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Sinopec Shanghai Petrochemical Company Limited
中國石化上海石油化工股份有限公司

(A joint stock limited company incorporated in the People's Republic of China)

(Stock Code: 00338)

2010 Interim Results Announcement

§1 IMPORTANT MESSAGE

1.1 The board of directors (the “Board”) and the Supervisory Committee of Sinopec Shanghai Petrochemical Company Limited (the “Company” or “SPC”) as well as its Directors, Supervisors and senior management warrant that there are no false representations or misleading statements contained in, or material omission from, the 2010 interim report, and severally and jointly accept full responsibility for the truthfulness, accuracy and completeness of the information contained in the 2010 interim report.

This summary of the interim report is extracted from the full text of the interim report. The full report is published on www.sse.com.cn simultaneously. For detailed content, investors are advised to read the full text of the interim report.

1.2 If any Director fails to attend the Board meeting, his name shall be set out separately:

Name of Director not Attending	Position	Reasons for the absence	Name of Proxy
Wu Haijun	Vice Chairman	Business engagement	Rong Guangdao
Shi Wei	Director	Business engagement	Rong Guangdao
Lei Dianwu	Director	Business engagement	Rong Guangdao
Xiang Hanyin	Director	Business engagement	Rong Guangdao

- 1.3 The interim financial report of the Company for the six-month period ended 30 June 2010 (the “Reporting Period”) were unaudited.
- 1.4 There is no occupancy of non-operating funds by controlling shareholders and its connected parties.
- 1.5 The Company did not provide third-party guarantees in violation of stipulated procedures.
- 1.6 Mr. Rong Guangdao, Chairman and the responsible person of the Company, Mr. Ye Guohua, Chief Financial Officer (overseeing the accounting operations) and Mr. Zhou Meiyun, Finance Manager (Accounting Chief) hereby warrant the truthfulness and completeness of the financial report contained in the 2010 interim report.

§2 CORPORATE INFORMATION

2.1 Corporate Information

Stock Abbreviation	s上石化
Shares Stock Code	600688
Stock Exchange Listing	Shanghai Stock Exchange
Stock Abbreviation	Shanghai Petrochemical
Shares Stock Code	00338
Stock Exchange Listing	Hong Kong Exchanges and Clearing Limited (“HKEx”)
Shares Stock Code	SHI
Stock Exchange Listing	New York Stock Exchange

	<u>Secretary to the Board</u>	<u>Securities representative</u>
Name	Zhang Jingming	Tang Weizhong
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2.2 Major Financial Data and Indicators

Prepared under the China Accounting Standards for Business Enterprises

2.2.1 Major Accounting Data and Financial Indicators (unaudited)

	Unit: RMB '000		
	As at the end of the Reporting Period	As at the end of the previous year	Increase/decrease at the end of the Reporting Period as compared to the end of the previous year (%)
Total assets	30,174,238	30,458,322	-0.933
Shareholders' equity (excluding minority interests)	16,629,476	15,346,073	8.363
Net asset value per share attributable to equity shareholders of the Company (RMB)*	2.310	2.131	8.363
	Reporting Period (January to June)	Corresponding period of the previous year	Increase/decrease during the Reporting Period as compared to the corresponding period of the previous year (%)
Operating profit	1,887,627	1,269,719	48.665
Profit before taxation	1,882,526	1,353,562	39.079
Net profit attributable to equity shareholders of the Company	1,493,930	987,236	51.325

	Reporting Period (January to June)	Corresponding period of the previous year	Increase/decrease during the Reporting Period as compared to the corresponding period of the previous year (%)
Net profit attributable to equity shareholders of the Company excluding non-recurring items	1,497,812	834,728	79.437
Basic earnings per share (RMB)	0.207	0.137	51.325
Basic earnings per share excluding non-recurring items (RMB)	0.208	0.116	79.437
Diluted earnings per share (RMB)	0.207	0.137	51.325
Return on net assets (weighted average) (%)*	9.344	6.879	Increased by 2.465 percent
Net cash flow from operating activities	366,735	2,688,366	-86.358
Net cash flow per share from operating activities (RMB)	0.051	0.373	-86.358

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

2.2.2 Non-recurring items

Unit: RMB '000

<u>Non-recurring Items</u>	<u>Amount</u>
Net loss from disposal of non-current assets	-3,893
Employee reduction expenses	-1,123
Government grants recorded in profit and loss (except for government grants under the State's unified standards on quota and amount entitlements and closely related to corporate business)	5,000
Investment income from disposal of available-for-sale financial assets	215
Income from external entrusted loans	1,005
Other non-operating income and expenses other than those mentioned above	-6,208
Income tax effect	1,251
Effect attributable to minority interests (after tax)	<u>-129</u>
Total	<u><u>-3,882</u></u>

2.2.3 Differences between financial report prepared under the China Accounting Standards for Business Enterprises and International Financial Reporting Standards (“IFRS”)

Unit: RMB '000

	<u>Net profit attributable to equity shareholders of the Company</u>		<u>Total equity attributable to equity shareholders of the Company</u>	
	<u>The Reporting Period</u>	<u>Corresponding period of the previous year</u>	<u>At the beginning of the Reporting Period</u>	<u>At the end of the Reporting Period</u>
Prepared under the China Accounting Standards for Business Enterprises	1,493,930	987,236	15,346,073	16,629,476
Prepared under IFRS	1,515,051	1,001,928	15,005,018	16,309,542

For details, please refer to 7.3.

§3 CHANGE IN SHARE CAPITAL AND SHAREHOLDERS

3.1 Total Number of Shareholders and their Shareholdings

Unit: share

Total number of shareholders as at the end of the Reporting Period 114,877

Shareholding of the top ten shareholders

Name of shareholder	Type of shareholder	Percentage of total shareholding (%)	Number of shares held	Increase (+)/ decrease (–) during the Reporting Period	Type of shares	Number of non-circulating shares held	Number of shares pledged or frozen
China Petroleum & Chemical Corporation	State-owned shareholder	55.56	4,000,000,000	—	Non-circulating	4,000,000,000	Nil
HKSCC (Nominees) Limited	Foreign shareholder	31.84	2,292,736,101	-6,910,000	Circulating	—	Unknown
China Minsheng Banking Corp., Ltd. - Orient Jing Xuan Hun He Xing Kai Fang Shi Securities Investment Fund	Others	0.74	53,450,000	-1,350,000	Circulating	—	Unknown
China Construction Bank - CIFM China Advantage Security Investment Fund	Others	0.61	43,943,237	+9,069,383	Circulating	—	Unknown
The Bank of China - Harvest Stable Open Securities Investment Fund	Others	0.47	33,515,553	+14,247,541	Circulating	—	Unknown
The Bank of China - Harvest Growth and Gain Securities Investment Fund	Others	0.38	27,704,423	+13,944,629	Circulating	—	Unknown
Shanghai Kangli Gong Mao Company	Others	0.23	16,730,000	—	Non-circulating	16,730,000	Unknown

<u>Name of shareholder</u>	<u>Type of shareholder</u>	<u>Percentage of total shareholding (%)</u>	<u>Number of shares held</u>	<u>Increase (+)/ decrease (—) during the Reporting Period</u>	<u>Type of shares</u>	<u>Number of non-circulating shares held</u>	<u>Number of shares pledged or frozen</u>
China Life Insurance Company Limited - Tradition - Ordinary Insurance Product - 005L-CT001 Shanghai	Others	0.19	13,678,194	30,000	Circulating	—	Unknown
Zhejiang Economic Construction Investment Co., Ltd	Others	0.17	12,000,000	—	Non-circulating	12,000,000	Unknown
China Life Insurance Company Limited - Bonus - Individual Bonus - 005L-FH002 Shanghai	Others	0.13	9,248,504	-4,596,315	Circulating	—	Unknown

Top ten shareholders of shares in circulation

<u>Name of Shareholders</u>	<u>Number of circulating shares held (shares)</u>	<u>Type of shares</u>
HKSCC (Nominees) Limited	2,292,736,101	Overseas listed foreign shares
China Minsheng Banking Corp., Ltd. - Orient Jing Xuan Hun He Xing Kai Fang Shi Securities Investment Fund	53,450,000	RMB-denominated ordinary shares
China Construction Bank - CIFM China Advantage Security Investment Fund	43,943,237	RMB-denominated ordinary shares
The Bank of China - Harvest Stable Open Securities Investment Fund	33,515,553	RMB-denominated ordinary shares
The Bank of China - Harvest Growth and Gain Securities Investment Fund	27,704,423	RMB-denominated ordinary shares

<u>Name of Shareholders</u>	<u>Number of circulating shares held (shares)</u>	<u>Type of shares</u>
China Life Insurance Company Limited - Tradition - Ordinary Insurance Product - 005L-CT001 Shanghai	13,678,194	RMB-denominated ordinary shares
China Life Insurance Company Limited - Bonus - Individual Bonus - 005L-FH002 Shanghai	9,248,504	RMB-denominated ordinary shares
Industrial & Commercial Bank of China - CIFM China Consumption Fund	6,567,246	RMB-denominated ordinary shares
The Bank of China - Harvest Research and Selective Securities Investment Fund	6,500,000	RMB-denominated ordinary shares
The Bank of China - Harvest Shanghai and Shenzhen 300 Index Securities Investment Fund	6,103,742	RMB-denominated ordinary shares

