664,812	867,967

(a) As at 31 December 2020, there are no other payables that are individually significant aged over 1 year except unpaid project guaranty deposit.

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

	31 December 2020	31 December 2019
Oil price risk reserve	546,055	–
Accrued expenses	518,333	340,733
Equipment project	299,205	277,184
Payable to related parties (Note 8(6))	165,063	120,834
A ordinary share dividend	29,522	29,144
Withholding social security	22,559	11,694
Sales discount	17,190	25,092
Warranty deposit	15,357	32,098
Deposits	9,585	8,305
Others	41,943	22,883
	1,664,812	867,967

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

(27) Other current liabilities

	31 December 2020	31 December 2019
Short-term bonds (a)	3,017,811	–
Output tax to be transferred	54,339	–
	3,072,150	–

(a) Approved by the China interbank market dealers association [2020] Scp471, the Company issued a super short-term bonds of RMB3 billion to institutional investors in China in August 2020, with interest rate of 1.70% per year based on single interest, which will expire on 9 February 2021, and will pay principal and interest once due. At 31 December 2020, the Company will pay the interest on the ultra short-term financing bonds within one year of RMB17,811 thousand, which is listed in other current liabilities.

Relevant information of short-term bonds is as follows:

	par value	Issue date	Maturity	Amount
Short-terms bonds	RMB100	August 2020	169 days	3,000,000 thousand

(28) Non-current liabilities maturing within one year

	31 December 2020	31 December 2019
Lease liabilities maturing within one year (Note 4(29))	9,352	11,450

(29) Lease liabilities

	31 December 2020	31 December 2019
Lease liabilities	12,471	22,043
Less: Non-current liabilities maturing within one year (Note 4(28))	(9,352)	(11,450)
	3,119	10,593

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

(30) Deferred income

	31 December 2019	Increase in current year	Decrease in current year	31 December 2020	Related to assets/related to income
Government grants project(a)	130,005	3,865	(10,437)	123,433	Related to assets

			Decrease							
	31 December 2019	Increase	Deduct from Property plant and Equipment	Include in other income	Deduct from general and administrative expenses	Deduct from financial expenses	Include in non-operating income	Deduct from non-operating expense	31 December 2020	Related to assets/ income
Investment subsidy for Chemical industry park	120,000	–	–	–	–	–	(10,000)	–	110,000	Related to assets
Huang gu tang pipeline relocation subsidy	4,805	–	–	–	–	–	(437)	–	4,368	Related to assets
Power units energy saving reconstruction subsidies	5,200	–	–	–	–	–	–	–	5,200	Related to assets
Others	–	3,865	–	–	–	–	–	–	3,865	Related to assets
	130,005	3,865	–	–	–	–	(10,437)	–	123,433	

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

(31) Share capital

		Increase or decrease in current year					
	31 December 2019	Issue new share	Stock dividend	Transfer from capital surplus to paid-in capital	Other	Subtotal	31 December 2020
Non-restricted Shares – Domestic legal persons shares	7,328,814	–	–	–	–	–	7,328,814
Foreign investment H shared listed overseas	3,495,000	–	–	–	–	–	3,495,000
	10,823,814	–	–	–	–	–	10,823,814

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.

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.

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

(31) Share capital *(continued)*

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. Meanwhile, Sinopec Corp. also committed in the Share Segregation Reform Resolution that a scheme of converting surplus to share capital (no less than 4 shares for every 10 shares) will be proposed on the board of directors and shareholders meetings within 6 months after the circulation date.

On 22 October 2013, Sinopec Corp. passed the Share Reform Commitment Scheme added up to 3,600,000 shares, after deliberation of temporary shareholders' meeting, A share class shareholders' meeting and H share class shareholders' meeting.

Since the Company share reform, which was executed after 20 August 2013, the Company's non-circulating A shares have been granted circulating rights on Shanghai Stock Exchange ("SSE"). As part of the restricted conditions, all the 5,460,000,000 A shares held by Sinopec Corp. and 225,000,000 A shares held by social legal persons had been realized circulation as at 31 December 2016.

On 23 August 2017, the first Share Option Incentive Scheme of A shares was passed according to board resolution. On 27 September 2017, the Company increased newly registered capital of RMB14,16,600, which was paid in cash amount to RMB54,579,910 by 199 grantees. The difference between actual capital contribution and registered capital amount to RMB40,403,310 was included in share premium (Note (28)). As to 31 December 2017, total equity capital was 10,814,176,600 shares.

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

(31) Share capital *(continued)*

On January 8, 2018, according to the resolution of the board of directors of the Company, the second exercise period exercise plan of the Company's common a-share stock option incentive plan was adopted. On January 12, 2018, the new registered capital of the Company is RMB9,637,000, which is fully paid in cash by 185 equity incentive objects who meet the conditions for exercise. The difference between the actual capital contribution and the subscribed registered capital is RMB27,465 thousand, which is included in the Company's capital reserve - equity premium, and the confirmed capital reserve - employee equity option plan in the waiting period is RMB17,062 thousand, which is transferred to the capital reserve - equity premium (note 4(32)).

According to the board resolution of the Company on December 28, 2018, the third exercise period of the stock option incentive plan for A shares of the common stock of the Company will not be exercised because the non-market exercise conditions are not met. As at 31 December 2020 and 2019, the total share capital of the Company was 10,823,813,500 shares.

		Increase or decrease in current year					
	31 December 2018	Issue new share	Stock dividend	Transfer from capital surplus to paid-in capital	Other	Subtotal	31 December 2019
Non-restricted Shares –							
RMB ordinary							
A shares listed in PRC	7,328,814	–	–	–	–	–	7,328,814
Foreign investment							
H shared listed overseas	3,495,000	–	–	–	–	–	3,495,000
	10,823,814	–	–	–	–	–	10,823,814

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

(32) Capital surplus

	31 December 2019	Increase in current year	Decrease in current year	31 December 2020
Government grants	412,370	–	–	412,370
Refund of harbor construction charge	32,485	–	–	32,485
Share premium	106,846	–	–	106,846
Others	58,626	–	–	58,626
	610,327	–	–	610,327

	31 December 2018	Increase in current year	Decrease in current Year	31 December 2019
Government grants	412,370	–	–	412,370
Refund of harbor construction charge	32,485	–	–	32,485
Share premium	106,846	–	–	106,846
Others	58,626	–	–	58,626
	610,327	–	–	610,327

(33) Other comprehensive income

	Other comprehensive income in Balance Sheet			Other comprehensive income in 2020 Income Statement				
	31 December 2019	After-tax attributable to the parent company	31 December 2020	Current year before income tax amount	Less: Pre-included other comprehensive income transferred out this year	Less: income tax expense	After-tax attributable to the parent company	After-tax attributable to minority shareholders
Items that may be reclassified to profit or loss								
Share of other comprehensive (loss)/income of associates and joint ventures accounted for using the equity method	17,838	(11,512)	6,326	(11,512)	–	–	(11,512)	–
Cash flow hedging reserve	–	–	–	(63,840)	63,840	–	–	–
	17,838	(11,512)	6,326	(75,352)	63,840	–	(11,512)	–

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

(33) Other comprehensive income *(continued)*

	Other comprehensive income in Balance Sheet			Other comprehensive income in 2019 Income Statement				
	31 December 2018	After-tax attributable to the parent company	31 December 2019	Current year before income tax amount	Less: Pre-included other comprehensive income transferred out this year	Less: income tax expense	After-tax attributable to the parent company	After-tax attributable to minority shareholders
Other comprehensive income reclassificated in profit or loss								
Under the equity method after the invested entity will be reclassified into the share of profits/(losses)of other comprehensive income	10,389	7,449	17,838	7,449	–	–	7,449	–

(34) Specific reserve

	31 December 2019	Accrued during the year	Utilised during the year	31 December 2020
Safety production costs	57,137	139,173	(50,713)	145,597

	31 December 2018	Accrued during the year	Utilised during the year	31 December 2019
Safety production costs	57,135	138,028	(138,026)	57,137

Specific reserve represents unutilised safety production costs accrued in accordance with state regulations (Note 2(19)).

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

(35) Surplus reserve

	31 December 2019	Increase in current year	Decrease in current year	31 December 2020
Statutory surplus reserve	6,335,655	37,093	–	6,372,748
Discretionary surplus reserve	101,355	–	–	101,355
	6,437,010	37,093	–	6,474,103

	31 December 2018	Increase in current year	Decrease in current year	31 December 2019
Statutory surplus reserve	6,135,815	199,840	–	6,335,655
Discretionary surplus reserve	101,355	–	–	101,355
	6,237,170	199,840	–	6,437,010

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. Statutory surplus reserve amounted to RMB37,093 thousand was provided in current year (2019: RMB199,840 thousand).

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 year (2019: Nil).

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

(36) Undistributed profits

	2020	2019
Undistributed profits at the beginning of the year	11,939,215	12,631,291
Add: Net profit attributable to equity shareholders of the Company	628,110	2,213,716
Less: Appropriation to statutory reserve (Note 4(35))	(37,093)	(199,840)
Ordinary shares dividend payable (a)	(1,298,858)	(2,705,952)
Others	(73,508)	–
Undistributed profits at the end of the year	11,157,866	11,939,215

(a) Pursuant to the resolution of the shareholders' meeting on 18 June 2020, a dividend in respect of the year ended 31 December 2019 of RMB0.12 per share, amounting to a total dividend of RMB1,298,858 thousand was declared (2019: RMB0.25 per share (including tax), amounting to a total dividend of RMB2,705,952 thousand).

Pursuant to the resolution of the shareholders' meeting on 24 March 2021, the Company proposed cash dividend to all the shareholders, RMB0.1 per share (including tax), based on 10,823,813,500 shares outstanding, amounting to a total dividend of RMB1,082,381 thousand. The proposal remains to be approved.

(37) Non-controlling interests

Attributable to the non-controlling interests of the Group:

	31 December 2020	31 December 2019
Jinmao	95,194	89,808
Shanghai Jinchang Engineering Plastics Company Limited "Jinchang"	41,791	40,752
	136,985	130,560

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

(38) Revenue and cost of sales

	2020	2019
Main operations revenue (a)	74,295,495	99,897,094
Other operating revenue	409,688	448,954
	74,705,183	100,346,048

	2020	2019
Main operations cost (a)	58,820,331	83,465,489
Other operating cost	268,788	315,551
	59,089,119	83,781,040

(a) Main operations revenue and main operations cost

The principal business of the Group mainly belongs to the petrochemical industry.

