SINOPEC SHANGHAI PETROCHEMICAL CO LTD
Form 6-K
April 10, 2012

Table of Contents

SECURITIES AND EXCHANGE COMMISSION

Washington D.C. 20549

FORM 6-K

REPORT OF FOREIGN PRIVATE ISSUER

PURSUANT TO RULE 13a-16 OR 15d-16 UNDER

THE SECURITIES EXCHANGE ACT OF 1934

For the month of April 2012

Commission File Number: 1-12158

Sinopec Shanghai Petrochemical Company Limited

(Translation of registrant s name into English)

Jinshanwei, Shanghai

The People s Republic of China

(Address of principal executive offices)

Indicate by check mark whether the registrant files or will file annual reports under cover Form 20-F or Form 40-F.

Form 20-F x Form 40-F ¨

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1):

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7):

Indicate by check mark whether by furnishing the information contained in this Form, the registrant is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes ¨ No x

If Yes is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): 82- Not Applicable

Table of Contents

SINOPEC SHANGHAI PETROCHEMICAL COMPANY LIMITED

Form 6-K

TABLE OF CONTENTS

Table of Contents

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

	SINOPEC SHANGHAI PETROCHEMICAL COMPANY LIMITED	
Date: April 10, 2012	By:	/s/ Wang Zhiqing
	Name:	Wang Zhiqing
	Title:	President

Table of Contents

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

(Stock Code: 00338)

Annual Results Announcement for the Year Ended 31 December 2011

2011 Annual Report Summary

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 omissions from, the 2011 annual report of the Company, and severally and jointly accept full responsibility for the truthfulness, accuracy and completeness of the information contained in the 2011 annual report.

This annual report summary is extracted from the full text of the 2011 annual report. The Chinese version of the full report is published on www.sse.com.cn. For detailed content, investors are advised to read the full text of the 2011 annual report.

1.2 If any Director fails to attend the Board meeting for considering and approving the 2011 annual report of the Company, his/her name shall be set out separately:

Name of Director not Attending	Role of Director not Attending	Explanation of Director not Attending	Name of Proxy
Wu Haijun	Vice Chairman	Business engagement	Rong Guangdao
Lei Dianwu	Director	Business engagement	Rong Guangdao

1.3 The Company prepared the financial statements for the year ended 31 December 2011 (the Reporting Period) in accordance with the People s Republic of China (PRC or China) Accounting Standards for Business Enterprises (CAS) as well as the International Financial Reporting Standards (IFRS). They have been audited by KPMG Huazhen and KPMG respectively, and both firms have issued standard unqualified opinions on the financial statements in their auditors reports.

Table of Contents

1.4 Mr. Rong Guangdao, Chairman and the responsible person of the Company, Mr. Wang Zhiqing, Vice Chairman and President, and Mr. Ye Guohua, Director and Chief Financial Officer hereby warrant the truthfulness and completeness of the financial statements contained in the 2011 annual report.

2 CORPORATE INFORMATION

2.1 Corporate Information

Place of listing of A shares:	Shanghai Stock Exchange
Stock abbreviation of A shares:	S
Stock code of A shares:	600688
Place of listing of H shares:	The Stock Exchange of Hong Kong Limited
Stock abbreviation of H shares:	SHANGHAI PECHEM
Stock code of H share:	00338
Place of listing of American Depositary Receipt (ADR):	New York Stock Exchange
Code of American Depositary Receipt (ADR):	SHI
Registered address and business address:	48 Jinyi Road, Jinshan District, Shanghai, PRC
Postal Code:	200540
Website of the Company:	www.spc.com.cn
E-mail address:	spc@spc.com.cn

2.2 Contact Persons and Contact Methods

	Secretary to the Board	Securities Affairs Representative
Name	Zhang Jingming	Tang Weizhong
Address	48 Jinyi Road, Jinshan District, Shanghai, postal code: 200540	Suite B, 28/F, Huamin Empire Plaza, 728 West Yan an Road, Shanghai, postal code: 200050
Tel	8621-57943143/52377880	8621-57943143/52377880
Fax	8621-57940050/52375091	8621-57940050/52375091
E-mail	spc@spc.com.cn	tom@spc.com.cn