Description of any connected relationship or connected parties relationships among the above shareholders

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

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

As at 30 June 2010, the interests and short positions of the Company's substantial shareholders and other persons who are required to disclose their interests pursuant to Part XV of the Securities and Futures Ordinance of Hong Kong (Chapter 571 of the Laws of Hong Kong) ("SFO") (including

those who are entitled to exercise, or control the exercise of, 5% or more of the voting power at any general meeting of the Company but excluding the Directors, Supervisors and Senior Management of the Company) in the shares and underlying shares of the equity derivatives of the Company as recorded in the register which is required to be kept under Section 336 of the SFO were as set out below:

(i) Interests in ordinary shares of the Company

<u>Name of shareholders</u>	<u>Number and type of shares held</u>	<u>% of total issued share capital</u>	<u>% of shareholding in the Company's total issued H shares</u>	<u>Capacity</u>
China				
Petroleum & Chemical Corporation	4,000,000,000 Promoter legal person shares (L)	55.56	—	Beneficial owner
JPMorgan Chase & Co.				
	164,041,952(L)	2.28(L)	7.04(L)	Beneficial owner;
	42,730(S)	0.00(S)	0.00(S)	Investment managers;
	27,248,000(P)	0.38(P)	1.17(P)	Others (Available-for-lending shares)

(L): Long position (S): Short position (P): Available-for-lending shares

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

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

As at 30 June 2010, no short positions of substantial shareholders or other persons who are required to disclose their interests pursuant to Part XV of the SFO in the shares or underlying shares of equity derivatives of the Company were recorded in the register required to be kept under Section 336 of the SFO.

§4. DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND OTHERS

4.1 Changes in shareholdings of Directors, Supervisors and Senior Management

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

Unit: share

<u>Name</u>	<u>Position</u>	Number of shares held at the beginning of the Reporting Period	Number of shares held at the end of the Reporting Period	<u>Change</u>
Rong Guangdao	Chairman and President	3,600	3,600	No change
Du Chongjun	Vice Chairman and Vice President	1,000	1,000	No change
Wu Haijun	Vice Chairman	Nil	Nil	No change
Li Honggen	Director and Vice President	Nil	Nil	No change
Shi Wei	Director and Vice President	Nil	Nil	No change
Dai Jinbao	Director	Nil	Nil	No change
Lei Dianwu	External Director	Nil	Nil	No change
Xiang Hanyin	External Director	Nil	Nil	No change
Chen Xinyuan	Independent Director	Nil	Nil	No change
Sun Chiping	Independent Director	Nil	Nil	No change
Jiang Zhiquan	Independent Director	Nil	Nil	No change
Zhou Yunnong	Independent Director	Nil	Nil	No change
Gao Jinping	Chairman of the Supervisory Committee	Nil	Nil	No change

<u>Name</u>	<u>Position</u>	Number of shares held at the beginning of the Reporting Period	Number of shares held at the end of the Reporting Period	<u>Change</u>
Zhang Chenghua	Supervisor	Nil	Nil	No change
Wang Yanjun	Supervisor	Nil	Nil	No change
Zhai Yalin	External Supervisor	Nil	Nil	No change
Wu Xiaoqi	External Supervisor	Nil	Nil	No change
Liu Xiangdong	Independent Supervisor	Nil	Nil	No change
Yin Yongli	Independent Supervisor	Nil	Nil	No change
Zhang Zhiliang	Vice President	Nil	Nil	No change
Zhang Jianping	Vice President	Nil	Nil	No change
Tang Chengjian	Vice President	Nil	Nil	No change
Ye Guohua	Chief Financial Officer	Nil	Nil	No change
Zhang Jingming	Company Secretary and General Counsel	Nil	Nil	No change

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

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

Save as disclosed above, as at 30 June 2010, none of the Directors or Supervisors of the Company had any interests or short positions in any shares, underlying shares of equity derivatives or debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

As at 30 June 2010, none of the Directors or Supervisors of the Company or their respective spouses and children under 18 years of age had been granted by the Company or had exercised any rights to subscribe for shares or debentures of the Company or any of its associated corporations.

§5. REPORT OF THE DIRECTORS

5.1 Discussion and analysis of the overall operation during the Reporting Period

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

Review and discussion on operating results

In the first half of 2010, the world economy had in general entered into the track of recovery with the rapid recovery of the national economies of developed countries such as the United States and Japan as well as some emerging markets. China continued to implement a package of schemes to cope with the impact of the global financial crisis, aiming at strengthening and improving macro-economic controls. Success was achieved during this phase and the positive momentum of an economic recovery was further consolidated, with a better-than-expected 11.1% growth in gross domestic product (GDP) in the first half of the year. China’s petrochemical industry maintained a positive momentum, demonstrated by consecutive new highs in output value, a substantial increase in the output of major products, a remarkable rebound in export trade and an accelerated investment growth in the industry. The petrochemical market remained stable in general. Overall prices were on the rise, production and sales of products were carried out smoothly, industry profitability continued to improve and corporate profitability increased sharply year-on-year.

In the first half of 2010, the international and domestic macro-economic environments were, in general, better than those in the corresponding period of the previous year; China’s petrochemical industry maintained a sound economic operation; international crude oil prices saw relatively milder fluctuations; domestic refined oil prices basically reached their appropriate levels; and the demand in the petrochemical market picked up steadily as compared to the corresponding period of the previous year. Under such conditions, the Group took “learning from the advanced, refining management, accelerating development and boosting staff morale” as its main theme by fully seizing market opportunities, striving with all its strength to increase the output volume of products and carrying out various tasks on production, operation, reform and development. In the first half of the year, the Group maintained sound operations and production, and

crude oil processing volume and ethylene production stayed at relatively good levels as compared to previous corresponding periods. There was no occurrence of any major accidents in production, safety or environmental protection. Major production plants maintained high utilization and load rates, with a decrease in frequency and duration of shutdowns compared to the corresponding period of the previous year. Major technical and economic indices improved substantially over the corresponding period of the previous year. The output-to-sales ratio and the receivable recovery ratio remained at satisfactory levels. For the six-month period ended 30 June 2010, the Group's turnover was RMB36,128.3 million, up RMB14,949.7 million or 70.59% year-on-year. Profit before taxation was RMB1,897.7 million, representing an increase of RMB529.0 million year-on-year. Meanwhile, profit after taxation and non-controlling interests amounted to RMB 1,515.1 million, representing an increase of RMB 513.2 million year-on-year.

In the first half of 2010, owing to the full completion and commissioning of the Phase 5 Project, the Group's product mix was further optimized, its resources utilization efficiency was enhanced and its overall economy of scales was effectively leveraged. As a result, the output volume of the Group's products increased substantially over the corresponding period of the previous year. Between January and June 2010, the Group processed 5,042,800 tons of crude oil (including 163,800 tons of crude oil processed on a sub-contracting basis), an increase of 847,900 tons or 20.21% year-on-year. In respect of the total amount of processed crude oil, imported crude oil and offshore crude oil amounted to 4,725,000 tons and 317,800 tons respectively. The output of gasoline, diesel and jet fuel was 462,900 tons, 1,540,000 tons and 380,500 tons respectively, representing an increase of 6.00%, 21.04% and 25.87% year-on-year respectively. The output of ethylene and propylene was 493,900 tons and 270,300 tons respectively, representing an increase of 12.43% and 14.19% year-on-year respectively. The output of synthetic resins and plastics was 568,600 tons (polyester and PVA exclusive), representing an increase of 5.20% year-on-year. The output of synthetic fibre monomers, synthetic fibre polymers and synthetic fibres was 499,400 tons, 329,800 tons and 123,900 tons respectively, representing an increase of 16.74%, 14.04% and 2.82% year-on-year respectively. The Group's output-to-sales ratio and receivable recovery ratio in the first half of the year were 100.05% and 99.55% respectively.