Analysis by product is as follows:

	2020		2019	
	Main operations revenue	Main operations cost	Main operations revenue	Main operations cost
Synthetic fibres	1,480,576	1,764,492	2,200,229	2,486,042
Resins and plastics	9,475,887	7,334,646	10,163,711	8,790,918
Intermediate petrochemicals	8,251,252	6,867,874	10,511,143	9,095,702
Petroleum products	43,080,204	30,970,671	54,886,705	41,156,331
Trading of petrochemical products	11,585,110	11,467,420	21,706,014	21,566,364
Others	422,466	415,228	429,292	370,132
	74,295,495	58,820,331	99,897,094	83,465,489

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

(38) Revenue and cost of sales *(continued)*

(b) Analysis of group revenue as follow:

	2020						
	Synthetic fibres	Resins and plastics	Intermediate petrochemicals	Petroleum products	Trading of petrochemical products	Others	Total
Revenue	1,480,576	9,475,887	8,251,252	43,080,204	11,585,110	422,466	74,295,495
Recognized at a point	1,480,576	9,475,887	8,251,252	43,080,204	11,583,709	422,466	74,294,094
Recognized during a period	–	–	–	–	1,401	–	1,401
Other business revenue (i)	–	–	–	–	–	409,688	409,688
	1,480,576	9,475,887	8,251,252	43,080,204	11,585,110	832,154	74,705,183

	2019						
	Synthetic fibres	Resins and plastics	Intermediate petrochemicals	Petroleum products	Trading of petrochemical products	Others	Total
Revenue	2,200,229	10,163,711	10,511,143	54,886,705	21,706,014	429,292	99,897,094
Recognized at a point	2,200,229	10,163,711	10,511,143	54,886,705	21,695,864	429,292	99,886,944
Recognized during a period	–	–	–	–	10,150	–	10,150
Other business revenue (i)	–	–	–	–	–	448,954	448,954
	2,200,229	10,163,711	10,511,143	54,886,705	21,706,014	878,246	100,346,048

(i) The Group's incoming material processing income, power transfer income and material sales income are recognized at a certain point.

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

(39) Taxes and surcharges

	2020	2019	Tax base and rate
Consumption tax	11,399,147	10,729,174	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)
City maintenance and construction tax	899,503	829,630	1% or 7% of actual payments of consumption, business tax and VAT during the year
Educational surcharge and others	665,664	556,562	3% of actual payments of consumption, business tax and VAT during the year
Stamp tax	33,427	31,440	Applicable tax rate
Property tax	25,860	25,951	1.2% of taxable property value or 12% of rental expense
Land use tax	23,615	22,816	Applicable tax rate
Others	15,494	18,354	
	13,062,710	12,213,927	

(40) Selling and distribution expenses

	2020	2019
Transportation fee	227,000	246,804
Sales commission	104,598	125,641
Staff costs	71,866	72,759
Storage and logistics expenses	47,002	50,612
Others	28,794	36,639
	479,260	532,455

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

(41) General and administrative expenses

	2020	2019
Repair and maintenance expense	1,060,624	1,089,829
Staff costs	961,442	988,026
Depreciation and amortisation	130,044	101,716
Security and fire extinguishment expenses	54,596	50,010
Information system operation maintenance	53,233	57,928
Depreciation of right-of-use assets	12,991	11,061
Others	186,398	201,717
	2,459,328	2,500,287

(42) R&D expense

	2020	2019
R & D material cost	44,241	41,899
Technical cooperation fee	30,101	24,637
Payroll	25,896	12,927
Depreciation and amortisation	4,271	5,534
Others	6,116	7,967
	110,625	92,964

(43) Financial income – net

	2020	2019
Interest paid	100,845	56,808
Less: Capitalized borrowing costs	(8,292)	(5,594)
Add: Lease liabilities costs	887	2,570
Interest expenses	93,440	53,784
Less: Interest income	(431,228)	(398,176)
Exchange gains net	(6,734)	(21,219)
Others	7,063	17,430
	(337,459)	(348,181)

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

(44) Expenses by nature

The cost of sales, selling and administrative expenses, general and administrative expenses and R&D expenses in the income statements are listed as follows by nature:

	2020	2019
Consumed raw materials and low value consumables, etc.	42,082,307	57,101,961
Cost of trading products	11,467,420	21,566,364
Employee benefits	3,143,219	3,147,372
Depreciation and amortization expenses	1,812,461	1,753,614
Repair and maintenance expenses	1,060,624	1,089,829
Changes in inventories of finished goods and work in progress	862,652	446,779
Transportation expenses	274,002	297,416
Handling and miscellaneous charges	227,000	246,804
External processing (service) fee	215,467	215,288
Agency fee	104,598	125,641
Environmental protection expenditure	66,943	70,082
Security and fire fighting expenses	54,596	50,010
R & D material cost	44,241	41,899
Technical cooperation fee	30,101	24,637
Depreciation of right to use assets	16,688	87,184
Rental fee	3,731	2,961
Audit fee	7,800	7,800
Other expense	664,482	631,105
	62,138,332	86,906,746

The Group attributed the expense of short-term rent to profits or losses in current period directly as stated in Note 2(27), the amount is RMB3,731 thousand.

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

(45) Other income

	2020	2019	Related to asset/ related to income
Tax refunds	32,653	31,470	related to income
Scientific research expenditures subsidy subsidy	8,543	11,140	related to income
Others	19,663	21,216	related to income
	60,859	63,826	

(46) Investment income

	2020	2019
Investment income accounted for using the equity method	714,740	962,593
Structured deposit income	132,690	86,848
Investment losses of derivative financial instruments	(912)	(15,316)
Losses on sale of FVOCI (Note 4(5))	(9,513)	(19,513)
Investment loss from disposal of long term equity investment (Note 6(1))	–	(60,951)
	837,005	953,661

(47) (Losses)/gains from changes in fair values

	2020	2019
Financial assets measured at fair value through profits or losses —		
Structured deposit income	(18,407)	(1,404)
Derivative financial assets and derivative financial liabilities—		
Foreign exchange option	536	3,001
	(17,871)	1,597

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

(48) Net reversal of impairment losses on financial assets

	2020	2019
Notes receivable and Accounts receivable provision (loss)/revise	(634)	54
Other receivable provision revise (a)	121,550	5
	120,916	59

(a) Zhejiang Jinyong Acrylic Fiber Co., Ltd. (Jinyong company), a former subsidiary of the Group within the scope of merger, went into bankruptcy on August 23, 2019. According to the distribution plan of Jinyong company's bankruptcy property, the Group recovered RMB12,155 thousand of debt repayment paid by Jinyong company's bankruptcy administrator this year.

(49) Assets Impairment loss

	2020	2019
Provision for decline in value of inventories	(220,888)	(70,178)
Provision for impairment of fixed assets	(87,570)	–
Provision for construction in progress	–	(486)
	(308,458)	(70,664)

(50) Gains on disposal of assets

	2020	2019	Recognized as non-recurring profits or losses in current year
Gains on disposal of assets (a)	102,808	207,607	102,808
Loss on disposal of assets	(199)	(31,283)	(199)
	102,609	176,324	102,609

(a) In 2019, Jinyong company, a former subsidiary of the Group, disposed land use right with a gain of RMB126,817 thousand.

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

(51) Non-operating income

	2020	2019	Recognized as extraordinary profit and loss in current year
Government grants (a)	10,437	15,852	10,437
Others	5,772	4,655	5,772
	16,209	20,507	16,209

(a) Government grants mainly include:

	2020	2019
Amortization of deferred income (Note 4(30))	10,437	10,437
Others	–	5,415
	10,437	15,852

(52) Non-operating expenses

	2020	2019	Recognized as extraordinary profit and loss in current year
Allowances	39,679	41,251	39,679
Others	39,374	23,499	39,374
	79,053	64,750	79,053

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

(53) Income tax (benefits)/expenses

	2020	2019
Current tax expense for the year based on tax law and regulations	37,027	460,720
Movement of deferred tax	(102,647)	(31,757)
	(65,620)	428,963

The reconciliation from income tax calculated based on the applicable tax rates and total profit presented in the consolidated financial statements to the income tax (benefits)/expenses is listed below:

	2020	2019
Total profit	573,816	2,654,116
Income tax expenses calculated at applicable tax rates	143,454	663,529
Tax effect of share of profit of investments accounted for using the equity method	(178,685)	(239,562)
Other non-taxable profit	(53,876)	(6,956)
Tax deductions for R&D expenses	(11,863)	(7,500)
Costs, expenses and losses not deductible	55,281	42,906
Difference in settlement of income tax in previous years and the supplementary income tax	(9,188)	(2,618)
Deductible loss of unrecognized deferred income tax assets in the previous period	(13,564)	(30,414)
Tax losses for which no deferred income tax asset was recognized in the year	2,821	9,578
Income tax (benefits)/expenses	(65,620)	428,963

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

(54) 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:

	2020	2019
Consolidated net profit attributable to shareholders of the Company	628,110	2,213,716
Weighted average number of the Company's ordinary shares outstanding (thousand)	10,823,814	10,823,814
Basic earnings per share	0.058	0.205

(b) Diluted earnings per share:

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. For the year ended 31 December 2020, there were no potential dilutive ordinary share due to no outstanding share option. Diluted earnings per share is equal to basic earnings per share (2019: Nil).

(55) Notes to consolidated cash flow statement

(a) Cash received from other operating activities

	2020	2019
Received bankruptcy repayment of Jinyong company	121,550	–
Subsidy income	28,206	37,771
Others	95,839	4,304
	245,595	42,075

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

(55) Notes to consolidated cash flow statement *(continued)*

(b) Cash paid from other operating activities

	2020	2019
Research and development expenses	(106,354)	(87,430)
Agency fee	(104,598)	(125,641)
Security and fire fighting expenses	(54,596)	(50,010)
Operation and maintenance cost of information system	(53,233)	(57,928)
Commodity storage and logistics fee	(47,002)	(50,612)
Others	(19,755)	(58,863)
	(385,538)	(430,484)

(c) Cash received from other investment activities

	2020	2019
Structured deposit receipts	10,900,000	3,200,000
Recover the time deposit within one year	500,000	4,100,000
Interest income	410,404	533,248
	11,810,404	7,833,248

(d) Cash paid from other investment activities

	2020	2019
Paid from Structured paid	(7,600,000)	(3,800,000)
Paid from time deposit without one year	(3,500,000)	–
Paid from time deposit within one year	(3,000,000)	(7,600,000)
Losses on sale of FVOCI	(9,513)	(19,513)
Derivative financial instrument investment loss	(912)	(15,316)
	(14,110,425)	(11,434,829)

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

(55) Notes to consolidated cash flow statement *(continued)*

(e) Cash paid from to other financial activities

	2020	2019
Lease liabilities payment	(15,586)	(89,124)

In the year of 2020, cash payment of the Group related to lease activities is RMB20,204 thousand, beside which, the rest of cash payment attributed in operating activities.