Table of Contents

3. HIGHLIGHT OF ACCOUNTING DATA AND FINANCIAL INDICATORS

Prepared under CAS

3.1 Major Accounting Data

Unit: RMB 000

Major accounting data	2011	2010	Increase/ decrease compared to the previous year (%)	2009
Operating income	95,601,248	77,591,187	23.21	51,722,727
Operating profit	1,260,377	3,540,888	64.41	2,057,894
Profit before income tax	1,292,291	3,453,744	62.58	2,136,251
Net profit attributable to equity shareholders of the Company	944,414	2,703,734	65.07	1,561,605
Net profit attributable to equity shareholders of the Company excluding non-recurring items	928,365	2,771,632	66.50	1,298,826
Net cash inflow from operating activities	2,481,431	4,243,832	41.53	3,703,542

	End of 2011	End of 2010	Increase/ decrease compared to the end of the previous year (%)	End of 2009
Total assets	31,110,085	29,158,104	6.69	30,458,322
Total liabilities	12,727,501	10,985,211	15.86	14,817,964
Total equity attributable to equity shareholders of the Company	18,112,483	17,913,040	1.11	15,346,073
Total share capital	7,200,000	7,200,000	0	7,200,000

Table of Contents

3.2 Major Financial Indicators

Major financial indicators	2011	2010	Increase/ decrease compared to the previous year (%)	2009
Basic earnings per share (RMB)	0.131	0.376	65.07	0.217
Diluted earnings per share (RMB)	0.131	0.376	65.07	0.217
Basic earnings per share excluding non-recurring items (RMB)	0.129	0.385	66.50	0.180
Return on net assets (weighted average)(%)*	5.243	16.259	Decreased by 11.016 percentage points	10.701
Return on net assets based on net profit excluding non-recurring items (weighted average)(%)*	5.154	16.667	Decreased by 11.513 percentage points	8.900
Net cash inflow per share from operating activities (RMB)	0.345	0.589	41.53	0.514

	End of 2011	End of 2010	Increase/ decrease compared to the end of the previous year	(%) End of 2009
Net asset value per share attributable to equity shareholders of the Company (RMB)*	2.516	2.488	1.11	2.131
Liability-to-asset ratio (%)	40.911	37.675	Increased by 3.236 percentage points	48.650

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

Table of Contents

3.3 Non-recurring Items

Unit: RMB 000

Non-recurring items	**2011**	**2010**	**2009**
Net (loss)/gain from disposal of non-current assets	(18,006)	(34,635)	180,203
Employee reduction expenses	(9,758)	(3,646)	(12,518)
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)	76,965	37,211	25,310
Losses arising from changes in fair value of financial assets held for trading			(10,423)
Investment income from disposal of available-for-sale financial assets	685	215	222,810
Income from external entrusted loans	1,298	1,581	
Other non-operating income and expenses other than those mentioned above	(27,045)	(89,720)	(54,941)
Income tax effect	(7,606)	21,427	(87,610)
Effect attributable to minority interests (after tax)	(484)	(331)	(52)
Total	16,049	(67,898)	262,779

3.4 Financial Information Prepared under IFRS for the Past Five Years

Expressed in RMB millions	**2011**	**2010*** (Restated)	**2009*** (Restated)	**2008*** (Restated)	**2007*** (Restated)
Year ended 31 December:					
Net sales	89,509.7	72,095.9	47,345.3	59,329.8	54,254.7
Profit/(loss) before taxation	1,296.7	3,529.9	2,163.0	(8,017.9)	2,147.9
Profit/(loss) after taxation	986.5	2,794.4	1,652.8	(6,204.4)	1,680.5
Profit/(loss) attributable to equity shareholders of the Company	956.1	2,769.0	1,588.3	(6,241.1)	1,631.5
Earnings/(loss) per share	RMB0.13	RMB0.39	RMB0.22	RMB(0.87)	RMB0.23
As at 31 December:					
Total equity attributable to equity shareholders of the Company	17,925.6	17,689.5	15,136.4	13,630.9	20,784.7
Total assets	30,718.9	28,697.5	30,039.9	27,667.0	29,989.8
Total liabilities	12,523.2	10,748.2	14,609.2	13,771.7	8,901.0

* The Company adopted the amendments to IFRS 1 First-time Adoption of IFRS and restated the comparative figures of 2010 and before. Please refer to Note 1, Changes in Accounting Policies, of Section 7.2 Financial Statements prepared under IFRS.