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

For the six-month period ended 30 June

	2010			2009		
	Sales Volume (’000 tons)	Net Sales (Millions of RMB)	% of Total	Sales Volume (’000 tons)	Net Sales (Millions of RMB)	% of Total
Synthetic Fibres	123.7	1,871.2	5.56	123.8	1,289.3	6.76
Resins and Plastics	821.6	7,524.6	22.34	766.6	5,725.8	30.00
Intermediate						
Petrochemicals	1,117.1	7,851.4	23.31	525.8	2,312.6	12.12
Petroleum products	2,852.5	12,876.4	38.23	2,429.1	7,700.2	40.35
Others	—	3,554.6	10.56	—	2,056.0	10.77
Total	<u>4,914.9</u>	<u>33,678.2</u>	<u>100.00</u>	<u>3,845.3</u>	<u>19,083.9</u>	<u>100.00</u>

In the first half of 2010, the Group realised total net sales of RMB33,678.2 million, representing an increase of 76.47% as compared to the corresponding period of the previous year, among which net sales derived from petroleum products, intermediate petrochemicals, resins and plastics as well as synthetic fibres increased by 67.22%, 239.51%, 31.42% and 45.13% respectively. Such increases were primarily attributable to the increased prices of raw materials and energy, resulting in increased prices for petroleum products, intermediate petrochemicals, resins and plastics and synthetic fibres, as well as a substantial increase in sales volume for a majority of products. Compared to the first half of 2009, the average prices (excluding tax) of the Group’s petroleum products, intermediate petrochemicals, resins and plastics and synthetic fibres increased by 42.40%, 59.80%, 22.61% and 45.26% respectively during the Reporting Period. When compared to the second half of 2009, the average prices (excluding tax) of the above four major categories of products of the Group increased by 14.37%, 14.31%, 8.80% and 20.28% respectively. In the first half of the year, net sales of the Group’s “other operations” increased by 72.89% as compared to the corresponding period of the previous year, primarily because the trade volume of the Group’s petrochemicals increased substantially as compared to the corresponding period of the previous year.

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

During the first half of 2010, the Group’s cost of sales increased by 80.72% year-on-year to RMB31,815.8 million, accounting for 94.47% of the net sales.

Crude oil is the Group's major raw material. In the first half of 2010, as a result of a number of factors such as the global economic recovery, the European debt crisis and frequent natural disasters, international crude oil prices were moving largely in the range of US\$70 and US\$85/barrel. WTI crude oil prices closed highest at US\$86.16/barrel and lowest at US\$65.58/barrel. In the first half of the year, the average price was approximately US\$78/barrel, representing an increase of around 50% from US\$52/barrel in the corresponding period of the previous year. In the first half of the year, the average Brent crude oil price was approximately US\$77/barrel, representing a year-on-year increase of around 45%. As a result of this impact, the Group's average unit cost of crude oil processed (the portion traded for the Group's own account) was RMB3,932.37/ton in the first half of 2010, representing an increase of 54.59% from RMB1,388.60/ton in the corresponding period of the previous year. As a result of the significant increase in the average price of crude oil and the increase in the volume of crude oil processed, the Group's total costs of crude oil processed during the Reporting Period increased substantially by 83.55% to RMB19,169.3 million. The crude oil costs accounted for 60.25% of the Group's cost of sales in the first half of the year.

Expenses on other auxiliary raw materials of the Group amounted to RMB6,291.7 million in the first half of 2010, representing an increase of 142.62% as compared to the corresponding period of the previous year, primarily attributable to an increase in the prices and the volume of materials for production. Depreciation and maintenance costs of the Group during the Reporting Period amounted to RMB833.4 million and RMB390.3 million respectively, representing slight increases year-on-year. Fuel and power expenses increased by RMB223.4 million year-on-year to RMB998.2 million as a result of the year-on-year increases to various degrees in both purchase volumes and purchase prices of coal for power generation.

The Group's selling and administrative expenses in the first half of 2010 amounted to RMB255.6 million, up 37.49% from RMB185.9 million during the corresponding period of the previous year. The increase was primarily attributable to an increase in sales transportation expenses as a result of a substantial increase in sales volume (due to adjustment of sales policy which significantly increased sales transportation expenses), and an increase in agency fees with respect to product sales in ordinary (continuing) connected transactions during the Reporting Period.

The Group's other operating expenses in the first half of 2010 decreased by RMB0.7 million year-on-year to RMB14.8 million, primarily attributable to a decrease in employee reduction expenses during the Reporting Period.

Financing costs of the Group in the first half of 2010 decreased by 45.76% year-on-year to RMB116.7 million, primarily because of adjustment of the borrowing structure between US dollar-denominated loans and Renminbi-denominated loans, where the Group borrowed more US dollar-denominated loans at low interest rates during the Reporting Period than in the corresponding period of the previous year, resulting in a substantial drop in interest expenses. Furthermore, the Renminbi appreciated against the US dollar in May and June 2010, whereas during the first half of 2009, the exchange rate of the Renminbi against the US dollar remained stable in general. As a result, there was an increase in net foreign exchange gains of the Group during the period.

The Group's profit after taxation and non-controlling interests was RMB1,515.1 million in the first half of 2010, representing an increase of RMB513.2 million from RMB1,001.9 million for the corresponding period of the previous year.

Liquidity and capital resources

The Group's net cash inflow from operating activities amounted to RMB207.7 million for the first half of 2010, while the net cash inflow for the corresponding period of the previous year was RMB2,457.4 million, primarily because: (1) the closing balance of inventory decreased RMB171.9 million as compared with the opening balance for the corresponding period of the previous year, while there was an increase of RMB548.1 million in the first half of 2010. Consequently, cash outflow from operating activities increased by RMB720.0 million as a result of the movement in the opening and closing balance of inventory; (2) cash outflow of the current period increased by RMB2,448.5 million as a result of more operating payables were paid at the beginning of the year as compared with the corresponding period of the previous year; (3) the movement in the operating receivables for the current period as compared to the corresponding period of the previous year caused the increase in cash inflow of RMB425.0 million; (4) The profit from operations for the current period increased by RMB147.6 million over the corresponding period of the previous year, so it also caused the increase of operating cash inflow.

In the first half of 2010, the Group's net cash inflow from investing activities amounted to RMB572.4 million, as compared to a net cash outflow of RMB730.7 million in the corresponding period of the previous year, primarily because: (1) the Group purchased financial products totaling RMB700.0 million from state-controlled banks in China at the end of 2009,

and such financing products were redeemed in January 2010; and (2) cash outflow from investing activities decreased by RMB797.7 million due to a year-on-year decrease in the Group's capital expenditures during the period. The 600,000-ton/year PX aromatics complex, a major project of the Group under construction, was transferred to fixed assets in September 2009. During the Reporting Period, there was no similar large-scale project under construction.

In the first half of 2010, the Group's net cash outflow from financing activities amounted to RMB506.0 million, representing a year-on-year decrease in net cash outflow of RMB1,423.9 million, primarily attributable to the Group's repayment of a substantial amount of short-term borrowings during corresponding period of the previous year.

Borrowings and debts

The Group's long-term borrowings are mainly applied to capital expansion projects. In general, the Group has arranged long-term borrowings according to capital expenditure plans and on the whole, there are no seasonal borrowings. Short-term debts are used to replenish the Group's working capital requirements during the normal course of production operation. The Group's borrowings as at the end of the first half of 2010 decreased by RMB594.9 million to RMB7,484.0 million from the beginning of the Reporting Period. In particular, short-term debts decreased by RMB590.7 million while long-term borrowings decreased by RMB4.3 million.

Risks associated with exchange rate fluctuation

Since the Group purchases its major raw materials, particularly crude oil, from overseas sources and also exports a portion of the Group's petrochemical products directly as well, exchange rate changes will indirectly affect the prices of the Group's raw materials and petrochemical products. This may, in turn, have a discernible impact on the Group's profitability. In addition, a change in the relevant exchange rates will affect the level of the Group's financial expenses since some of the Group's debts are denominated in foreign currencies. Accordingly, the Group's profitability will be affected as well. At 30 June 2010, the Group's loans denominated in US dollars amounted to USD782.3 million.

Capital expenditure

In the first half of 2010, the Group continued to adjust its business structure and product portfolio, adhering to the development strategy of "giving consideration to both cost leadership and differentiation and paying equal

attention to scale and refinement” and the development idea of “laying particular emphasis on being cost and scale effective at upstream and being highly value-added and highly refined at downstream”. The group was focusing on the earlier stage work for the phase 6 project of the Company with refinery revamping and expansion item as the main project. The environmental appraisals for the refinery revamping and expansion project, the carbon fibre project and some other projects are being carried out, the Group is working hard on the preparatory work of these projects so that earth-breaking could take place within the year. Meanwhile, the construction of a pipeline network for comprehensively using natural gas was completed as scheduled. Starting from 15 March, natural gas from the Shanghai pipelines network was introduced to the Company, thus fulfilling the target of switching to 100% natural gas as substitute feedstock for No. 1 Hydrogen Making Plant, and achieving improved economic efficacy. Other key technological renovation projects of the Group have also proceeded in an orderly manner.

In the first half of the year, the Group’s capital expenditure amounted to RMB278.9 million, mainly used for the project of comprehensively using LNG, the project of systematic optimization, energy conservation and consumption reduction of 2# PTA Plant, and the 1# EO/EG Plant technological revamping project. In the second half of the year, the Group will continue to proactively push forward the above construction projects and other projects including technological renovation, safety and environmental protection, energy conservation and consumption reduction. The Group plans to fund the capital expenditure with cash from operations and banking facilities.

Liability-to-asset ratio

As at 30 June 2010, the Group’s liability-to-asset ratio was 44.16% (31 December 2009: 48.85%). The ratio is calculated using this formula: total liabilities/ total assets.

Employees

As at 30 June 2010, the Group’s on-record employees totaled 16,680. Staff costs for the six-month period ended 30 June 2010 totaled RMB 882.8 million.