(56) Supplementary materials to consolidated cash flow statement

(a) Reconciliation from net profit to cash flows from operating activities

	2020	2019
Net profit	639,436	2,225,153
Add: Provisions for assets impairment	308,458	70,664
Net reversal of impairment losses on financial assets	(120,916)	(59)
Depreciation of investment properties	15,184	14,694
Depreciation of property, plant and equipment	1,555,049	1,509,814
Depreciation of right-of-use assets	16,688	87,184
Amortisation of intangible assets	18,884	19,510
Amortisation of long-term prepaid expenses	223,344	209,596
Losses on disposal of long-term assets	(72,296)	(158,551)
Losses/(gains) arising from changes in fair value	17,871	(1,597)
Financial income – net	(269,823)	(362,964)
Investment income	(837,005)	(953,661)
Increase in deferred tax assets	(101,289)	(31,757)
Decrease in deferred liabilities	(1,358)	–
Amortization of deferred income	(10,437)	(10,437)
Decrease in inventories	2,644,799	1,296,263
Decrease in operating receivables	696,083	554,214
(Decrease)/increase in operating payables	(3,059,915)	653,141
Increase in specific reserve	88,460	2
Net cash flows generated from operating activities	1,751,217	5,121,209

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

(56) Supplementary materials to consolidated cash flow statement *(continued)*

(a) Reconciliation from net profit to cash flows from operating activities *(continued)*

Major operational and investment activities that do not involve cash receipts and payments

	2020	2019
Inventory purchases paid with bank acceptance	1,077,105	733,915
Payment by bank acceptance bill of long-term assets procurement	65,800	73,812
Increase in right-of-use assets	6,955	33,980
	1,149,860	841,707

Movement of cash and cash equivalent

	2020	2019
Year end balance of cash and cash equivalent	6,916,408	7,449,699
Less: beginning balance of cash and cash equivalent	(7,449,699)	(8,741,893)
Net decrease in cash and cash equivalent	(533,291)	(1,292,194)

(b) Acquisition or disposal of subsidiaries

(i) Acquisition of subsidiaries

	2020
Cash and cash equivalents paid in current year for business combination	340,369
Including: Jinlian	340,369
Less: purchase of cash and cash equivalents held by Jinlian	(54)
Net cash paid for acquiring subsidiaries	340,315
Price of acquisition of subsidiaries in 2020	
Jinlian	340,369

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

(56) Supplementary materials to consolidated cash flow statement *(continued)*

(b) Acquisition or disposal of subsidiaries *(continued)*

Net assets of acquisition of subsidiaries on the purchase date in 2020

	June 30 2020
Current asset	59
Non current assets	377,998
Current liabilities	(867)
Non current liabilities	(36,715)
	340,475

Net assets of disposal of subsidiaries on the disposal date in 2019

	August 23 2019
Current asset	141,114
Non current assets	7
Current liabilities	(86,181)
	54,940

(57) Foreign monetary items

	31 December 2020		
	Foreign currency	Exchange rate	RMB currency
Cash at bank and on hand-USD	31,836	6.5249	207,727
Accounts receivable-USD	18,214	6.5249	118,845
Other receivable-USD	40	6.5249	261
Financial assets at fair value through other comprehensive income-USD	49,645	6.5249	323,929
Accounts payables-USD	(88,604)	6.5249	(578,132)
Other payables-USD	(1,319)	6.5249	(8,606)

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5 Change of consolidation scope

(1) Business combination not under the same control

(a) Business combination not under the same control in this year

Acquiree	Cost	Proportion of equity acquisition	Way of acquisition	Acquisition date	Basis for determination of purchase date	Income of the acquiree from the acquisition date to the end of the year	Net loss of the acquiree from the acquisition date to the end of the year	Cash flow of operating activities of the buyer from the date of acquisition to the end of the year	Net cash flow of the acquiree from the purchase date to the end of the year
Jinlian	340,369	100%	Cash	June 30 2020	Control transferred	293,197	(11,024)	(8,113)	(19,431)

(b) Recognition of merger cost and goodwill is as follows:

	Jinlian
Merger costs	340,369
Less: share of fair value of identifiable net assets obtained	(340,476)
Non operating income	(107)

(c) The assets and liabilities of the acquiree on the purchase date are listed as follows:

(i) Jinlian

	Acquisition date Fair value	Acquisition date Book value	December 31 2019 Book value
Cash at bank and on hand	54	54	1,877
Accounts receivable	5	5	491
Property, plant and equipment	275,715	80,812	86,689
Intangible assets	102,283	57,754	58,476
Other current asset	5,387	5,387	5,360
Less: Short-terms borrowing	–	–	(395,610)
Employee benefits payable	(5)	(5)	(474)
Taxes payable	(2,910)	(2,910)	(1,768)
Account payable	–	–	(819)
Other payable	(3,338)	(3,338)	–
Deferred tax liabilities	(36,715)	–	–
Net asset	340,476	137,759	(245,778)

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6 Interests in other entities

(1) Interests in subsidiaries

(a) As at 31 December 2020, the main composition of the Group's subsidiaries was as follows:

Name of subsidiaries	Main business area	Place of registry	Principal activities	Percentage of equity directly held	indirectly	Way of acquisition
Toufa	Shanghai	Shanghai	Investment	100.00%	–	Establish
Jinmao	Shanghai	Shanghai	Trading	67.33%	–	Establish
Jinchang	Shanghai	Shanghai	Manufacturing	–	74.25%	Establish
Shanghai Golden Phillips Petrochemical Company Limited ("Jinfei")	Shanghai	Shanghai	Manufacturing	–	100.00%	Establish
JMGJ	Shanghai	Shanghai	Trading	–	67.33%	Establish
Jinlian	Jiaxing	Jiaxing	Trading	100.00%	100.00%	Business combination under different control

(b) As at 31 December 2020 and 31 December 2019, attributable to non-controlling interests of subsidiaries' non-controlling shareholders were not significant (Note 4(37)).

(c) In June 2020, with the approval of the board of directors of the Company and the investment and development company, the investment and development company obtained 100% equity of Jinlian company with RMB340,369 thousand. On the purchase date of June 30, 2020, the fair value of fixed assets of Jinlian company was RMB275,715 thousand, the fair value of intangible assets was RMB102,283 thousand, and the fair value of identifiable net assets was RMB340,475 thousand (Note 5(1)).

(d) On August 23, 2019, Ningbo intermediate people's court ruled in accordance with the law the bankruptcy liquidation application of Jinyong company, an atomic company within the scope of merger of the Group, and designated Zhejiang Haitai law firm and Zhejiang Dewei certified public accountants Co., Ltd. as the managers of Jinyong company. After entering the stage of bankruptcy liquidation, the Group no longer has the control right of Jinyong company, and Jinyong company is no longer included According to the consolidated scope of the Group's financial statements, the relevant investment loss is RMB60,951 thousand.

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6 Interests in other entities *(continued)*

(2) Interests in joint ventures and associates

(a) As at 31 December 2020, the basic information of the Group's joint ventures and important associates is as follows:

	Place of main business	Place of registry	Principal activities	Whether it is strategic to group activities	% of ownership interest Directly	Indirectly
Joint ventures –						
BOC	Shanghai	Shanghai	Production and sales of industrial gases	Yes	–	50.00%
JYJC	Shanghai	Shanghai	Inspect and test chemical equipment	Yes	–	50.00%
Yangu Gas	Shanghai	Shanghai	Production and sales of industrial gases	Yes	–	50.00%
Associates –						
Shanghai Secco	Shanghai	Shanghai	Manufacturing and distribution of chemical products	Yes	20.00%	–
Chemical Industry	Shanghai	Shanghai	Planning, development and operation of the Chemical Industry Park	Yes	38.26%	–
Jinsen	Shanghai	Shanghai	Production of resins products	Yes	–	40.00%
Shidian Energy (i)	Shanghai	Shanghai	Electricity supply	Yes	–	40.00%
Azbil	Shanghai	Shanghai	Service and maintenance of building automation systems and products	Yes	–	40.00%

The Group adopts the equity accounting method for the above equity investments.

(i) In July 2019, with the permission of the Group and toufa board, toufa invested Shidian Energy with RMB71,816 thousand fixed assets and RMB248,184 thousand cash, to get 40% shares and vote and three board seats of the latter.

The above equity investments of the Group are accounted by equity method.

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6 Interests in other entities *(continued)*

(2) Interests in joint ventures and associates *(continued)*

(b) Major financial information of joint ventures

	31 December 2020			31 December 2019		
	BOC	JYJC	Yangu Gas	BOC	JYJC	Yangu Gas
Current Assets	301,707	19,358	74,690	247,385	20,757	63,951
Including: Cash and cash equivalents	233,898	13,281	62,878	182,548	11,200	51,386
Non-current Assets	147,717	1,800	26,066	181,372	1,937	36,972
Total Assets	449,424	21,158	100,756	428,757	22,694	100,923
Current liabilities	(57,153)	(2,453)	(3,463)	(37,444)	(3,993)	(3,460)
Non-current liabilities	(21,417)	–	–	(26,378)	–	–
Total liabilities	(78,570)	(2,453)	(3,463)	(63,822)	(3,993)	(3,460)
Net Assets	370,854	18,705	97,293	364,935	18,701	97,463
Net assets calculated by proportion of shareholding (i)	185,427	9,352	48,648	182,467	9,350	48,733
Adjustment – unrealized downstream transactions	(1,753)	–	–	(5,256)	–	–
Book value of joint ventures	183,674	9,352	48,648	177,211	9,350	48,733

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6 Interests in other entities *(continued)*

(2) Interests in joint ventures and associates *(continued)*

(b) Major financial information of joint ventures *(continued)*

	2020			2019		
	BOC	JYJC	Yangu Gas	BOC	JYJC	Yangu Gas
Revenue	420,160	21,674	58,463	414,374	29,290	55,302
Financial income	2,246	304	1,483	636	308	1,119
Income tax expense	(26,290)	(177)	–	(28,382)	(777)	–
Net profit	82,387	2,102	1,830	80,183	2,330	40
Other comprehensive income	–	–	–	–	–	–
Total comprehensive income	82,387	2,102	1,830	80,183	2,330	40
Dividends declared by joint venture	38,234	1,049	1,000	38,900	453	–

(i) The Group calculated shares of assets by its shareholding ratio, based on the amount from financial statements in joint ventures. The amount in financial statements of joint ventures based on the impacts of identifiable assets when obtained investment, fair value of liabilities, and consistency of accounting policies.