8

Table of Contents

4. SHAREHOLDING OF SHAREHOLDERS AND CONTROLLING DIAGRAM

4.1 Shareholding of Top Ten Shareholders and Top Ten Shareholders in Circulation

Total number of shareholders as at the end of the Reporting Period	**109,657**
Total number of shareholders as at the end of the month before the 2011 annual report published (i.e. 29 February 2012)	**110,770**

Shareholding of the top ten shareholders

Unit: Share

Name of Shareholders	Type of shareholders	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	0	Non-circulating	4,000,000,000	Nil
HKSCC (Nominees) Limited	Foreign Shareholder	31.86	2,293,950,101	+486,000	Circulating	0	Unknown
China Construction Bank-CIFM China Advantage Security Investment Fund	Others	1.00	71,924,157	75,843	Circulating	0	Unknown
ICBC SWS MU New Economy Balanced Equity Fund	Others	0.30	21,266,423	Unknown	Circulating	0	Unknown
Shanghai Kangli Gong Mao Company	Others	0.23	16,730,000	0	Non-circulating	16,730,000	Unknown
China Life Insurance Company Limited Bonus Individual Bonus 005L FH002 Shanghai	Others	0.20	14,166,204	+4,450,400	Circulating	0	Unknown
China Life Insurance Company Limited Tradition Ordinary Insurance Product 005L-CT001 Shanghai	Others	0.17	12,408,194	2,000,000	Circulating	0	Unknown
Zhejiang Economic Construction	Others	0.17	12,000,000	0	Non-circulating	12,000,000	Unknown

Investment Co., Ltd.							
ICBC Harvest Theme New Driving Force Stock Securities Investment Fund	Others	0.10	7,437,693	Unknown	Circulating	0	Unknown
Shanghai Textile Development Company	Others	0.08	5,650,000	0	Non-circulating	5,650,000	Unknown

9

Table of Contents

Top ten shareholders of shares in circulation

Unit: Share

Name of shareholders	Number of circulating shares held	Type of shares
HKSCC (Nominees) Limited	2,293,950,101	Overseas listed foreign shares
China Construction Bank CIFM China Advantage Security Investment Fund	71,924,157	RMB-denominated ordinary shares
ICBC SWS MU New Economy Balanced Equity Fund	21,266,423	RMB-denominated ordinary shares
China Life Insurance Company Limited Bonus Individual Bonus 005L-FH002 Shanghai	14,166,204	RMB-denominated ordinary shares
China Life Insurance Company Limited Tradition Ordinary Insurance Product 005L-CT001 Shanghai	12,408,194	RMB-denominated ordinary shares
ICBC Harvest Theme New Driving Force Stock Securities Investment Fund	7,437,693	RMB-denominated ordinary shares
IP KOW	5,432,000	Overseas listed foreign shares
ICBC Franklin Templeton Sealand China Income Securities Investment Fund	4,599,907	RMB-denominated ordinary shares
BOC Fortis Haitong Income Growth Securities Investment Fund	4,476,450	RMB-denominated ordinary shares
Taiping Life Insurance Limited Dividend Group Insurance Dividend	4,000,000	RMB-denominated ordinary shares

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

10

Table of Contents

4.2 Diagram of the Ownership and Controlling Relationship between the Company and the Controlling Company of the Controlling Shareholder

* On 9 January 2012, China Petrochemical Corporation (Sinopec) directly and indirectly held 76.38% of the total issued share capital of China Petroleum & Chemical Corporation (Sinopec Corp.) after directly or indirectly increasing its shareholdings in A shares and H shares of Sinopec Corp. through the secondary market.

Table of Contents

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

As at 31 December 2011, 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) (the SFO) (including those who are entitled to exercise, or control the exercise of, 5% or more of the voting power at any general meeting of the Company but excluding the Directors, Supervisors and Senior Management) in the shares and underlying shares of equity derivatives of the Company as recorded in the register required to be kept under Section 336 of the SFO were as set out below:

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

(a) Interests in ordinary shares of the Company

Name of shareholders	**Capacity**	**Number of share interests held or deemed as held** (shares)	**Percentage of total issued share capital (%)**	**Percentage of shareholding in the Company s total issued H shares (%)**
China Petroleum & Chemical Corporation	Beneficial owner	4,000,000,000 Promoter legal person shares(L)	55.56	
Blackrock, Inc.	Beneficial owner	146,342,313(L)	2.03(L)	6.28(L)
		2,130,686(S)	0.03(S)	0.09(S)
Government of Singapore Investment Corporation Pte Ltd	Beneficial owner	140,005,700(L)	1.94(L)	6.01(L)

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

(b) Interests in underlying shares of the Company

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

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

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

Table of Contents

Save as disclosed above, as at 31 December 2011, no interests or short positions of any other person (excluding the Directors, Supervisors and Senior Management) 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.