Income tax

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

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

Save as disclosed herein, pursuant to paragraph 40 in Appendix 16 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, the Company confirmed that there have been no material changes in the existing information of the Company relating to the matters as set out in paragraph 32 in Appendix 16 and the information disclosed in the Company's 2009 annual report.

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

In the second half of 2010, consumption, a main driver of economic growth, is likely to remain weak due to the high unemployment rates in major economies such as the U.S., Japan and Europe; and the sovereign debt crisis in some nations could pose a major risk to the global economy and financial market after the global financial crisis. As a result, the recovery of the world economy remains uncertain and unstable, with a possible slowdown in economic growth. China's economy may be facing a better development environment than last year, but it is also facing extremely complex situations characterized by a mixture of positive changes and adverse effects, a twist of temporary issues and long-standing conflicts as well as an interaction of domestic and international factors, resulting in a slowdown in economic operation growth. The economic operation of the domestic petrochemical industry will come under pressure from all sides, and may tend to soar high in the first half of the year and fall in the second half of the year. The domestic petrochemical industry will be confronted with pressure from all aspects, such as the rapid growth in capacities of certain petrochemical products, the aggravated situation of under-utilization of certain downstream sectors, possibly weak consumption and demand in the downstream sectors and the impact of imported products. Market competition will become more intense in the second half of the year.

Although the recovery of the world economy has become increasingly uncertain, the direction remains unchanged. It is expected that international crude oil prices may continue to hover around US\$70-80/barrel as a result of a number of factors such as adequate liquidity in the market and the upcoming peak period for petroleum consumption in the second half of the year. Meanwhile, the Chinese government may still exercise controls over the prices of domestic refined oil products when international crude oil prices go to a higher level.

To sum up, the Group expects that the average crude oil processing costs in the second half of the year will still remain high, and competition in the chemical market will become more intense, and therefore the Group cannot take an optimistic view towards its production and operation. In the second half of the year, the Group will continue to follow the tasks and objectives established at the beginning of the year and proceed with the following tasks in a proactive, diligent, solid and effective manner:

1. Continuously pay special attention to plant operation and make efforts for higher output volume;
2. Further optimize production and operation and strive to enhance profitability;
3. Attach great importance to HSE (health, safety and environment) and maintain stable operation in all aspects with all efforts;
4. Accelerate the construction of the projects in the next round development plan, push forward technological advancement, make efforts to accumulate reserved strength for further development;
5. Further intensify internal management and strive to reach a higher management standards; and
6. Continue to strengthen human resources structure and competence, and create the atmosphere of unity and harmony.

5.2 Principal operations by segment or product (prepared under China Accounting Standards)

Unit: RMB'000

By segment or by product	Operating income	Operating cost	Gross profit margin	Increase/ decrease of operating income compared to the corresponding period last year	Increase/ decrease of operating cost compared to the corresponding period last year	Increase/ decrease of gross profit margin compared to the corresponding period last year
			(%)	(%)	(%)	
Synthetic fibres	1,891,401	1,469,480	22.31	44.44	27.90	Increased by 10.05 percentage points
Resins and plastics	7,597,388	7,103,568	6.50	30.89	66.45	Decreased by 19.98 percentage points
Intermediate petrochemicals	7,936,403	7,325,281	7.70	238.11	319.05	Decreased by 17.83 percentage points
Petroleum products	15,142,333	11,513,929	23.96 ^{Note}	56.89	50.93	Increased by 3.00 percentage points
Others	3,583,905	3,409,562	4.86	71.29	80.83	Decreased by 5.02 percentage points
Including: connected transactions	18,907,066	16,172,911	14.46	79.49	84.42	Decreased by 2.29 percentage points

Pricing principles of connected transactions	The Directors (including the Independent Non-executive Directors) are of the view that the above mentioned connected transactions were conducted on normal commercial terms which were no less favourable than those offered to or by any third party, and were conducted in the ordinary course of business. This was confirmed by the Independent Non-executive Directors of the Group.
Description of the necessity and continuity of connected transactions	The purchases by the Company of crude oil and related materials from, and sales of petroleum products by the Company to China Petroleum & Chemical Corporation (the “Sinopec Corp.”) and its associates were conducted in accordance with the State’s relevant policies and applicable State tariffs or State guidance prices. As long as the State does not lift its control over purchases of crude oil, sales of petroleum products and pricing thereof, such connected transactions will continue to take place. The Company sold petrochemicals to Sinopec Corp. and its associates, and Sinopec Corp. and its associates acted as agents for the sale of petrochemicals, in order to reduce the Company’s inventories, to expand its trading, distribution and sales networks and to improve the Company’s bargaining power with its customers. The Company obtained construction and installation, project design, petrochemical industry insurance agency and financial services from China Petrochemical Corporation (“Sinopec”) and its associates in order to secure steady and reliable services at reasonable prices.

This includes an amount of RMB18,043,373,420 for the connected transactions in respect of the sale of products or the provision of services to the controlling shareholder and its subsidiaries by the listed company during the Reporting Period.

Note: The gross profit margin is calculated according to the price of petroleum products which includes consumption tax. The gross profit margin of petroleum products after deducting consumption tax amounts to 10.05%.

5.3 Principal operations by geographical location (prepared under China Accounting Standards for Business Enterprises)

Unit: RMB’000		
Geographical location	Operating income	Increase/decrease of operating income compared to the corresponding period of the previous year (%)
Eastern China	33,117,729	67.86
Other regions in the PRC	2,782,767	97.79
Exports	250,934	264.66

5.4 Description of substantial changes in the Company's major financial data during the Reporting Period as compared to the previous year (prepared under the China Accounting Standards for Business Enterprises)

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

Unit: RMB'000

Item	For the six-month period ended 30 June		Increase/ (decrease) amount	change (%)	Reason for change	
	2010	2009				
Operating revenue	36,151,430	21,204,680	14,946,750	70.49	Owing to the recovery of the petrochemical industry and the full completion and commissioning of the Phase 5 Project of the Company, the Reporting Period saw a substantial increase in the product sales of the Group, and a significant rise in the prices of petrochemical products as compared with the corresponding period of the previous year.	
Operating costs	30,821,820	16,678,661	14,143,159	84.80		
Operating profit	1,887,627	1,269,719	617,908	48.66		
Profit before income tax	1,882,526	1,353,562	528,964	39.08		
Net profit	1,493,572	1,029,425	464,147	45.09		
Net profit attributable to equity shareholders of the Company	1,493,930	987,236	506,694	51.32		
Investment income	385,848	180,793	205,055	113.42		

5.5 Projects from non-raised capital

<u>Project</u>	<u>Total project investment RMB million</u>	<u>Project progress as at 30 June 2010</u>
The Refinery Upgrade Project	6,319.0	Preliminary preparation
The Carbon Fiber Project with a Capacity of 1,500 tons/year	805.5	Preliminary preparation
Natural Gas Integrated Utilization Project	195.1	Completed
Upgrade Project for Optimization of Energy Saving and Consumption Reduction for No. 2 Oxidation Device System	185.6	Under construction
The Isoamylene Device Project with a Capacity of 10,000 tons/year	105.3	Preliminary preparation

§6 MAJOR EVENTS

6.1 Guarantees

	RMB'000
Amount of guarantees signed during the Reporting Period (excluding guarantees to subsidiaries)	—
Amount of guarantees at the end of the Reporting Period (excluding guarantees to subsidiaries)	—
Group's guarantees to subsidiaries	
Amount of guarantees to subsidiaries signed by the Company during the Reporting Period	—
Amount of guarantees to subsidiaries at the end of the Reporting Period	200,000
Total guarantee amount (including guarantees to subsidiaries)	
Total guarantee amount	200,000
Total guarantee amount as a percentage of net asset of the Company under the China Accounting Standards for Business Enterprises (%)	1.20
of which:	

Amount of guarantee provided for shareholders, the controlling company of the controlling shareholder or the other connected parties	—
Amount of debt guarantee provided for the companies with liabilities to assets ratio of over 70% directly or indirectly	200,000
Total amount of guarantee is over 50% of net asset	—
Total guarantee amount of the above three items	200,000

6.2 Non-operating connected creditor's rights and liabilities

RMB'000

Connected party	Connected relationship	Funds provided to connected parties		Funds provided by connected parties to the Company	
		Net transaction	Balance	Net transaction	Balance
Sinopec Corp.	Controlling shareholder	—	—	(175,218)	—
Sinopec and other related parties	Controlling company of the controlling shareholder and other related parties	<u>3,569</u>	<u>10,176*</u>	<u>(5,568)</u>	<u>23,901</u>
Total		<u><u>3,569</u></u>	<u><u>10,176</u></u>	<u><u>(180,786)</u></u>	<u><u>23,901</u></u>

During the Reporting Period, no funds were provided by the Company to the controlling shareholder and its subsidiaries. There were no balance of funds provided by the Company to the controlling shareholder and its subsidiaries.

* The period-end balance of the funds provided by the Group to its connected parties are mainly receivables which were incurred for services provided to the associated companies and joint venture companies of the Group and which were not settled.