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6 Interests in other entities *(continued)*

(2) Interests in joint ventures and associates *(continued)*

(c) Summarised financial information for major associates

	As at 31 December 2020				
	Shanghai Secco	Chemical Industry	Jinsen	Azbil	Shidian Energy
Current Assets	10,430,726	4,618,722	74,170	227,172	790,069
Including:					
Cash and cash equivalents	5,220,637	2,920,133	44,333	144,645	768,979
Non-current Assets	6,099,126	3,811,036	64,421	3,984	72,441
Total Assets	16,529,852	8,429,758	138,591	231,156	862,510
Current Liabilities	(2,783,216)	(1,761,431)	(10,481)	(73,450)	(20,650)
Non-current liabilities	(32,482)	(528,237)	–	–	–
Total liabilities	(2,815,698)	(2,289,668)	(10,481)	(73,450)	(20,650)
Net Assets	13,714,154	6,140,090	128,110	157,706	841,860
Net assets calculated by proportion of shareholding (i)	2,742,832	2,349,198	51,244	63,083	336,744
Adjustment-internal unrealized transaction offset	(11,285)	–	–	–	(19,343)
Adjustment (ii)	–	(331,407)	–	–	–
Book value of associates	2,731,547	2,017,791	51,244	63,083	317,401

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6 Interests in other entities *(continued)*

(2) Interests in joint ventures and associates *(continued)*

(c) Summarised financial information for major associates *(continued)*

	31 December 2019				
	Shanghai Secco	Chemical Industry	Jinsen	Azbil	Shidian Energy
Current Assets	11,858,124	4,356,339	85,302	204,965	745,425
Including:					
Cash and cash equivalents	9,368,484	2,750,355	35,763	119,677	723,469
Non-current Assets	5,020,292	3,467,498	69,154	3,049	69,588
Total Assets	16,878,416	7,823,837	154,456	208,014	815,013
Current Liabilities	(3,196,334)	(1,468,162)	(18,114)	(75,572)	(9,849)
Non-current liabilities	(12,730)	(485,735)	–	–	–
Total liabilities	(3,209,064)	(1,953,897)	(18,114)	(75,572)	(9,849)
Net Assets	13,669,352	5,869,940	136,342	132,442	805,164
Net assets calculated by proportion of shareholding (i)	2,733,872	2,245,839	54,537	52,977	322,066
Adjustment-internal unrealized transaction offset	(9,512)	–	–	–	(22,708)
Adjustment (ii)	–	(328,629)	–	–	–
Book value of associates	2,724,360	1,917,210	54,537	52,977	299,358

(i) The Group calculated shares of assets by its shareholding ratio, based on the amount from financial statements in associates. The amount in financial statements of associates based on the impacts of identifiable assets when obtained investment, fair value of liabilities, and consistency of accounting policies.

(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.

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6 Interests in other entities *(continued)*

(2) Interests in joint ventures and associates *(continued)*

(c) Summarised financial information for major associates *(continued)*

	2020				
	Shanghai Secco	Chemical Industry	Jinsen	Azbil	Shidian Energy
Revenue	21,626,059	1,683,096	187,580	340,905	472,640
Net profit/(loss)	2,412,802	377,980	(8,232)	48,264	36,696
Other comprehensive income	–	(30,089)	–	–	–
Total comprehensive income/(loss)	2,412,802	347,891	(8,232)	48,264	36,696
Dividends declared by associates	473,600	32,522	–	9,200	–

	2019				
	Shanghai Secco	Chemical Industry	Jinsen	Azbil	Shidian Energy
Revenue	28,341,032	1,936,537	197,199	297,694	112,143
Net profit/(loss)	3,383,582	583,403	(16,996)	38,448	5,166
Other comprehensive income	–	19,469	–	–	–
Total comprehensive income/(loss)	3,383,582	602,872	(16,996)	38,448	5,166
Dividends declared by associates	507,400	30,225	–	12,000	–

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6 Interests in other entities *(continued)*

(2) Interests in joint ventures and associates *(continued)*

(d) Summarised financial information for immaterial associates

	2020	2019
Total net book value of long-term investment as at 31 December	75,094	45,022
Total amount calculated by proportion of shareholding		
Net profit (i)	8,619	6,400
Other comprehensive income (i)	–	–
Total comprehensive income	8,619	6,400

(i) Net profit and other comprehensive income had considered the fair value of assets and liabilities at the acquisition date and the adjustment for differences in accounting policies between the Group and the associates.

(e) Unconfirmed commitments related to joint venture investment is set in Note 9.

7 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 summary of significant accounting policies and accounting estimates. 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.

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7 Segment information *(continued)*

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

(v) The Group's trading of petrochemical products segment primarily engages in importing and exporting of petrochemical products.

(vi) All other operating segments represent the operating segments which do not meet the quantitative threshold for determining reportable segments. These include rental, providing 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 investment, deferred tax assets and tax liabilities, cash and cash equivalents and the related interest income, other current assets, non-current assets, borrowing and interest expense, investment income, deferred income and other income, asset disposal, non-operating income and related expenses.

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7 Segment information *(continued)*

(a) Segment information as at and for the year ended 31 December 2020 is as follows:

	Synthetic fibres	Resins and plastics	Intermediate petrochemicals	Petroleum products	Trading of petrochemical products	Others	Unallocated	Elimination	Total
Revenue from external customers	1,480,576	9,475,887	8,251,252	43,080,204	11,585,110	832,154	-	-	74,705,183
Inter-segment revenue	-	101,057	11,526,322	6,631,343	438,634	832,690	-	(19,530,046)	-
Cost of sales	(1,764,492)	(7,334,646)	(6,867,874)	(30,970,671)	(11,467,420)	(684,016)	-	-	(59,089,119)
Interest income	-	-	-	-	-	-	431,228	-	431,228
Interest expenses	-	-	-	-	-	-	(93,440)	-	(93,440)
Investment income from associates and joint ventures	-	-	-	-	-	-	837,005	-	837,005
Asset impairment losses	(72,657)	(26,382)	(69,988)	(138,537)	(788)	(106)	-	-	(308,458)
Net reversal of impairment losses on financial assets	121,550	-	(634)	-	-	-	-	-	120,916
Loss arising from changes in fair value	-	-	-	-	-	-	(17,871)	-	(17,871)
Depreciation and amortisation	(79,868)	(133,943)	(464,012)	(912,430)	(19,906)	(202,302)	-	-	(1,812,461)
Depreciation of right-of-use assets	(168)	(4,261)	(1,413)	(5,211)	(32)	(5,603)	-	-	(16,688)
Total (loss)/profit	(368,296)	1,248,497	570,009	(2,259,188)	42,128	83,120	1,257,546	-	573,816
Income tax expenses	-	-	-	-	-	-	65,620	-	65,620
Net (loss)/profit	(368,296)	1,248,497	570,009	(2,259,188)	42,128	83,120	1,323,166	-	639,436
Total assets	994,825	1,654,920	3,187,683	11,344,778	1,357,884	2,432,339	23,776,744	-	44,749,173
Total liabilities	209,621	1,233,286	1,267,313	6,665,051	1,224,420	69,864	4,724,600	-	15,394,155
Investment in associates and joint ventures	-	-	-	-	-	-	5,497,834	-	5,497,834
Non-current assets increase (i)	496,125	139,212	278,788	779,392	378,292	222,080	-	-	2,293,889

(i) Non-current assets do not include financial assets and long-term equity investments, and deferred tax assets.

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7 Segment information *(continued)*

(b) Segment information as at and for the year ended 31 December 2019 is as follows:

	Synthetic fibres	Resins and plastics	Intermediate petrochemicals	Petroleum products	Trading of petrochemical products	Others	Unallocated	Elimination	Total
Revenue from external customers	2,200,229	10,163,711	10,511,143	54,886,705	21,706,014	878,246	–	–	100,346,048
Inter-segment revenue	–	141,101	14,187,500	11,868,026	175,200	700,975	–	(27,072,802)	–
Cost of sales	(2,486,042)	(8,790,918)	(9,095,702)	(41,156,331)	(21,566,364)	(685,683)	–	–	(83,781,040)
Interest income	–	–	–	–	–	–	398,176	–	398,176
Interest expenses	–	–	–	–	–	–	(53,784)	–	(53,784)
Investment income from associates and joint ventures	–	–	–	–	–	–	953,661	–	953,661
Asset impairment losses	(48,844)	(12,073)	(9,580)	(167)	–	–	–	–	(70,664)
Credit impairment losses	7	6	8	38	–	–	–	–	59
Loss arising from changes in fair value	–	–	–	–	–	–	(1,597)	–	(1,597)
Depreciation and amortisation	(70,360)	(122,163)	(495,947)	(892,937)	(179)	(172,028)	–	–	(1,753,614)
Depreciation of right-of-use assets	(235)	(3,301)	(1,522)	(79,755)	(32)	(2,339)	–	–	(87,184)
Total (loss)/profit	(542,619)	401,185	413,881	705,308	57,836	122,968	1,495,557	–	2,654,116
Income tax expenses	–	–	–	–	–	–	(428,963)	–	(428,963)
Net (loss)/profit	(542,619)	401,185	413,881	705,308	57,836	122,968	1,066,594	–	2,225,153
Total assets	1,008,090	1,802,681	3,732,928	14,014,425	1,492,405	2,294,668	21,290,931	–	45,636,128
Total liabilities	340,034	1,372,574	1,736,967	8,482,596	1,936,525	73,127	1,678,404	–	15,620,227
Investment in associates and joint ventures	–	–	–	–	–	–	5,328,758	–	5,328,758
Non-current assets increase (i)	294,515	74,633	204,021	1,024,626	89	103,418	–	–	1,701,302

(i) Non-current assets do not include financial assets and long-term equity investments, and deferred tax assets.

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

In 2020, revenue from the same customer accounted for 52% of total Group revenue (2019: 46%). The revenue from the customer derived from the following segments: petroleum products and other segment.

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8 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) Registered capital and changes in registered capital of the parent company

	31 December 2019	Increase in current year	Decrease in current year	31 December 2020
China Petroleum & Chemical Corporation	RMB121.1 billion	–	–	RMB121.1 billion

(c) The percentages of share holding and voting rights in the Company held by the parent company

	31 December 2020		31 December 2019	
	Share holding	Voting rights	Share holding	Voting rights
China Petroleum & Chemical Corporation	50.44%	50.44%	50.44%	50.44%

(2) Information on the Company's subsidiaries

The general information and other related information of the subsidiaries is set out in Note 6.

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8 Related parties and related party transactions *(continued)*

(3) Basic information of associate and joint venture

In addition to the major joint ventures and associates disclosed in Note 6(2), related transactions between the Group and other associates are as follows:

	Place of business/ country of incorporation	Place of registry	Business nature	Whether it is strategic for group activities	% of ownership interest	
					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	Production of petrochemical products	Yes	–	25%
Shanghai Chemical Industry Park Logistics Company Limited	Shanghai	Shanghai	Products freight	Yes	–	33.33%
Pinghu China Aviation Oil Port Co., Ltd. (Pinghu Port) (i)	Jiaxing	Jiaxing	Products freight	Yes	–	29%

(i) In July 2020, with the approval of the board of directors of the Company and Toufa, Toufa increased the capital of Pinghu Port by RMB27,603 thousands in cash, and obtained 29% equity of Pinghu Port.