5 REPORT OF THE DIRECTORS

5.1 Management s Discussion and Analysis

(Unless otherwise specified, the financial information included in this Management s Discussion and Analysis section has been extracted from the financial statements prepared under IFRS in the 2011 annual report.)

A. Operating Results

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

In 2011, we witnessed a downturn in the world economy, a weak economic recovery in the developed countries, slackened economic growth in the emerging economies and a decline in growth in international trade and investment. Conditions were further complicated by the volatility in the prices of bulk commodities at high levels with a rising trend, the unceasing volatility in the global financial markets and the far-reaching impact of the sovereign debt crises in Europe and the US. The world s petrochemical industry suffered under pressures from both the cyclical adjustment in the petrochemical market and weak global economic growth, resulting in a rapid shift in the focus of the petrochemical industry s development to the Middle East, with its superior resources, and to the Asia-Pacific region, with its market advantage. China s economic development progressed in line with the macro-economic control initiatives. The economy continued to maintain steady and relatively rapid growth, with slower annual GDP growth rate of 9.2%. In the process of engaging in aggressive efforts to push forward a change in the development model and adjustments on the industrial structuring and product mix in China s petroleum and petrochemical industry, the industry demonstrated rapid and steady growth with further optimised structure and moderately increasing investment, while imports and exports continued to grow rapidly. It also achieved a balance between supply and demand. The scale of economies therefore reached to a yet higher level.

Despite the complex and volatile domestic and international economic landscape in 2011, the Company and its subsidiaries (the Group) managed to seize opportunities when facing challenges in the market, put more effort into optimising its production and operation, focused on safety, environmental protection, energy conservation and emissions reduction, maintained the stable production, optimised its systems and mechanisms, improved the standards of the Company s management, carried out the construction of the Phase 6 Project, accelerated structural adjustments, and strengthened team building of talented professionals and maintained a harmonious and stable corporate environment. As a result, the Group accomplished all of its production and operational tasks for the year and reached record highs in various indicators such as crude oil processing volume, total volume of goods and turnover. In 2011, the Group s operating costs rose sharply due to the high prices of international crude oil. Meanwhile, domestic prices of refined oil products were controlled and were not adjusted in an adequate and timely manner, and the prices of petrochemical products declined remarkably in the fourth quarter, resulting in a substantial decline in profit for the year compared to last year.

Table of Contents

(1) Production and business operations continued to remain safe and stable

In 2011, the Group leveraged the strengths of its integrated refining and petrochemical operations, captured opportunities in the market and increased total production volume to ensure that its major refining and petrochemical production plants operated at near-full capacity so as to achieve overall economies of scale as a result. During the year, the organisational coordination and optimal management of the Group s production and operation were strengthened. The average utilisation rate and the average load rate of approximately 40 major production plants reached 93.89% and 101.61%, respectively. The operations of the Group s major production plants remained sound. Important technical and economic indicators improved, with approximately 75.45% of the indicators exceeding those of the previous year and approximately 37.74% of the indicators reaching advanced levels within the industry. No accidents involving serious consequences occurred during the year, such as major fires, explosions or environmental pollution.

In 2011, the Group recorded continuous growth in physical production volume, with the total volume of goods amounted to 12,001,500 tons representing an increase of 4.53% over the previous year. During the year, the Group processed 10,866,700 tons of crude oil (including 257,000 tons of crude oil processed on a sub-contract basis), representing an increase of 3.29%. Total production output of gasoline, diesel and jet fuel was 5,745,600 tons, representing an increase of 6.92%, among which the Group produced 968,500 tons of gasoline, 3,979,800 tons of diesel and 797,300 tons of jet fuel, representing an increase of 3.87%, 8.27% and 4.13%, respectively. The Group produced 910,100 tons of ethylene and 481,700 tons of propylene, representing a decrease of 6.45% and 7.93%, respectively. The Group produced 923,100 tons of paraxylene, representing an increase of 9.81%. The Group also produced 1,097,900 tons of synthetic resins and copolymers (excluding polyesters and polyvinyl alcohol), representing a decrease of 3.16%; 946,200 tons of synthetic fiber monomers, representing a decrease of 0.41%; 664,200 tons of synthetic fiber polymers, representing an increase of 3.26%; and 250,000 tons of synthetic fiber, representing a decrease of 1.42%. Meanwhile, the Group continued to maintain the premium level of quality in its products.