6.3 Audit Committee

On 26 August 2010, the Audit Committee of the sixth session of the Board held its fifth meeting, primarily to review the interim financial report of the Group for the period.

6.4 Purchase, Sale and Redemption of Securities

During the Reporting Period, the Group has not purchased, sold or redeemed any of the Company's securities.

6.5 Compliance with Code of Corporate Governance Practices

The Company has complied with all the principles and provisions set out in the Code of Corporate Governance Practices (the “Code”) contained in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, except for the following two deviations:

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

Deviation: Mr. Rong Guangdao is appointed as the Chairman and President of the Company.

Reason: Mr. Rong Guangdao has extensive experience in the management of large-scale petrochemical production and has in-depth understanding about the operation of the Company. Mr. Rong is the most suitable candidate to serve the positions of the Chairman and President of the Company. For the time being, the Company is unable to identify another suitable person who possesses better or similar abilities and talent as Mr. Rong to serve any of the above positions.

Explanation: Mr. Rong Guangdao resigned from the office of President on 19 July 2010, on which day Mr. Wang Zhiqing was appointed as President of the Company at the 14th meeting of the sixth session of the Board.

- (ii) Code Provision A. 4.1: Non-executive directors should be appointed for a specific term, subject to re-election.

Deviation: Mr. Chen Xinyuan, the Independent Non-executive Director, has served as an Independent Non-executive Director for more than the six-year period as stipulated in the articles of association of the Company.

Reason: Mr. Chen Xinyuan currently serves as the Dean, Professor and Tutor to doctoral students of the College of Accounting at Shanghai University of Finance and Economics. He is very familiar with financial reporting and accounting and has extensive experience in management. Mr. Chen also serves as the Director of the Audit Committee of the Board of the Company. For the time being, the Company is unable to identify another accounting professional like Mr. Chen, who will be replaced at the election of a new session of the Board to be held in June 2011.

6.6 Model Code for Securities Transactions

The Directors of the Company confirm that the Company has adopted the Model Code for Securities Transactions by Directors of Listed Companies (the “Model Code for Securities Transactions”) set out in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited. After making specific enquiries with all the Directors and Supervisors of the Company, the Company is not aware of any information that would reasonably indicate that the Directors and Supervisors of the Company were not in compliance with the requirements of the Model Code for Securities Transactions during the Reporting Period.

§7 INTERIM FINANCIAL REPORT

7.1 Interim financial statements prepared under China Accounting Standards for Business Enterprises (*Unaudited*)

7.1.1 Interim Financial Statements

Balance Sheets (*Unaudited*)

	The Group		The Company	
	At 30 June 2010 RMB'000	At 31 December 2009 RMB'000	At 30 June 2010 RMB'000	At 31 December 2009 RMB'000
Assets				
Current assets				
Cash at bank and on hand	399,848	125,917	264,419	101,076
Bills receivable	801,618	603,701	716,723	542,739
Accounts receivable	759,819	534,948	585,112	432,686
Prepayments	170,472	127,568	167,723	125,419
Dividends receivable	7,142	—	5,042	—
Other receivables	69,750	85,457	76,481	49,270
Inventories	7,431,885	6,883,834	7,112,133	6,658,450
Other current assets	46,674	700,000	22,308	700,000
Total current assets	9,687,208	9,061,425	8,949,941	8,609,640
Non-current assets				
Long-term receivables	30,000	100,000	—	—
Long-term equity investments	3,285,273	2,969,646	4,353,853	4,035,372
Investment property	472,618	479,247	532,020	539,482
Fixed assets	14,591,560	15,205,731	13,944,544	14,541,119
Construction in progress	297,031	363,646	296,813	353,637
Intangible assets	547,386	557,172	438,934	445,450
Long-term deferred expenses	137,822	212,325	136,573	210,575
Deferred tax assets	1,125,340	1,509,130	1,124,979	1,508,769
Total non-current assets	20,487,030	21,396,897	20,827,716	21,634,404
Total assets	30,174,238	30,458,322	29,777,657	30,244,044

	<u>The Group</u>		<u>The Company</u>	
	<u>At 30 June 2010 RMB'000</u>	<u>At 31 December 2009 RMB'000</u>	<u>At 30 June 2010 RMB'000</u>	<u>At 31 December 2009 RMB'000</u>
Liabilities and shareholders' equity				
Current liabilities				
Short-term loans	6,183,995	6,700,398	5,887,595	6,424,998
Bills payable	776,218	722,271	776,218	878,105
Accounts payable	2,814,506	3,664,996	2,547,906	3,350,364
Advances from customers	435,646	529,282	396,299	513,071
Employee benefits payable	41,535	27,674	36,097	24,118
Taxes payable	451,548	635,930	439,655	627,964
Interest payable	8,281	20,155	8,281	20,155
Dividends payable	278,468	—	229,938	—
Other payables	683,935	903,944	1,362,754	1,518,220
Short-term debentures payable	1,000,000	1,000,000	1,000,000	1,000,000
Non-current liabilities due within one year	<u>78,533</u>	<u>74,275</u>	<u>—</u>	<u>—</u>
Total current liabilities	<u>12,752,665</u>	<u>14,278,925</u>	<u>12,684,743</u>	<u>14,356,995</u>
Non-current liabilities				
Long-term loans	300,000	304,258	345,000	450,000
Other non-current liabilities	<u>256,515</u>	<u>234,781</u>	<u>256,515</u>	<u>234,781</u>
Total non-current liabilities	<u>556,515</u>	<u>539,039</u>	<u>601,515</u>	<u>684,781</u>
Total liabilities	<u>13,309,180</u>	<u>14,817,964</u>	<u>13,286,258</u>	<u>15,041,776</u>
Shareholder's equity				
Share capital	7,200,000	7,200,000	7,200,000	7,200,000
Specific reserve	5,473	—	5,473	—
Capital reserve	2,882,278	2,882,278	2,882,278	2,882,278
Surplus reserve	4,801,766	4,801,766	4,801,766	4,801,766
Retained earnings	<u>1,739,959</u>	<u>462,029</u>	<u>1,601,882</u>	<u>318,224</u>
Total equity attributable to equity shareholders of the Company	<u>16,629,476</u>	<u>15,346,073</u>	<u>16,491,399</u>	<u>15,202,268</u>
Minority interests	<u>235,582</u>	<u>294,285</u>	<u>—</u>	<u>—</u>
Total equity	<u>16,865,058</u>	<u>15,640,358</u>	<u>16,491,399</u>	<u>15,202,268</u>
Total liabilities and shareholders' equity	<u>30,174,238</u>	<u>30,458,322</u>	<u>29,777,657</u>	<u>30,244,044</u>

Income statements (Unaudited)

	Six-month period ended 30 June			
	The Group		The Company	
	2010	2009	2010	2009
	RMB'000	RMB'000	RMB'000	RMB'000
Operating income	36,151,430	21,204,680	31,915,310	18,438,778
Less: Operating costs	30,821,820	16,678,661	26,674,152	14,152,342
Business taxes and surcharges	2,450,087	2,094,713	2,449,119	2,090,835
Selling and distribution expenses	255,584	185,880	217,327	146,775
General and administrative expenses	958,094	958,157	893,393	847,189
Financial expenses	116,712	204,807	106,785	194,982
Provision/(reversal) of impairment loss	47,354	(16,836)	73,266	(11,609)
Add: Gain/(losses) from changes in fair value	—	(10,372)	—	(10,372)
Investment income (Including: Income from investment in associates and jointly controlled enterprises)	385,848	180,793	385,028	78,229
	<u>385,633</u>	<u>47,189</u>	<u>377,407</u>	<u>38,506</u>
Operating profit	1,887,627	1,269,719	1,886,296	1,086,121
Add: Non-operating income	13,358	99,081	12,944	98,519
Less: Non-operating expenses (Including: losses from disposal of non-current assets)	18,459	15,238	15,792	14,353
	<u>4,678</u>	<u>2,575</u>	<u>3,650</u>	<u>1,985</u>
Profit before income tax	1,882,526	1,353,562	1,883,448	1,170,287
Less: Income tax	388,954	324,137	383,790	287,200
Net profit for the period	<u>1,493,572</u>	<u>1,029,425</u>	<u>1,499,658</u>	<u>883,087</u>
Attributable to:				
Equity shareholders of the Company	1,493,930	987,236		
Minority shareholders	(358)	42,189		
Earnings per share:				
Basic	<u>RMB0.207</u>	<u>RMB0.137</u>		
Diluted	<u>RMB0.207</u>	<u>RMB0.137</u>		
Other comprehensive income	—	30,916	—	39,685
Total comprehensive income	<u>1,493,572</u>	<u>1,060,341</u>	<u>1,499,658</u>	<u>922,772</u>
Attributable to:				
Equity shareholders of the Company	1,493,930	1,018,152		
Minority shareholders	(358)	42,189		

Cash flow statements (Unaudited)