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8 Related parties and related party transactions *(continued)*

(4) Information on other related parties

	Relationship with the Company
Anqing Refinery Shuguang Oxo Company Limited	Subsidiary of the immediate parent company
BASF Gao-Qiao Performance Chemicals (Shanghai) Company Limited	Subsidiary of the immediate parent company
Dalian Frip Science and Technology Company Limited	Subsidiary of the immediate parent company
Fujian Gulei Petrochemical Company Limited	Subsidiary of the immediate parent company
Fujian Refining & Petrochemical Company Limited (FREP)	Subsidiary of the immediate parent company
Unipec America, Inc	Subsidiary of the immediate parent company
Unipec Singapore	Subsidiary of the immediate parent company
Unipec (Ningbo) International Logistics Company Limited	Subsidiary of the immediate parent company
Unipec (Qingdao) International Logistics Company Limited	Subsidiary of the immediate parent company
Nanjing Yangzi Petrochemical Rubber Company Limited	Subsidiary of the immediate parent company
Ningbo Eastsea Linefan Technology Company Limited	Subsidiary of the immediate parent company
Ningbo Minggang Gas Company Limited	Subsidiary of the immediate parent company
Qingdao Sinosun Management System Certification Center Company Limited	Subsidiary of the immediate parent company
Sinopec Japan Company Limited	Subsidiary of the immediate parent company
Rizhao Shihua Crude Oil Terminal Co., Ltd.	Subsidiary of the immediate parent company
Shanghai Jinshan Trading Corporation	Subsidiary of the immediate parent company
Shanghai KSD Bulk Solids Engineering Company Limited	Subsidiary of the immediate parent company
Shanghai Leader Catalyst Company Limited	Subsidiary of the immediate parent company
Shengli Oil Field Exploration And Development Research Institute	Subsidiary of the immediate parent company
Petro-Cyber Works Information Technology Company Limited	Subsidiary of the immediate parent company
Epec E-commerce Co., Ltd.	Subsidiary of the immediate parent company
Epec Commercial Factoring Company Limited	Subsidiary of the immediate parent company
China International United Petroleum and Chemical Company Limited	Subsidiary of the immediate parent company
Sinopec Safety Engineering Institute	Subsidiary of the immediate parent company
Sinopec Beijing Research Institute of Chemical Industry	Subsidiary of the immediate parent company
Sinopec Catalyst Company Limited	Subsidiary of the immediate parent company
Storage And Transportation Installation Company of Ningbo Engineering Company Limited	Subsidiary of the immediate parent company
Sinopec International Company Limited	Subsidiary of the immediate parent company
Sinopec Chemical Commercial Holding Company Limited	Subsidiary of the immediate parent company
Sinopec Refinery Product Sales Company Limited	Subsidiary of the immediate parent company
Sinopec Nanjing valve supply reserve centers	Subsidiary of the immediate parent company
Sinopec Qingdao Refining & Chemical Company Limited	Subsidiary of the immediate parent company
Sinopec Fuel Oil Sales Co., Ltd.	Subsidiary of the immediate parent company
Sinopec Lubricating Oil Shanghai Research Institute Company Limited	Subsidiary of the immediate parent company
Sinopec Lubricant Co., Ltd. Shanghai Research Institute	Subsidiary of the immediate parent company
Sinopec Shanghai Gaoqiao Petrochemical Company Limited	Subsidiary of the immediate parent company
Sinopec Shanghai Research Institute of Petrochemical Technology	Subsidiary of the immediate parent company
Sinopec Research Institute of Petroleum Processing	Subsidiary of the immediate parent company
Sinopec Materials & Equipment (East China) Company Limited	Subsidiary of the immediate parent company
Sinopec Sales Co., Ltd.	Subsidiary of the immediate parent company

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8 Related parties and related party transactions *(continued)*

(4) Information on otherother related parties *(continued)*

	Relationship with the Company
Sinopec Yangzi Petrochemical Company Limited	Subsidiary of the immediate parent company
Sinopec Yizheng Chemical Fibre Company Limited	Subsidiary of the immediate parent company
Sinopec Zhongyuan Petrol-Chemical Industry Co., Ltd.	Subsidiary of the immediate parent company
China Petrochemical Technology Company Limited	Subsidiary of the immediate parent company
China Yanshan United Foreign Trade Co., Ltd.	Subsidiary of the immediate parent company
Sinopec Europe Company Limited	Subsidiary of the immediate parent company
Sinopec Baling Petrochemical Co., Ltd.	Subsidiary of the immediate parent company
Sinopec Dalian (Fushun) Research Institute of Petroleum and Petrochemicals	Subsidiary of the immediate parent company
Unipec Singapore	Subsidiary of the immediate parent company
China Petrochemical International Beijing Company Limited	Subsidiary of the immediate parent company
China Petrochemical International (Nanjing) Company Limited	Subsidiary of the immediate parent company
China Petrochemical International Ningbo Company Limited	Subsidiary of the immediate parent company
China Petrochemical International Shanghai Company Limited	Subsidiary of the immediate parent company
China Petrochemical International Tianjin Company Limited	Subsidiary of the immediate parent company
China Petrochemical International Wuhan Company Limited	Subsidiary of the immediate parent company
Sinopec Chemical Sales (Guangdong) Co., Ltd.	Subsidiary of the immediate parent company
Sinopec Chemical Commercial Holding (Hong Kong) Company Limited	Subsidiary of the immediate parent company
Sinopec Honeywell (Tianjin) Company Limited	Subsidiary of the immediate parent company
Sinopec Nanguang (Shanghai) Industrial Co., Ltd.	Subsidiary of the immediate parent company
Sinopec Petroleum Sales Co., Ltd.	Subsidiary of the immediate parent company
Zhoushan Shihua Crude Oil Terminal Company Limited	Subsidiary of the immediate parent company
BASF-YPC Company Limited	Joint venture of the immediate parent company
Zhejiang Baling Hengyi Caprolactam Limited Company	Joint venture of the immediate parent company
Beijing Victory Hotel Company Limited	Subsidiary of the ultimate parent company
Beijing Petrochemical Engineering Consulting Company Limited	Subsidiary of the ultimate parent company
Beijing Shihua Hotel	Subsidiary of the ultimate parent company
Beijing Yanshan Petrochemical Special Equipment Inspection Co., Ltd.	Subsidiary of the ultimate parent company
National Petrochemical Project Risk Assessment Technology Center	Subsidiary of the ultimate parent company
Jiangsu Jinling Opta Polymer Company Limited	Subsidiary of the ultimate parent company
Shanghai Sanopec Company Limited	Subsidiary of the ultimate parent company
Shanghai Petrochemical Seawall Management Office	Subsidiary of the ultimate parent company
Shanghai Petrochemical Machinery Manufacture Limited Company	Subsidiary of the ultimate parent company
Shanghai Changshi Shipping Co., Ltd.	Subsidiary of the ultimate parent company
Shaoxing Huabin Petrochemical Co., Ltd.	Subsidiary of the ultimate parent company
Petrochemical Engineering Quality Supervision Centre	Subsidiary of the ultimate parent company
Petrochemical Management Cadre College	Subsidiary of the ultimate parent company
Yihua Tory Polyester Film Company Limited	Subsidiary of the ultimate parent company
Zhongan United Coal Chemical Co., Ltd.	Subsidiary of the ultimate parent company
China Economicbooks Co., Ltd.	Subsidiary of the ultimate parent company
Sinopec News	Subsidiary of the ultimate parent company

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8 Related parties and related party transactions *(continued)*

(4) Information on other related parties *(continued)*

	Relationship with the Company
Sinopec Finance	Subsidiary of the ultimate parent company
China Petrochemical Press Company Limited	Subsidiary of the ultimate parent company
Sinopec Engineering Incorporation	Subsidiary of the ultimate parent company
Sinopec Management Institute	Subsidiary of the ultimate parent company
Sinopec Group Baichuan Economic and Trade Co., Ltd.	Subsidiary of the ultimate parent company
Sinopec Beijing Yanshan Petrochemical Co., Ltd.	Subsidiary of the ultimate parent company
Sinopec Shared Services Company Limited	Subsidiary of the ultimate parent company
Sinopec International Travel Service Company Limited	Subsidiary of the ultimate parent company
Sinopec Group Jiangsu Petroleum Exploration Bureau Co., Ltd.	Subsidiary of the ultimate parent company
Sinopec Group Economic and Technology Research Institute Co., Ltd.	Subsidiary of the ultimate parent company
Sinopec Nanjing Chemical Industries Company Limited	Subsidiary of the ultimate parent company
Sinopec Group Shanghai Training Center	Subsidiary of the ultimate parent company
Sinopec Shengli Petroleum Administration Co., Ltd.	Subsidiary of the ultimate parent company
Sinopec Petroleum Commercial Reserve Company Limited	Subsidiary of the ultimate parent company
Sinopec Tendering Company Limited	Subsidiary of the ultimate parent company
Sinopec Group Asset Management Co., Ltd.	Subsidiary of the ultimate parent company
Sinopec Economics & Development Research Institute	Subsidiary of the ultimate parent company
Sinopec Consulting Company Limited	Subsidiary of the ultimate parent company
Sinopec Assets Management Corporation	Subsidiary of the ultimate parent company
Sinopec (Shenzhen) E-Commerce Company Limited	Subsidiary of the ultimate parent company
The Tenth Construction Company of Sinopec	Subsidiary of the ultimate parent company
The Fourth Construction Company of Sinopec	Subsidiary of the ultimate parent company
The Fifth Construction Company of Sinopec	Subsidiary of the ultimate parent company
China Petrochemical Corp. Engineering Ration Management Station	Subsidiary of the ultimate parent company
Sinopec Guangzhou Engineering Co., Ltd.	Subsidiary of the ultimate parent company
Sinopec Energy Saving Technology Service Company Limited	Subsidiary of the ultimate parent company
Sinopec Luoyang Engineering Company Limited	Subsidiary of the ultimate parent company
Sinopec Nanjing Engineering Company Limited	Subsidiary of the ultimate parent company
Sinopec Nanjing Research Institute of Chemical Industry Co., Ltd.	Subsidiary of the ultimate parent company
Sinopec Ningbo Engineering Company Limited	Subsidiary of the ultimate parent company
Sinopec Shanghai Engineering Company Limited	Subsidiary of the ultimate parent company
Sinopec Petroleum Engineering Geophysics Ltd.	Subsidiary of the ultimate parent company
Sinopec Zhongyuan Oilfield	Subsidiary of the ultimate parent company

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8 Related parties and related party transactions *(continued)*

(5) Major related party transactions

Most of the transactions undertaken by the Group during the year ended 31 December 2020 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 Group 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).