In 2011, the Group s turnover amounted to RMB95,518.9 million, representing an increase of 23.22% over the previous year. Its output-to-sales ratio and receivable recovery ratio were 99.76% and 99.81%, respectively. The value of the Group s annual imports and exports (excluding crude oil imports) amounted to US$7,615 million, representing an increase of 44.44%.

(2) Overall supply and demand in the market remained balanced

In 2011, the aggregate economic volume of China s petroleum and petrochemical industry rose to new heights, with rapid and stable growth overall and relatively minor fluctuations. The rapid growth of the industry was primarily boosted by the domestic consumer market. In 2011, the total apparent consumption of major chemicals in China increased by 10.1% over the previous year. The strong demand from the domestic market was demonstrated by slower growth after a fast increase in the production of petroleum products, the continued rapid growth in natural gas consumption and the overall shortage in the supply of organic chemicals and synthetic materials. Supply and demand in the domestic market remained balanced in general, with overall price levels in the petroleum and petrochemical industry surging during the year. For the year ended 31 December 2011, the weighted average prices (excluding tax) of the Group s synthetic fibers, resins and plastics, intermediate petrochemical products and petroleum products increased by 8.35%, 12.23%, 17.44% and 18.32%, respectively, over the previous year.

Table of Contents

(3) International crude oil prices fluctuated at higher level and costs of crude oil processing increased significantly

In 2011, international crude oil prices fluctuated within a broad range primarily due to geopolitical risks and the European and US macroeconomic outlook, and continued to maintain a year-on-year rising trend for the third consecutive year. In 2011, the price of West Texas Intermediate (WTI) crude oil on the New York Mercantile Exchange fluctuated within a broad range of US$75-US$114/barrel (US$65-US$92/barrel in 2010), with peak and the bottom closing prices of US$113.93/barrel and US$75.67/barrel, respectively (US$91.44/barrel and US$65.58/barrel, respectively in 2010), for the year. The peak and the bottom closing prices of Brent crude oil futures on the London Intercontinental Exchange were US$126.64/barrel and $93.69/barrel, respectively (US$94.75/barrel and US$69.55/barrel, respectively in 2010), for the year. In 2011, the average price of WTI crude oil on the New York Mercantile Exchange was US$95.09/barrel, an increase of US$15.62 or 19.66% from US$79.47 in 2010; the average price of Brent crude oil on the London Intercontinental Exchange was US$110.95/barrel, an increase of US$31.46, or 39.58% from US$79.49 in 2010; and the average price of a package of OPEC oil was US$107.47/barrel, an increase of 38.71% compared to the daily average price of US$77.48 in 2010, reaching a record high.

For the year ended 31 December 2011, the Group processed a total of 10,866,700 tons of crude oil (including 257,000 tons processed on a sub-contract basis), representing an increase of 346,000 tons, or 3.29% over the previous year. Among them, domestic offshore oil accounted for 1,204,200 tons and imported oil accounted for 9,662,500 tons. The average unit cost of crude oil processed (for its own account) was RMB5,044.64 per ton (RMB3,925.56 per ton in 2010), representing an increase of 28.51%. Crude oil costs increased by RMB13,827.3 million as compared to 2010. The Group s total costs of crude oil processing reached RMB53,521.9 million in 2011, a significant increase of 34.83% compared to RMB39,694.6 million for the previous year, representing 60.90% of the total cost of sales.