	<u>Six-month period ended 30 June</u>			
	The Group		The Company	
	2010	2009	2010	2009
	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>
Cash flows from operating activities:				
Cash received from sale of goods and rendering of services	41,993,214	24,218,601	36,846,570	20,975,566
Refund of taxes	—	8,435	—	—
Other cash received relating to operating activities	62,710	1,445	64,881	981
Sub-total of cash inflows	<u>42,055,924</u>	<u>24,228,481</u>	<u>36,911,451</u>	<u>20,976,547</u>
Cash paid for goods and services	(36,529,514)	(18,689,286)	(31,481,854)	(15,480,404)
Cash paid to and for employees	(868,974)	(859,574)	(806,019)	(762,682)
Cash paid for all types of taxes	(4,042,318)	(1,770,842)	(3,963,519)	(1,745,570)
Other cash paid relating to operating activities	(248,383)	(220,413)	(219,272)	(203,685)
Sub-total of cash outflows	<u>(41,689,189)</u>	<u>(21,540,115)</u>	<u>(36,470,664)</u>	<u>(18,192,341)</u>
Net cash inflow from operating activities	<u>366,735</u>	<u>2,688,366</u>	<u>440,787</u>	<u>2,784,206</u>
Cash flows from investing activities:				
Cash received from disposal of investments	770,000	301,560	700,000	41,041
Cash received from investment income	63,079	68,906	61,505	63,240
Net cash received from disposal of fixed assets, intangible assets and other long-term assets	979	96,543	914	94,705
Other cash received relating to investing activities	17,266	10,899	12,870	7,470
Sub-total of cash inflows	<u>851,324</u>	<u>477,908</u>	<u>775,289</u>	<u>206,456</u>
Cash paid for acquisition of fixed assets, intangible assets and other long-term assets	(278,946)	(1,076,643)	(282,935)	(1,075,509)

	<u>Six-month period ended 30 June</u>			
	The Group		The Company	
	2010	2009	2010	2009
	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>
Cash paid for acquisition of investments	—	(132,000)	—	—
Sub-total of cash outflows	<u>(278,946)</u>	<u>(1,208,643)</u>	<u>(282,935)</u>	<u>(1,075,509)</u>
Net cash inflow /(outflow) from investing activities	<u>572,378</u>	<u>(730,735)</u>	<u>492,354</u>	<u>(869,053)</u>
Cash flows from financing activities:				
Cash received from issuance of corporate bonds	1,000,000	1,000,000	1,000,000	1,000,000
Cash received from borrowings	22,642,235	12,776,432	22,580,835	12,715,302
Sub-total of cash inflows	<u>23,642,235</u>	<u>13,776,432</u>	<u>23,580,835</u>	<u>13,715,302</u>
Repayments of corporate bonds	(1,000,000)	—	(1,000,000)	—
Repayments of borrowings	(23,138,235)	(15,678,546)	(23,202,420)	(15,394,750)
Cash paid for dividends, profits distribution and interest	(169,000)	(258,825)	(148,060)	(221,717)
Sub-total of cash outflows	<u>(24,307,235)</u>	<u>(15,937,371)</u>	<u>(24,350,480)</u>	<u>(15,616,467)</u>
Net cash outflow from financing activities	<u>(665,000)</u>	<u>(2,160,939)</u>	<u>(769,645)</u>	<u>(1,901,165)</u>
Effect of foreign exchange rate changes on cash and cash equivalents	<u>(182)</u>	<u>(24)</u>	<u>(153)</u>	<u>(24)</u>
Net increase/(decrease) in cash and cash equivalents	273,931	(203,332)	163,343	13,964
Add: cash and cash equivalents at the beginning of the period	<u>125,917</u>	<u>627,685</u>	<u>101,076</u>	<u>294,786</u>
Cash and cash equivalents at the end of the period	<u>399,848</u>	<u>424,353</u>	<u>264,419</u>	<u>308,750</u>

Consolidated Statements of Changes in Shareholders' Equity (Unaudited)
(Expressed in thousands of renminbi yuan)

	Six-month period ended 30 June												
	2010						2009						
	Attributable to equity shareholders of the Company						Attributable to equity shareholders of the Company						
	Share capital	Specific reserve	Capital reserve	Surplus reserve	Retained earnings	Minority interests	Total	Share capital	Capital reserve	Surplus reserve	Retained earnings	Minority interests	Total
Balance at 1 January	7,200,000	—	2,882,278	4,801,766	462,029	294,285	15,640,358	7,200,000	2,939,181	4,766,408	(1,064,218)	264,353	14,105,724
Changes in equity for the period													
1. Net profit (loss) for the period	—	—	—	—	1,493,930	(358)	1,493,572	—	—	—	987,236	42,189	1,029,425
2. Other comprehensive income for the period	—	—	—	—	—	—	—	—	30,916	—	—	—	30,916
Sub-total of 1&2	—	—	—	—	1,493,930	(358)	1,493,572	—	30,916	—	987,236	42,189	1,060,341
3. Appropriation of profits													
- Distribution to shareholders	—	—	—	—	(216,000)	(58,345)	(274,345)	—	—	—	—	(31,272)	(31,272)
4. Specific reserve													
(1) Provision made during the period	—	5,473	—	—	—	—	5,473	—	—	—	—	—	—
Balance at 30 June	<u>7,200,000</u>	<u>5,473</u>	<u>2,882,278</u>	<u>4,801,766</u>	<u>1,739,959</u>	<u>235,582</u>	<u>16,865,058</u>	<u>7,200,000</u>	<u>2,970,097</u>	<u>4,766,408</u>	<u>(76,982)</u>	<u>275,270</u>	<u>15,134,793</u>

Statements of Changes in Shareholders' Equity (Unaudited)
(Expressed in thousands of renminbi yuan)

	Six-month period ended 30 June										
	2010						2009				
	Share capital	Specific reserve	Capital reserve	Surplus reserve	Retained earnings	Total	Share capital	Capital reserve	Surplus reserve	Retained earnings	Total
	Balance at 1 January	7,200,000	—	2,882,278	4,801,766	318,224	15,202,268	7,200,000	2,930,412	4,766,408	(1,022,598)
Changes in equity for the period											
1. Net profit for the period	—	—	—	—	1,499,658	1,499,658	—	—	—	883,087	883,087
2. Other comprehensive income for the period	—	—	—	—	—	—	—	39,685	—	—	39,685
Sub-total of 1&2	—	—	—	—	1,499,658	1,499,658	—	39,685	—	883,087	922,772
3. Appropriation of profits											
- Distribution to shareholders	—	—	—	—	(216,000)	(216,000)	—	—	—	—	—
4. Specific reserve											
(1) Provision made during the period	—	5,473	—	—	—	5,473	—	—	—	—	—
Balance at 30 June	<u>7,200,000</u>	<u>5,473</u>	<u>2,882,278</u>	<u>4,801,766</u>	<u>1,601,882</u>	<u>16,491,399</u>	<u>7,200,000</u>	<u>2,970,097</u>	<u>4,766,408</u>	<u>(139,511)</u>	<u>14,796,994</u>

7.2 Interim financial report prepared under International Financial Reporting Standards (Unaudited)

This interim financial report for the six-month period ended 30 June 2010 is unaudited, but has been reviewed by KPMG in accordance with Hong Kong Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity* issued by the Hong Kong Institute of Certified Public Accountants, whose unmodified review report is included in the interim report to be sent to shareholders.

Consolidated Income Statement

For the six-month period ended 30 June 2010 (unaudited)

(Expressed in Renminbi)

	Note	Six-month period ended 30 June	
		2010 RMB'000	2009 RMB'000
Turnover	3	36,128,309	21,178,582
Sales taxes and surcharges		<u>(2,450,087)</u>	<u>(2,094,713)</u>
Net sales		33,678,222	19,083,869
Cost of sales		<u>(31,815,785)</u>	<u>(17,604,625)</u>
Gross profit		1,862,437	1,479,244
Selling and administrative expenses		(255,584)	(185,880)
Other operating income		31,479	198,049
Other operating expenses		<u>(14,813)</u>	<u>(15,466)</u>
Profit from operations		<u>1,623,519</u>	<u>1,475,947</u>
Financial income		29,607	10,899
Financial expenses		<u>(146,319)</u>	<u>(226,078)</u>
Net financing costs		<u>(116,712)</u>	<u>(215,179)</u>

		Six-month period ended 30 June	
	<i>Note</i>	2010	2009
		<u>RMB'000</u>	<u>RMB'000</u>
Investment income		215	55,734
Share of profit of associates and jointly controlled entities		<u>390,633</u>	<u>52,189</u>
Profit before taxation	3, 4	1,897,655	1,368,691
Income tax	5	<u>(389,391)</u>	<u>(324,574)</u>
Profit for the period		<u><u>1,508,264</u></u>	<u><u>1,044,117</u></u>
Attributable to:			
Equity shareholders of the Company		1,515,051	1,001,928
Non-controlling interests		<u>(6,787)</u>	<u>42,189</u>
Profit for the period		<u><u>1,508,264</u></u>	<u><u>1,044,117</u></u>
Earnings per share	6		
Basic		<u>RMB0.210</u>	<u>RMB0.139</u>
Diluted		<u>RMB0.210</u>	<u>RMB0.139</u>