In addition to the related transaction disclosed in Note 4(10), Note 4(37), Note 4(46), other major related transactions between the Group and its related parties are as follows:

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8 Related parties and related party transactions *(continued)*

(5) Major related party transactions *(continued)*

(a) Purchases and sales of goods, rendering and receiving services

Purchases of goods and receiving services:

			2020		2019	
Name of Related Parties	Category	Transaction type	Amount	Percentage of the same category	Amount	Percentage of the same category
Sinopec Corp., its subsidiaries and joint ventures	Purchases	Trade	37,872,788	66.89%	53,466,205	75.91%
Sinopec Group and its subsidiaries	Purchases	Trade	832,617	1.47%	1,918,873	2.72%
Associates of the Group	Purchases	Trade	3,237,111	5.72%	4,176,261	5.93%
Joint ventures of the Group	Purchases	Trade	411,556	0.73%	403,708	0.57%
Key management personnel	Short-term employee benefits	Compensation for services	9,859	0.02%	9,120	0.50%
Key management personnel	Retirement scheme contributions	Compensation for services	441	0.00%	225	0.01%

Sales of goods, rendering services:

			2020		2019	
Name of Related Parties	Category	Transaction type	Amount	Percentage of the same category	Amount	Percentage of the same category
Sinopec Corp., its subsidiaries and joint ventures	Sales/Service income	Trade	46,670,117	62.47%	58,996,676	58.79%
Sinopec Group and its subsidiaries	Sales/Service income	Trade	14,870	0.02%	7,724	0.01%
Associates of the Group	Sales/Service income	Trade	1,982,310	2.65%	2,661,405	2.05%
Joint ventures of the Group	Sales	Trade	37,687	0.05%	182,504	0.18%

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8 Related parties and related party transactions *(continued)*

(5) Major related party transactions *(continued)*

(b) Lease

The Group as lessor:

Related Parties as leasee	Type of leasing	Rental income 2020	Rental income 2019
Sinopec Corp., its subsidiaries and joint ventures	Properties and equipments	32,829	31,972
Associates of the Group	Equipments	9,344	5,385
Joint ventures of the Group	Equipments	6,233	5,985
Sinopec Group and its subsidiaries	Properties	464	461
		48,870	43,803

The added right-of-use assets of the Group as leasee in the current year:

Related Parties as lessor	Type of leasing	2020	2019
Sinopec Group and its subsidiaries	Properties, lands and equipments	2,267	25,935
Joint ventures of the Group	Properties	–	702
		2,267	26,637

Lease liabilities interest expense of the Group as lessor:

	2020	2019
Sinopec Group and its subsidiaries	205	2,285
Joint ventures of the Group	8	19
	213	2,304

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

8 Related parties and related party transactions *(continued)*

(5) Major related party transactions *(continued)*

(c) Currencies deposit

In 2020, the Group did not borrow or return funds from Sinopec Finance (2019: Nil).

(d) Other related transactions

	Transaction Type	2020	2019
Sinopec Group and its subsidiaries	Insurance premiums	107,495	108,223
Sinopec Group and its subsidiaries	Depreciation of right-of-use assets	9,388	80,552
Joint ventures of the Group	Depreciation of right-of-use assets	155	88
Sinopec Finance	Interests received and receivable	2,088	1,295
Sinopec Group and its subsidiaries	Construction and installation cost	233,591	143,560
Sinopec Corp., its subsidiaries and joint ventures	Sales commission	104,598	125,619

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8 Related parties and related party transactions *(continued)*

(6) Receivables from and payables to related parties

Receivables from related parties:

		31 December 2020	31 December 2019
Cash at bank and on hand	Sinopec Finance	5,667	67,015
Accounts receivable and notes receivable	Sinopec Corp., its subsidiaries and joint ventures	996,224	1,461,030
	Associates of the Group	35,766	57,664
	Joint ventures of the Group	351	483
		1,032,341	1,519,177
Financial assets at fair value through other comprehensive income	Sinopec Corp., its subsidiaries and joint ventures	10,000	–
Other receivables	Sinopec Corp., its subsidiaries and joint ventures	21,132	–
	Joint ventures of the Group	1,887	1,831
	Associates of the Group	179	179
		23,198	2,010
Advances to suppliers	Sinopec Corp. and its subsidiaries	26,771	44,806
	Associates of the Group	6	–
		26,777	44,806

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8 Related parties and related party transactions *(continued)*

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

Payables to related parties:

		31 December 2020	31 December 2019
Accounts payable	Sinopec Corp., its subsidiaries and joint ventures	2,434,461	4,649,328
	Sinopec Group and its subsidiaries	751,402	670,389
	Associates of the Group	150,472	155,322
	Joint ventures of the Group	41,162	46,855
		3,377,497	5,521,894
Notes payable	Associates of the Group	70,000	–
	Sinopec Finance	43,164	60,000
		113,164	60,000
Other payables	Sinopec Group and its subsidiaries	137,549	78,743
	Sinopec Corp., its subsidiaries and joint ventures	27,485	42,028
	Joint ventures of the Group	16	–
	Associates of the Group	13	63
		165,063	120,834
Contract liability	Associates of the Group	611	313
	Sinopec Corp., its subsidiaries and joint ventures	422	5,026
	Sinopec Group and its subsidiaries	84	327
		1,117	5,666
Lease liabilities	Sinopec Group and its subsidiaries	8,453	15,571
	Joint ventures of the Group	574	698
		9,027	16,269

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8 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 recognized on the balance sheet are as follows:

(a) Construction and installation cost:

	31 December 2020	31 December 2019
Sinopec Group and its subsidiaries	145,959	156,309

(b) Investment commitments with related parties

	31 December 2020	31 December 2019
Capital contribution to Shanghai Secco (Note 9(2)(i))	111,263	111,263
Capital contribution to Shidian Energy (Note 9(2)(ii))	80,000	80,000
	191,263	191,263

As at 31 December 2020 and 2019, except for the above disclosed, the Group and the Company had no other material commitments with related parties, which are contracted, but not included in the financial statements.

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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:

	31 December 2020	31 December 2019
Purchase of fixed assets contracted but not provided for	585,870	247,220

(2) Investment commitments

(i) The Company held the 18th meeting of the seventh board of directors on December 5, 2013, and reviewed and approved the capital increase of USD30,017,124 (about RMB182,804 thousand) for Shanghai secco based on the equity ratio of the affiliated company held by the Company. The Company will make capital contribution to Shanghai secco in equal amounts in stages.

As at 31 December 2020 and 2019, the Company has completed the first phase of its investment in Shanghai secco with totally RMB71,541 thousand. In accordance with the approval of Shanghai municipal commission of commerce received by Shanghai secco on October 19, 2015, the remaining capital contribution of the Company and other shareholders of Shanghai secco can be paid within the term of the joint venture of Shanghai secco.

(ii) Pursuant to the articles of association of Shidian Energy on July 9, 2019, Toufa agreed to make capital contribution of RMB400,000 thousands to acquire 40% share of Shidian Energy.

As at 31 December 2020, Toufa has contributed RMB320,000 thousands to Shidian Energy.

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10 Financial instrument and risk

The Group's activities expose it to a variety of financial risks: market risk (primarily foreign exchange 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.

Therefore, the Group may sign forward foreign exchange contracts or foreign exchange option contracts to avoid foreign exchange risks. As at December 31, 2020, the Group has not signed any currency swaps. As at December 31, 2019, Jinmao, a subsidiary of the Group held 2 unexpired foreign exchange contracts which have the same value of RMB40,754 thousand.

As at December 31 2020, the amount of foreign currency financial assets and foreign currency financial liabilities held by the Group converted into RMB is listed as follows:

	31 December 2020		
	USD	Others	Total
Financial assets in foreign currencies -			
Cash at bank and on hand	207,727	–	207,727
FVOCI	323,929	–	323,929
Accounts receivable	118,845	–	118,845
Other receivable	261	–	261
	650,762	–	650,762
Financial liabilities in foreign currencies -			
Accounts payable	(578,132)	–	(578,132)
Other receivable	(8,606)	–	(8,606)
	(586,738)	–	(586,738)

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10 Financial instrument and risk *(continued)*

(1) Market risk *(continued)*

(a) Foreign exchange risk *(continued)*

	31 December 2019		
	USD	Others	Total
Financial assets in foreign currencies –			
Cash at bank and on hand	336,078	–	336,078
FVOCI	734,496	–	734,496
Accounts receivable	146,165	–	146,165
	1,216,739	–	1,216,739
Financial liabilities in foreign currencies –			
Accounts payable	(1,582,042)	–	(1,582,042)

As at 31 December 2020, if the foreign currencies had strengthened/weakened by 5% against RMB with all other variables held constant, the Group's net profit for the year would have been RMB2,401 thousand decrease/increase (31 December 2019: RMB13,699 thousand increase/decrease).

(b) Interest rate risk

The interest rate risk of the Group is mainly generated by short-term borrowing. Financial liabilities with floating interest rate make the Group face interest rate risk of cash flow, while financial liabilities with fixed interest rate make the Group face interest rate risk of fair value. The Group determines the relative proportions of fixed and floating rate contracts in accordance with prevailing market conditions. As at 31 December 2020, the total amount of the floating rate contract in the Group's borrowing is RMB48,000 thousand (31 December 2019: RMB47,600 thousand).

The financial department of the Group headquarters continuously monitors the interest rate level of the Group. Higher interest rates would increase the cost of the new interest-bearing debt and the Group has not yet been paid to the floating interest at a pre-determined rate of interest-bearing debt payments, and our group's financial performance have a significant adverse impact, management is on the basis of the latest market situation to adjust in time, the adjustment of interest rate swap arrangements may be carried out to reduce the interest rate risk. There is no interest rate swap arrangement for the Group in 2020 and 2019.

As at 31 December 2020, 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 RMB180 thousand (31 December 2019: RMB179 thousand).

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10 Financial instrument and risk *(continued)*

(1) Market risk *(continued)*

(c) Commodity price risk

The Group principally engages in processing crude oil into synthetic fibers, resins and plastics, intermediate petrochemicals and petroleum products. The selling price of petroleum products is periodically adjusted by government department based on the market price adjustment mechanism, and generally in connection with the crude oil price. The selling prices of synthetic fibers, resins and plastics and intermediate petrochemicals are market prices. As at 31 December 2020, the Group used swaps contracts to manage a portion of this risk as the fluctuation of crude oil price could have significant impact on the Group (31 December 2019: Nil).

(2) Credit risk

Credit risk is managed on group basis. It mainly arises from cash and cash equivalents, time deposits with banks, structured deposits, FVOCI, accounts receivables, other receivables, 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 FVOCI, accounts receivable and other receivables. 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.

As at 31 December 2020 and 2019, the Group has no collateral or other credit enhancement held as a result of a material debtor's mortgage.

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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 31 December 2020, the Group had facilities up to 32,516,787 thousand to issue letters of credit, of which RMB27,350,766 thousand was unutilised.