(4) Construction of Phase 6 Project in full swing

In 2011, construction of the Group s Phase 6 Project, in which the Group made an investment of RMB3,225 million for the year, proceeded in full swing, with the Refinery Revamping and Expansion Project as its key project for the sake of speed and quality. The Isopentene Plant, with a capacity of 10,000 tons/year, was completed and put into operation. The construction of carbonization and oxidation units of the first stage of the Carbon Fiber Project with a capacity of 1,500 tons/year was mechanically completed. In addition, various projects were proceeded in an orderly manner as planned, including the Refinery Revamping and Expansion Project (including the construction of a new Residual Oil Hydrogenation Plant with a capacity of 3,900,000 tons/year and a new Catalytic Cracking Plant with a capacity of 3,500,000 tons/year, etc.), the Ethanolamine Project with a capacity of 50,000 tons/year, the Up-grading Project for the optimisation of the system and reduction in energy and feedstock consumption of the No. 2 PTA Plant, and No. 2 and No. 3 Aromatics Complexes Energy-saving Up-grading Project. A feasibility study report on the EVA (Ethylene- Vinyl Acetate Copolymer) Project, with a capacity of 100,000 tons/year, was also submitted. Other key technical renovation projects were implemented as planned, including the Incremental Revamping of the Jinchang Company s Modified Polypropylene Plant, which was under construction with a capacity of 30,000 tons/year.

Table of Contents

(5) Progress achieved in energy conservation and emissions reduction

In 2011, the Group continued to carry out various energy-saving and emissions reduction measures in accordance with the State s relevant energy conservation and emissions reduction requirements, and completed all energy -saving and emissions reduction targets set by the government during the year. In 2011, the Company s overall level of energy consumption per RMB10,000 product value was 0.998 ton of standard coal (2010: 1.054 tons of standard coal), representing a decrease of 5.31%, resulting in savings of 410,768 tons of standard coal. Furthermore, the Company provided 58,069,200 tons of water for production (2010: 61,515,800 tons), representing a decrease of 3,446,600 tons, or 5.60% year-on -year, while the recycling rate of industrial water reached 96.84%. Total volumes of COD, solid wastes and industrial waste water discharge declined 16%, 10.8% and 13.8%, respectively. Various indices for waste water discharge compliance rate and the hazardous waste treatment ratio met requirements for environmental protection compliance. The average heat efficiency of heaters improved by 0.2 percentage points to 91.45% over the previous year. In 2011, the Group s various projects, such as the Flue-gas Desulphurisation Project for Furnaces of Coal-fired Power Plants, the Removal of Foul Gas from the De-aeration Pool of the Waste Water Treatment Plants, Tail Gas Regenerative Thermal Oxidation (RTO) Facilities at PTA Plants, Flare Gas Recovery System and the addition of Recycled Hydrogen Desulfurization Unit to the Diesel Hydrogenation Plant (with a capacity 550,000 tons/year), played an effective role in energy conservation and emissions reduction.

(6) Staged achievement in technological progress

In 2011, in order to achieve technological progress, the Group focused on actual production and operations, increased investment in R&D, improved work mechanisms, accelerated the development of new products and new technologies, intensified the marketing exploration of new products, developed and applied new technologies, and provided firm support to speed up the adjustment of product mix, push forward the energy conservation and emissions reduction and for the subsequent development of the Group. The Group focused on developing new technologies and products such as propylene and butene-1 random copolymers. The special material (YGM091T), used in bimodal polyethylene piping material, obtained PE80 rating certification. The special material (GM750E), for polypropylene infusion bottle, and the probucol random copolymer polypropylene series of products filled the gaps in the domestic market. The Group completed the research and development of new products such as the flame-resistant polyester chips for industrial yarn, making it the only domestic enterprise that carried out the production of flame-resistant polyester series of a product on a continuous basis. The development of NEP polyester chips (excluding heavy metal and ecological polyester chips) was completed and these products were successfully exported to the European Union. The production of new polyester staple fiber products for vortex spinning was industrialised, and mass production of anti-pill polyacrylonitrile fiber was launched. A total of 450,500 tons new products were produced in the year, with a synthetic fiber differential rate of 58.16%, while synthetic resin new products and the rate of use of special resin reached 84.68%. A total of 44 patent applications were submitted and 34 patent licences were received. The Company s seven achievements won the 2011 Annual Science and Technology Progress Award, and nine new and high- tech achievement transformation projects received special financial support of RMB19.75 million from the government. The No. 2 Polyester Plant (formerly the Shanghai Petrochemical Complex) was named a classic project at a ceremony marking the 30th anniversary of the National Quality Project Prize.