Consolidated Statement of Comprehensive Income

For the six-month period ended 30 June 2010 (unaudited)

(Expressed in Renminbi)

	Six-month period ended 30 June	
	2010	2009
	RMB'000	RMB'000
Profit for the period	1,508,264	1,044,117
Other comprehensive income for the period (after tax and reclassification adjustments)		
Available-for-sale securities: net movement in the fair value reserve	—	30,916
	—	30,916
Total comprehensive income for the period	<u>1,508,264</u>	<u>1,075,033</u>
Attributable to:		
Equity shareholders of the Company	1,515,051	1,032,844
Non-controlling interests	<u>(6,787)</u>	<u>42,189</u>
Total comprehensive income for the period	<u>1,508,264</u>	<u>1,075,033</u>

Consolidated Balance Sheet
As at 30 June 2010 (unaudited)
(Expressed in Renminbi)

		At	At 31
	<i>Note</i>	30 June	December
		2010	2009
		RMB'000	RMB'000
Non-current assets			
Property, plant and equipment		14,376,414	14,977,205
Investment property		472,618	479,247
Construction in progress		255,516	348,865
Interest in associates and jointly controlled entities		3,070,273	2,749,646
Lease prepayments and other assets		601,586	754,126
Deferred tax assets		<u>1,153,745</u>	<u>1,537,972</u>
Total non-current assets		<u>19,930,152</u>	<u>20,847,061</u>
Current assets			
Inventories		7,431,885	6,883,834
Other investments		—	700,000
Trade debtors	8	153,801	120,145
Bills receivable	8	763,392	573,283
Deposits, other debtors and prepayments	8	131,855	81,847
Amounts due from related parties	8	806,427	576,399
Cash and cash equivalents		<u>399,848</u>	<u>125,917</u>
Total current assets		<u>9,687,208</u>	<u>9,061,425</u>
Current liabilities			
Loans and borrowings	9	7,183,995	7,774,673
Trade creditors	10	1,207,552	1,521,319
Bills payable	10	6,218	112,271
Other creditors		1,541,840	1,399,719
Amounts due to related parties	10	2,836,501	3,487,645
Income tax payable		<u>2,559</u>	<u>9,298</u>
Total current liabilities		<u>12,778,665</u>	<u>14,304,925</u>

		At 30 June 2010	At 31 December 2009
	<i>Note</i>	RMB'000	RMB'000
Net current liabilities		<u>(3,091,457)</u>	<u>(5,243,500)</u>
Total assets less current liabilities		<u>16,838,695</u>	<u>15,603,561</u>
Non-current liabilities			
Loans and borrowings	9	<u>300,000</u>	<u>304,258</u>
Total non-current liabilities		<u>300,000</u>	<u>304,258</u>
Net assets		<u>16,538,695</u>	<u>15,299,303</u>
Shareholders' equity			
Share capital		7,200,000	7,200,000
Reserves	11	<u>9,109,542</u>	<u>7,805,018</u>
Total equity attributable to equity shareholders of the Company		16,309,542	15,005,018
Non-controlling interests		<u>229,153</u>	<u>294,285</u>
Total equity		<u>16,538,695</u>	<u>15,299,303</u>

Notes to the unaudited interim financial report

1 Principal activities and basis of preparation

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

This interim financial report is unaudited, but has been reviewed by KPMG in accordance with Hong Kong Standard on Review Engagements 2410, *Review of Interim Financial Information Performed by the Independent Auditor of the Entity*, issued by the Hong Kong Institute of Certified Public Accountants.

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

The interim financial report has been prepared in accordance with the same accounting policies adopted in the 2009 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2010 annual financial statements. Details of the change in accounting policy are set out in note 2.

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

The financial information relating to the financial year ended 31 December 2009 that is included in the interim financial report as being previously reported information does not constitute the Company’s statutory financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 December 2009 are available from the Company’s registered office. The auditors have expressed an unqualified opinion on those financial statements in their report dated 26 March 2010.

2 Change in accounting policy

The IASB has issued two revised International Financial Reporting Standards (“IFRSs”), a number of amendments to IFRSs and one new Interpretation that are first effective for the current accounting period of the Group. Of these, the amended IAS 27, *Consolidated and separate financial statements* is relevant to the Group’s financial statements.

As a result of the amendments to IAS 27, as from 1 January 2010 any losses incurred by a non-wholly owned subsidiary will be allocated between the controlling and non-controlling interests (previously known as the “minority interests”) in proportion to their interests in that entity, even if this results in a deficit balance within consolidated equity being attributed to the non-controlling interests. Previously, if the allocation of losses to the non-controlling interests

would have resulted in a deficit balance, the losses were only allocated to the non-controlling interests if the holders of the non-controlling interests were under a binding obligation to make good the losses. In accordance with the transitional provisions in IAS 27, this new accounting policy is being applied prospectively.

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

3 Segment reporting

Segment information is presented in respect of the Group's business segments. The format is based on the Group's management and internal reporting structure. In view of the fact that the Company and its subsidiaries operate mainly in the PRC, no geographical segment information is presented.

In a manner consistent with the way in which information is reported internally to the Group's chief operating decision maker for the purposes of resource allocation and performance assessment, the Group has identified the following four reportable segments: synthetic fibres, resins and plastics, intermediate petrochemicals and petroleum products. All of the Group's products are produced through intermediate steps from the principal raw material of crude oil. No operating segments have been aggregated to form these reportable segments. The specific products of each segment are as follows:

- (i) The synthetic fibres segment produces primarily polyester and acrylic fibres mainly used in the textile and apparel industries.
- (ii) The resins and plastics segment produces primarily polyester chips, low density polyethylene resins and films, polypropylene resins and PVA granules. The polyester chips are used in the processing of polyester fibres and construction coating materials and containers. Low density polyethylene resins are used in cable jacketing, sheeting, the manufacture of moulded products, such as housewares and toys and for agricultural and packaging uses. Polypropylene resins are used in the manufacturing of extruded films or sheets and injection moulded products such as housewares, toys and household electric appliance and automobile parts.
- (iii) The intermediate petrochemicals segment primarily produces ethylene and benzene. Most of the intermediate petrochemicals produced by the Group are used by the Group as raw materials in the production of other petrochemicals, resins, plastics and synthetic fibres. A portion of the intermediate petrochemicals as well as certain by-products of the production process are sold to outside customers.
- (iv) The Group's petroleum products segment has crude oil distillation facilities used to produce vacuum and atmospheric gas oils used as feedstocks of the Group's downstream processing facilities. Residual oil and low octane gasoline fuels are produced primarily as a co-product of the crude oil distillation process. A proportion of the residual oil is further processed into qualified refined gasoline and diesel oil. In addition, the Group produces a variety of other transportation, industrial and household heating fuels, such as diesel oils, jet fuels, heavy oils and liquefied petroleum gases.

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

(a) Segment results, assets and liabilities

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

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

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

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

	Six-month period	
	ended 30 June	
	2010	2009
	RMB'000	RMB'000
<i>Turnover</i>		
Manufactured Products		
Synthetic fibres		
- External sales	1,891,401	1,309,486
- Intersegment sales	<u>56</u>	<u>39</u>
Total	<u>1,891,457</u>	<u>1,309,525</u>
Resins and plastics		
- External sales	7,597,388	5,804,333
- Intersegment sales	<u>44,053</u>	<u>26,784</u>
Total	<u>7,641,441</u>	<u>5,831,117</u>

	Six-month period ended 30 June	
	2010	2009
	RMB'000	RMB'000
Intermediate petrochemicals		
- External sales (note a)	7,936,403	2,347,290
- Intersegment sales	<u>9,728,886</u>	<u>4,505,179</u>
Total	<u>17,665,289</u>	<u>6,852,469</u>
Petroleum products		
- External sales (note a)	15,142,333	9,651,287
- Intersegment sales	<u>1,347,563</u>	<u>372,144</u>
Total	<u>16,489,896</u>	<u>10,023,431</u>
All others		
- External sales (note a)	3,560,784	2,066,186
- Intersegment sales	<u>1,125,455</u>	<u>878,646</u>
Total	<u>4,686,239</u>	<u>2,944,832</u>
Elimination of intersegment sales	<u>(12,246,013)</u>	<u>(5,782,792)</u>
Turnover	<u>36,128,309</u>	<u>21,178,582</u>
<i>Profit before taxation</i>		
Segment profit / (loss)		
Synthetic fibres	314,534	28,287
Resins and plastics	82,078	962,032
Intermediate petrochemicals	261,481	371,813
Petroleum products	930,700	(61,459)
All others	<u>34,726</u>	<u>175,274</u>
Consolidated profit from operations	1,623,519	1,475,947
Net financing costs	(116,712)	(215,179)
Investment income	215	55,734
Share of profit of associates and jointly controlled entities	<u>390,633</u>	<u>52,189</u>
Profit before taxation	<u>1,897,655</u>	<u>1,368,691</u>