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:

	31 December 2020				
	Within 1 year	1 to 2 years	2 to 5 years	Over 5 years	Total
Short-term borrowings	1,558,702	–	–	–	1,558,702
Other current liabilities	3,023,614	–	–	–	3,023,614
Lease liabilities	9,373	2,136	1,090	103	12,702
Accounts payable	4,671,635	–	–	–	4,671,635
Notes payable	139,360	–	–	–	139,360
Other payables	1,663,566	–	–	–	1,663,566
	11,066,250	2,136	1,090	103	11,069,579

	31 December 2019				
	Within 1 year	1 to 2 years	2 to 5 years	Over 5 years	Total
Short-term borrowings	1,575,176	–	–	–	1,575,176
Lease liabilities	11,700	8,846	2,435	495	23,476
Derivative financial liability	799	–	–	–	799
Accounts payable	7,664,296	–	–	–	7,664,296
Note payable	733,900	–	–	–	733,900
Other payables	867,967	–	–	–	867,967
	10,853,838	8,846	2,435	495	10,865,614

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11 Fair value estimation

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) Financial assets measured at fair value

As at 31 December 2020, continuing assets and liabilities measured at fair value are presented in the above three levels as follows:

	Level 1	Level 2	Level 3	Total
Financial assets				
Financial assets at fair value through other comprehensive income				
– FVOCI	–	1,217,114	–	1,217,114
– Other equity instrument investments	–	–	5,000	5,000
	–	1,217,114	5,000	1,222,114

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11 Fair value estimation *(continued)*

(1) Financial assets measured at fair value *(continued)*

As at December 31 2019, the assets and liabilities continuously measured at fair value are listed as follows according to the above three levels:

	Level 1	Level 2	Level 3	Total
Financial liabilities				
Trading financial assets				
– Structured deposit	–	–	3,318,407	3,318,407
Financial assets at fair value through other comprehensive income				
– FVOCI	–	1,540,921	–	1,540,921
– Other equity instrument investments	–	–	5,000	5,000
Derivative financial asset				
– Foreign exchange option contract	–	263	–	263
	–	1,541,184	3,323,407	4,864,591
Derivative financial liability				
– Foreign exchange option contracts	–	(799)	–	(799)

In 2020, there is no transition between levels of the Group (2019: Nil).

The Group uses discounted cash flow model with inputted interest rate, which were influenced by historical fluctuation and the probability of market fluctuation, to evaluate the fair value of the structured deposits classified as Level 3 financial assets.

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11 Fair value estimation *(continued)*

(2) Financial assets and financial liabilities not measured at fair value but disclosed it

Financial assets and liabilities measured at amortised cost mainly include notes receivable, trade receivables and other receivables, current portion of entrust lendings, short-term borrowings, trade and other payables, notes payable.

As at 31 December 2020 and 2019, the carrying amount of these financial assets and financial liabilities not measured at fair value are a reasonable approximation of their fair value.

12 Capital management

The Group's objectives when managing capital are 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, return capital to shareholders, issue new shares or sell assets to reduce debt.

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.

As cash and cash equivalents exceed total borrowings, which was resulted primarily from the significantly improved profitability and the early repayment of some bank loans before its maturity, there was no net debt as at 31 December 2020 and 2019.

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13 Notes to financial statement

(1) Financial assets at fair value through profit or loss

	31 December 2020	31 December 2019
Structured deposit	–	3,318,407

As at 31 December 2019, financial assets at fair value through profit or loss are mainly structured deposits with banks, which are presented as current assets since they are expected to be collected within 6 months from the end of the reporting period.

(2) Accounts receivable

	31 December 2020	31 December 2019
Amounts due from related parties	917,577	1,308,335
Amounts due from third parties	2,118	2,114
	919,695	1,310,449
Less: provision for bad debts	(634)	–
	919,061	1,310,449

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

	31 December 2020	31 December 2019
Within one year	917,581	1,310,449
Over one year but within two years	2,114	–
	919,695	1,310,449

(b) As at December 31 2020, the top five receivables collected by the arrears are summarized and analyzed as follows:

	Amount	Provision	Percent of total amount
The total amount of accounts receivable in the top five accounts	890,989	–	97%

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13 Notes to financial statement *(continued)*

(2) Accounts receivable

(c) In 2020, the Company has no accounts receivable that are terminated due to the transfer of financial assets.

(d) Provision

	31 December 2020	31 December 2019
Provision of Accounts receivable	(634)	–

For accounts receivable, whether or not there is significant financing component, the Group shall measure the loss reserve according to the expected credit loss of the whole duration.

(i) As at 31 December 2020, the Group has no accounts receivable of single provision for bad debts.

(ii) As at 31 December 2020, the Group has no pledged accounts receivable (As at 31December 2019: Nil).

(iii) In 2020, the Group does not have a large proportion of bad debt provision that has been fully withdrawn or withdrawn in previous years, but the accounts receivable that have been fully recovered or transferred in this year, or a large proportion of accounts receivable that have been recovered or transferred in this year (2019: Nil).

(e) In 2020, the Company has not written off significant accounts receivable (2019: Nil).

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13 Notes to financial statement *(continued)*

(3) Other receivables

	31 December 2020	31 December 2019
Amounts due from related parties	22,939	2,010
Amounts due from third parties	760,479	870,558
	783,418	872,568
Less: provision for bad debts	(756,486)	(857,931)
	26,932	14,637

(a) Provision movement

	First Stage					Third Stage		
	Expected credit loss in the next 12 months (Combined)		Expected credit loss in the next 12 months (Single)		Total	Expected credit loss over the duration (credit impairment has occurred)		Total
	Book value	Provision	Book value	Provision	Provision	Book value	Provision	Provision
31 December 2019	14,637	–	–	–	–	857,931	(857,931)	(857,931)
Add	–	–	–	–	–	–	–	–
Less	–	–	–	–	–	–	101,445	101,445
31 December 2020	26,932	–	–	–	–	756,486	(756,486)	(756,486)

As of December 31, 2020, the amount receivable from Jinyong company, a subsidiary within the original scope of merger, was RMB756,347 thousand (December 31, 2019: RMB857,791 thousand). Jinyong company started to stop production in August 2008 and entered into bankruptcy liquidation procedure in August 2019. The Company believes that the other receivables are difficult to recover, so the bad debt reserves are fully accrued. As of December 31, 2020, the bankruptcy liquidation procedure has not been completed.

(b) In 2020, according to the bankruptcy property distribution plan of Jinyong company, the Company will recover the debt repayment of RMB101,445 (2019: Nil) paid by the bankruptcy administrator of Jinyong company.

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13 Notes to financial statement *(continued)*

(3) Other receivables *(continued)*

(c) As at 31 December 2020, the top five other receivables are as follows:

	Nature	Amount	Ageing	Percentage of total other receivables	Provision for bad debts
China International Petrochemical Corporation Limited	Business transaction	20,873	Within one year	79%	–
BOC	Business transaction	1,886	Within one year	7%	–
China Railway Shanghai Bureau Group Co., Ltd. Hangzhou North Depot	Business transaction	1,198	Within one year	5%	–
Beijing Tianyuan Haihua Investment Management Co., Ltd.	Business transaction	810	Within one year	3%	–
Shanghai Shanghe Industrial Co., Ltd.	Business transaction	484	Within one year	2%	–
		25,251		95%	–

(4) Long-term equity investment

	31 December 2020	31 December 2019
Subsidiaries (a)	2,048,328	1,848,328
Associates (b)	4,749,338	4,641,570
	6,797,666	6,489,898
Minus: Provision for Long-term equity investment	–	–
	6,797,666	6,489,898

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13 Notes to financial statement *(continued)*

(4) Long-term equity investment *(continued)*

(a) Subsidiaries

	31 December 2019	Additional/ negative investment	31 December 2020	Impairment provision	Cash dividends declared in current year
Toufa (i)	1,831,496	200,000	2,031,496	–	–
Jinmao	16,832	–	16,832	–	10,100
	1,848,328	200,000	2,048,328	–	10,100

(i) In June 2020, the Company acquired 100% equity in the form of joint venture capital of RMB200 thousand.

(b) Associates

The information relating to the associates of the Company is disclosed in Note 4(10)(b).

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13 Notes to financial statement *(continued)*

(5) Property, plant and equipment

	Buildings	Plant and machinery	Vehicles and other equipment	Total
Cost				
31 December 2019	3,133,397	40,648,929	1,803,329	45,585,655
Reclassification in current year	52,599	(55,206)	2,607	–
Increase				
Purchase	707	226,319	64,948	291,974
Transfer from construction in progress	24,199	1,440,686	85,290	1,550,175
Decrease				
Transfer to investment properties	(24,829)	–	–	(24,829)
Disposal	(32,690)	(440,794)	(68,964)	(542,448)
31 December 2020	3,153,383	41,819,934	1,887,210	46,860,527
Accumulated depreciation				
31 December 2019	2,187,106	30,093,256	1,377,019	33,657,381
Reclassification in current year	29,721	(29,635)	(86)	–
Increase				
Current year charges	80,043	1,347,492	89,759	1,517,294
Decrease				
Current year disposal	(25,670)	(402,257)	(66,437)	(494,364)
Transfer to investment properties	(9,527)	–	–	(9,527)
31 December 2020	2,261,673	31,008,856	1,400,255	34,670,784
Provision for impairment				
31 December 2019	3,007	84,035	528	87,570
Increase				
Current year charges	3,007	84,035	528	87,570
Decrease				
Disposal	–	(2,186)	–	(2,186)
31 December 2020	53,792	827,822	8,602	890,216
Carrying amount				
31 December 2020	837,918	9,983,256	478,353	11,299,527
31 December 2019	895,506	9,809,700	418,236	11,123,442

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13 Notes to financial statement *(continued)*

(5) Property, plant and equipment *(continued)*

In 2020, the Company made a provision for impairment of RMB87,570 thousand for production units with excess capacity or backward production technology (2019: Nil).

In 2020, the Company write-off RMB2,186 thousand provision for impairment by disposing acrylonitrile and sodium cyanide equipment which has impairment (2019: RMB48,397 thousand).

As at 31 December 2020 and 2019, the Company has no fixed assets as collateral.

In 2020, depreciation of fixed assets depreciation amount of RMB1,517,294 thousand (2019: RMB1,490,191 thousand), which included in the cost of sales, selling and distribution expenses, general and administrative expenses and R&D expenses of depreciation expense is RMB1,408,334 thousand, RMB9,114 thousand, RMB96,172 thousand and RMB3,674 thousand respectively (2019: RMB1,398,124 thousand, RMB9,145 thousand, RMB77,977 thousand and RMB4,945 thousand respectively).

In 2020, the costs of fixed assets transferred from construction in progress is RMB1,550,175 thousand (2019: RMB1,122,271 thousand).

(6) Revenue and cost of sales

	2020	2019
Main operation revenue (a)	62,089,266	77,660,191
Other operation revenue	395,601	450,672
	62,484,867	78,110,863

	2020	2019
Main operation cost (a)	46,953,906	61,533,595
Other operation cost	246,089	325,213
	47,199,995	61,858,808

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13 Notes to financial statement *(continued)*

(6) Revenue and cost of sales *(continued)*

(a) Revenue and cost of sales

The Company's main business belongs to the petrochemical industry.