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

	Six-month period ended 30 June	
	2010	2009
	RMB'000	RMB'000
Intermediate petrochemicals	3,310,910	600,695
Petroleum products	13,027,296	8,637,266
All others	<u>1,705,167</u>	<u>671,619</u>
Total	<u>18,043,373</u>	<u>9,909,580</u>

4 Profit before taxation

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

	Six-month period ended 30 June	
	2010	2009
	RMB'000	RMB'000
(a) Finance costs		
Interest on bank loans and advances	147,130	228,186
Less: Amount capitalised into construction in progress	<u>(811)</u>	<u>(23,491)</u>
Interest expense, net	146,319	204,695
Net foreign exchange loss	—	11,011
Other financial expenses	<u>—</u>	<u>10,372</u>
Total financial expenses	<u>146,319</u>	<u>226,078</u>
Net foreign exchange gain	(12,341)	—
Interest income	<u>(17,266)</u>	<u>(10,899)</u>
Total financial income	<u>(29,607)</u>	<u>(10,899)</u>
(b) Other items		
Amortisation of lease prepayments	8,037	8,074
Depreciation	840,056	774,167
Research and development costs	7,014	24,781
Write-down of inventories (<i>Note a</i>)	48,499	721
Gain on sale of available-for-sale financial assets	<u>(215)</u>	<u>(55,734)</u>

Note (a): The write-down of inventories represents the write-down of long aged spare parts amounting to RMB 48,499,000 for the six-month period ended 30 June 2010.

5 Income tax

	Six-month period ended 30 June	
	2010	2009
	<u>RMB'000</u>	<u>RMB'000</u>
Provision for PRC income tax for the period	5,164	36,906
Deferred taxation	<u>384,227</u>	<u>287,668</u>
	<u>389,391</u>	<u>324,574</u>

The provision for PRC income tax is calculated at the rate of 25% (2009: 25%) on the estimated assessable income of the period determined in accordance with relevant income tax rules and regulations. The Company did not carry out business overseas and therefore does not incur overseas income taxes.

6 Earnings per share

The calculation of basic earnings per share is based on the profit attributable to equity shareholders of the Company for the six-month period ended 30 June 2010 of RMB1,515,051,000 (six-month period ended 30 June 2009: RMB1,001,928,000) and 7,200,000,000 (six-month period ended 30 June 2009: 7,200,000,000) shares in issue during the interim period.

The Group had no dilutive potential ordinary shares in existence during the six-month periods ended 30 June 2010 and 2009.

7 Dividends

	Six-month period ended 30 June	
	2010	2009
	<u>RMB'000</u>	<u>RMB'000</u>
Final dividend in respect of the previous financial year, approved during the period, of RMB 0.03 per share (2009: RMB nil per share)	<u>216,000</u>	<u>—</u>

Pursuant to a resolution passed at the Annual General Meeting held on 23 June 2010, a final dividend of RMB 216,000,000 was declared and approved for the year ended 31 December 2009 (2008: RMB Nil).

The Directors did not declare the payment of an interim dividend for the period (2009: RMB Nil).

8 Trade and other debtors

	At 30 June 2010 RMB'000	At 31 December 2009 RMB'000
Trade debtors	165,468	132,779
Less: Impairment losses for bad and doubtful debts	<u>(11,667)</u>	<u>(12,634)</u>
	<u>153,801</u>	<u>120,145</u>
Bills receivable	763,392	573,283
Amounts due from related parties	<u>806,427</u>	<u>576,399</u>
	<u>1,723,620</u>	<u>1,269,827</u>
Deposits, other debtors and prepayments	<u>131,855</u>	<u>81,847</u>
	<u>1,855,475</u>	<u>1,351,674</u>

Amounts due from related parties represent trade-related balances.

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

	At 30 June 2010 RMB'000	At 31 December 2009 RMB'000
Invoice date:		
Within one year	1,722,274	1,269,793
Between one and two years	<u>1,346</u>	<u>34</u>
	<u>1,723,620</u>	<u>1,269,827</u>

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

9 Loans and borrowings

	At 30 June 2010 <u>RMB'000</u>	At 31 December 2009 <u>RMB'000</u>
Short-term loans	6,183,995	6,700,398
Corporate bonds (Note a)	1,000,000	1,000,000
Current portion of long-term loans	<u>—</u>	<u>74,275</u>
Loans and borrowings — current	7,183,995	7,774,673
Loans and borrowings — non-current	<u>300,000</u>	<u>304,258</u>
	<u>7,483,995</u>	<u>8,078,931</u>

Note a:

The Company issued RMB 1 billion 365-day unsecured corporate bonds to corporate investors in the PRC inter-bank debenture market on 23 June 2010. The bonds were issued at 100% of face value, with an effective yield of 3.27% per annum, and mature on 23 June 2011.

10 Trade payables

	At 30 June 2010 <u>RMB'000</u>	At 31 December 2009 <u>RMB'000</u>
Trade creditors	1,207,552	1,521,319
Bills payable	6,218	112,271
Amounts due to related parties	<u>2,836,501</u>	<u>3,487,645</u>
	<u>4,050,271</u>	<u>5,121,235</u>

The maturity analysis of trade accounts payable is as follows:

	At 30 June 2010 <u>RMB'000</u>	At 31 December 2009 <u>RMB'000</u>
Due within 1 month or on demand	3,886,473	4,891,657
Due after 1 month but within 3 months	<u>163,798</u>	<u>229,578</u>
	<u>4,050,271</u>	<u>5,121,235</u>

11 Reserves

For the six-month periods ended 30 June 2010 and 2009, no transfers were made to the statutory surplus reserve or the discretionary surplus reserve.

12 Contingent liabilities

Income tax differences

With respect to uncertainties about enterprise income tax differences arising from 2006 and before as originated from a tax circular (Circular No.664) issued by the State Administrative of Taxation in June 2007, the Company has been informed by the relevant tax authority to settle the enterprise income tax (“EIT”) for 2007 at a rate of 33 percent. To date, the Company has not been requested to pay additional EIT in respect of any years prior to 2007. There is no further development of this matter during the period ended 30 June 2010. No provision has been made in the financial statements for this uncertainty for tax years prior to 2007 because management believes it cannot reliably estimate the amount of the obligation, if any, that might exist.

7.3 Differences between financial report prepared under the China Accounting Standards for Business Enterprises and International Financial Reporting Standards (“IFRS”)

The below figures are extracted from the interim financial statements prepared in accordance with the China Accounting Standards for Business Enterprises and IFRS, both of which have not been audited.

The Company also prepares a set of financial statements which complies with the China Accounting Standards for Business Enterprises (“CAS”). A reconciliation of the Group’s net profit and shareholders’ equity prepared under CAS and IFRS is presented below.

Other than the differences in the classification of certain financial statements assertions and the accounting treatment of the items described below, there are no material differences between the Group’s financial report prepared in accordance with CAS and IFRS. The major differences are:

Notes:

(i) Government grants

Under CAS, government subsidies, which are required to be dealt with in “capital reserves” according to relevant directive issued by the PRC government, are treated as capital contributions.

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

(ii) **Revaluation of land use rights**

Under IFRS, land use rights are carried at historical cost less accumulated amortisation. Under CAS, the cost of land use rights invested by the shareholders at the time of the establishment of the enterprise is determined at revalued amount, then amortised on the basis of revalued amount to determine the net book value.

The effect on the Group's net profit of significant differences between CAS and IFRS are summarised below:

		Six-month period	
		ended 30 June	
	<i>Note</i>	2010	2009
		<i>RMB'000</i>	<i>RMB'000</i>
Profit attributable to equity shareholders of the Company under CAS		1,493,930	987,236
Adjustments:			
Government grants	(i)	13,380	13,380
Revaluation of land use rights	(ii)	1,749	1,749
Others		6,429	—
Effects of the above adjustments on taxation		<u>(437)</u>	<u>(437)</u>
Profit attributable to equity shareholders of the Company under IFRS		<u>1,515,051</u>	<u>1,001,928</u>

The effect on the Group's shareholders' equity of significant differences between CAS and IFRS are summarised below:

		At 30 June 2010 <i>RMB'000</i>	At 31 December 2009 <i>RMB'000</i>
Total equity attributable to equity shareholders of the Company under CAS	<i>Note</i>	16,629,476	15,346,073
Adjustments:			
Government grants	(i)	(196,259)	(209,639)
Revaluation of land use rights	(ii)	(158,509)	(160,258)
Others		6,429	—
Effects of the above adjustments on taxation		<u>28,405</u>	<u>28,842</u>
Total equity attributable to equity shareholders of the Company under IFRS		<u>16,309,542</u>	<u>15,005,018</u>

By order of the Board
Rong Guangdao
Chairman

Shanghai, the PRC, 27 August 2010

As at the date of this announcement, the executive directors of the Company are Rong Guangdao, Du Chongjun, Wu Haijun, Li Honggen, Shi Wei and Dai Jinbao; the non-executive directors of the Company are Lei Dianwu and Xiang Hanyin, and the independent non-executive directors of the Company are Chen Xinyuan, Sun Chiping, Jiang Zhiquan and Zhou Yunnong.