Product analysis as follows:

	2020		2019	
	Revenue	Cost of sales	Revenue	Cost of sales
Synthetic fiber	1,480,576	1,764,492	2,200,229	2,486,042
Resin and plastic	8,151,469	6,367,421	8,861,740	7,723,686
Intermediate petrochemical products	8,947,130	7,435,622	11,239,062	9,765,538
Petroleum products	43,080,204	30,963,719	54,886,705	41,145,034
Other products	429,887	422,652	472,455	413,295
	62,089,266	46,953,906	77,660,191	61,533,595

(7) Investment income

	2020	2019
Investment accounted for using the cost method (a)	10,100	6,733
Investment accounted for using the equity method (b)	625,402	899,926
Structured deposit income	128,932	84,848
Investment losses of derivative financial instruments	–	(13,165)
Losses on sale of FVOCI	(2,099)	(5,584)
	762,335	972,758

(a) Income from long-term equity investments accounted for using the cost method is as follow:

	2020	2019
Jinmao	10,100	6,733

For the year ended 31 December 2020
(All amounts in thousands of Renminbi Yuan unless otherwise stated)
[English Translation for Reference Only]

13 Notes to financial statement *(continued)*

(7) Investment income *(continued)*

(b) Income from long-term equity investments accounted for using the equity method is as follow:

	2020	2019
Shanghai Secco	480,787	676,717
Chemical Industry	144,615	223,209
	625,402	899,926

(8) Supplementary information on cash flow statements

(a) Reconciliation from net profit to cash flow from operating activities

	2020	2019
Net profit	370,931	1,998,400
Add: Provisions for assets impairment	304,348	70,248
Net reversal of impairment losses on financial assets	(100,811)	(54)
Depreciation of investment properties	16,199	15,738
Depreciation of property, plant and equipment	1,517,294	1,490,191
Depreciation of right-of-use assets	13,021	84,472
Amortisation of intangible assets	12,309	6,546
Amortization of long-term deferred expense	222,024	208,351
Losses on disposal of long-term assets	15,029	3,506
(Losses)/gains of fair value change	18,407	(2,153)
Financial income -net	(276,792)	(320,160)
Investment income	(762,335)	(972,758)
Increase in deferred tax assets	(99,392)	(29,511)
Amortization of deferred income	(10,437)	(10,437)
Decrease in inventories	2,466,155	1,062,532
Decrease in operating receivables	169,918	546,668
(Increase)/decrease in operating payables	(2,027,181)	721,367
Increase of reserve	88,462	–
Net cash inflow generated from operating activities	1,937,149	4,872,946

For the year ended 31 December 2020
(All amounts in thousands of Renminbi Yuan unless otherwise stated)
[English Translation for Reference Only]

13 Notes to financial statement *(continued)*

(8) Supplementary information on cash flow statements *(continued)*

(b) Net increase in cash and cash equivalents

	2020	2019
Cash and cash equivalents balance at the end of the year	5,460,067	5,754,440
Less: cash and cash equivalents balance at the beginning of the year	(5,754,440)	(7,619,013)
Net decrease in cash and cash equivalents	(294,373)	(1,864,573)

14 Subsequent event

(1) Profit distribution

According to the resolution of the board of directors on March 24, 2021, the board of directors proposed that the Company should pay a cash dividend of RMB0.1 per share (tax included) to all shareholders, and the total cash dividend should be RMB1,082,381 thousand based on the number of 10,823,813,500 shares already issued. The above proposal is subject to the approval of the general meeting of shareholders.

For the year ended 31 December 2020
(All amounts in thousands of Renminbi Yuan unless otherwise stated)
[English translation for reference only]

1 Non-recurring items

	2020	2019
Gains on disposal of non-current assets	72,296	158,551
Government grants recognised through profits or losses	71,296	79,678
Structured deposit income	132,690	86,848
Financial assets at fair value through other comprehensive income discount loss	(9,513)	(19,513)
Losses on disposal of long-term equity investment	–	(60,951)
Employee reduction expenses	(20,060)	(45,394)
(Losses)/gains from changes in fair values of derivative financial assets and liabilities	(17,871)	1,597
Foreign exchange options and foreign exchange forward contract losses	(912)	(15,316)
Other non-operating expenses other than those mentioned above	(42,968)	(42,322)
Tax effect for the above items	(51,339)	(5,997)
Effect on non-controlling interests after tax	1,141	3,515
	134,760	140,696

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.

2 Reconciliation between financial statements prepared under CAS and IFRS

The Company is listed on the Stoke 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		Net assets	
	2020	2019	31 December 2020	31 December 2019
Under CAS	639,436	2,225,153	29,355,018	30,015,901
Adjustments under IFRS –				
Government grants (a)	2,010	2,010	(20,043)	(22,053)
Safety production costs (b)	88,460	2	–	–
Others	(73,508)	–	–	–
Under IFRS	656,398	2,227,165	29,334,975	29,993,848

For the year ended 31 December 2020
(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 *(continued)*

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 reserves.

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

(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.

3 Return on net assets and earnings per share

	Weighted average return on net assets (%)		Earnings per share			
			Basic (RMB)		Diluted (RMB)	
	2020	2019	2020	2019	2020	2019
Net profit attributable to shareholders of the Company	2.127	7.143	0.059	0.205	0.059	0.205
Net profit attributable to shareholders of the Company excluding non-recurring items	1.709	6.726	0.047	0.193	0.047	0.193

Written Confirmation Issued by Directors, Supervisors and Senior Management

Pursuant to the relevant requirements of Article 82 of the Securities Law, *Standards for the Contents and Formats of Information Disclosure by Companies Offering to the Public No.2--Contents and Formats of Annual Reports (2017 Revision), and Shanghai Stock Exchange Stock Listing Rules (2020 Revision)*, as the Company's directors, supervisors and senior management, we fully understood and reviewed the Company's 2020 Annual Report and issued the written opinions as follows:

1. Confirmation opinions by directors and senior management
   The Company operated in strict accordance with the financial system of listed companies, and the 2020 Annual Report fully, truly and fairly reflected the Company's financial performance and operating results.
2. Review opinions by supervisors
   (1) The formulation and review procedures of the Company's 2020 Annual Report were in compliance with laws and regulations, articles of association and relevant internal control systems.
   (2) The contents and formats of the Company's 2020 Annual Report met the relevant regulations of China Securities Regulatory Commission and Shanghai Stock Exchange.
   (3) No violation of information confidentiality was found in the Company's personnel involved in the formulation, review and information disclosure of the Company's 2020 Annual Report.
   (4) The Company's 2020 Annual Report fully, truly and fairly reflected the Company's financial performance and operating results.
3. All directors, supervisors and senior management guarantee that the information disclosed in the Company's 2020 Annual Report and summary is true, accurate and complete, promise that there are no false records, misleading statements or major omissions, and bear the separate and joint legal liabilities for the authenticity, exactness and completeness of the contents.

Signature:

Directors:

Wu Haijun   Guan Zemin   Jin Qiang   Jin Wenmin   Huang Xiangyu   Huang Fei   Xie Zhenglin

Peng Kun   Li Yuanqin   Tang Song   Chen Haifeng   Yang Jun   Gao Song

Supervisors:

Ma Yanhui   Zhang Feng   Chen Hongjun   Zhang Xiaofeng   Zheng Yunrui   Choi Ting Ki

Senior Management:

Du Jun

Corporate Information

(I) Corporate Information

Chinese Name of the Company	中國石化上海石油化工股份有限公司
Chinese Short Name of the Company	上海石化
English Name of the Company	Sinopec Shanghai Petrochemical Company Limited
Abbreviation of the English Name of the Company	SPC
Legal Representative of the Company	Wu Haijun

(II) Contact Persons and Contact Details

	Secretary to the Board	Securities Affairs Representative
Name	Huang Fei	Yu Guangxian
Address	48 Jinyi Road, Jinshan District, Shanghai, PRC, Postal Code: 200540	
Tel	8621-57943143	8621-57933728
Fax	8621-57940050	8621-57940050
E-mail	huangfei@spc.com.cn	yuguangxian@spc.com.cn

(III) Basic Information

Registered Address	48 Jinyi Road, Jinshan District, Shanghai, PRC
Postal Code of Registered Address	200540
Business Address	48 Jinyi Road, Jinshan District, Shanghai, PRC
Postal Code of Business Address	200540
Principal Place of Business in Hong Kong	Room 605, Island Place Tower, 510 King's Road, Hong Kong
Website of the Company	www.spc.com.cn
E-mail address	spc@spc.com.cn

(IV) Information Disclosure and Access

Designated newspapers for the publication of the Company's announcements	"Shanghai Securities News", "China Securities Journal" and "Securities Times"
Websites for the publication of the Company's annual reports	Shanghai Stock Exchange website, Hong Kong Stock Exchange website and the website of the Company
Place for access to the Company's annual reports	Secretariat Office to the Board, 48 Jinyi Road, Jinshan District, Shanghai, PRC

(V) Shares Profile of the Company

Share Type	Place of Listing	Stock Short Name	Stock Code
A Shares	Shanghai Stock Exchange	上海石化	600688
H Shares	Hong Kong Stock Exchange	SHANGHAI PECHEM	00338
American Depository Receipts ("ADR")	New York Stock Exchange	SHI	–

(VI) Other Relevant Information

Auditors Engaged by the Company (Domestic)	
Name	PricewaterhouseCoopers ZhongTian LLP
Address	11/F, PricewaterhouseCoopers Center, 2 Corporate Avenue, 202 Hu Bin Road, Huangpu District, Shanghai 200021, PRC
Signing Auditors	Huang Zhejun, Chen Jiaojiao
Auditors Engaged by the Company (International)	
Name	PricewaterhouseCoopers
Address	22/F, Prince's Building, 10 Chater Road, Central, Hong Kong
Signing Auditors	Chan Kwong Tak
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 55th Floor, One Island East, Taikoo Place Quarry Bay, Hong Kong
United States Law:	Morrison & Foerster 425 Market Street San Francisco, California 94105-2482 U.S.A.
Joint Company Secretaries:	Huang Fei, Chan Sze Ting (ACG, ACS)
Authorised Representatives for Hong Kong Stock Exchange:	Wu Haijun, Chan Sze Ting
H Shares Share Registrar:	Hong Kong Registrars Limited Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong
ADR Depositary:	The Bank of New York Mellon Computershare P.O. Box 30170 College Station, TX 77842-3170 U.S.A. Number for International Calls: 1-201-680-6921 Email: shrrelations@cpushareownerservices.com Website: www.mybnymdr.com

Documents for Inspection

1. Financial statements signed and sealed by the Chairman, the Chief Financial Officer and the Deputy Director of the Finance Department.

2. Original signed auditor's report of the Certified Public Accountant.

3. Originals of all documents and announcements of the Company which were disclosed in the newspapers designated by CSRC during the Reporting Period.

4. Written confirmation of the annual report signed by the Directors, Supervisors and senior management.

Chairman: Wu Haijun

Date of approval by the Board: 24 March 2021