16

Table of Contents

With respect to the development of the Company s information technology, the Group pushed forward the establishment and application of its three major platforms, namely business operations and management, production and operations as well as information infrastructure and operations and maintenance, by deepening ERP and LIMS applications and establishing KBC, MES and APC systems. The Oil Refining-petrochemical Integrated PPIMS Construction Project was put into trial operation and the Manufacturing Execution System (MES) was established.

(7) Further strengthening corporate internal reforms and management

In 2011, the Group made improvements to its specialised, flattened and standardised management mechanism in full scale. It integrated specialised management resources and further enhanced specialised management efficiency by carrying out its specialised mechanism reforms on financial management, environment protection and water supply management, statistical measurement management, and archive management. It largely accomplished its goals and objectives regarding the Group s specialised and centralised management. The Group adjusted the three-tier company-business division-workshop management model, specified the management hierarchy and duties, and stardardised the allocation of offices and duties and established a foundation for optimizing management efficiency. The Group embarked on building an integrated management system at the Group level in accordance with requirements for one text version for multiple management systems . It organised and carried out comprehensive reviews of the existing systems in order to better serve the needs of the new management mechanism, management system and business process so as to improve the corporate system at the management level and enhance its ability to manage the Company in compliance with the law. The Group commenced the three fundamentals work (i.e. strengthening grass-root units , fundamental work and training on basic skills) effectively, organised and conducted daily spot checks on the three fundamentals work so that such work is institutionalized on a permanent basis. The Group made active efforts to enhance its performance improvement mechanism and established various mechanisms such as those aimed at making recommendations on improving operations and management . This helped to place the appraisal of organizational performance at the heart of performance management. At the same time, it helped to govern the incentive scheme for the general manager and enable the assessment to be conducted in a coordinated and systematic manner, thus providing the necessary impetus to drive better performance.

As at 31 December 2011, the Group reduced its headcount by 714 people, including voluntary redundancies and retired staff. This accounted for 4.36% of the total work force of 16,369 people as at the beginning of the year.

Table of Contents

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

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

a. International crude oil prices, while remaining at high levels, were volatile, leading to a significant increase in costs. In 2011, the total volume of goods produced by the Group amounted to 12,001,500 tons, representing an increase of 4.53% year-on-year. Turnover (excluding trading) amounted to RMB83,898.4 million (2010: RMB70,952.9 million), representing an increase of 18.25%. In view of the significant increase in prices of crude oil, which is the main raw material of the Group, the total cost of the Group s crude oil processing amounted to RMB53,521.9 million for 2011, representing a substantial increase of 34.83% from RMB39,694.6 million over the previous year, resulting in a significant decline in operating profit.

b. The failure to adjust the domestic prices of refined oil products in an adequate and timely manner. In 2011, the domestic prices of refined oil products were not brought into line with the prices of crude oil on the international markets in a timely manner due to a number of factors such as the rate of inflation in China as accounted for under national policies, resulting in losses in the Group s refining business and causing the operating profit of the refining business to decline by RMB1,593.6 million over the previous year.

c. The decline in the prices of petrochemical products since the fourth quarter and intensifying market competition resulted in a decline in the profit of the Company s petrochemical business. In 2011, the operating profit of the Group s petrochemical business decreased by RMB329.9 million over the previous year.

d. The Group s share of profits of associates and jointly-controlled entities decreased. In 2011, the Group s share of profits of associates and jointly-controlled entities amounted to RMB152.7 million (2010: RMB661.3 million), representing a decrease of 76.91%. Of this amount, the share of profits of Shanghai Secco Petrochemical Company Limited amounted to RMB9.8 million (2010: RMB537.9 million).

e. The Group s expenses, such as selling expenses, labor costs and etc., increased significantly during 2011.

On the other hand, the Group further optimised its production and operations. In 2011, 445 million standard cubic meters of natural gas were imported for use as raw materials and fuel for hydrogen production, generating approximately RMB600 million in economic benefits. The launch of Shanghai IV refined oil products by the Group and 30,000 tons of Euro V diesel on the Hong Kong market contributed to the increase in economic benefits to some extent.

A.2 Accounting judgments and estimates

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

Table of Contents

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

(1) Impairments for long-lived assets

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

(2) Depreciation

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

(3) Impairment for bad and doubtful debts

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

Table of Contents

(4) Allowance for diminution in value of inventories

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

(5) Income tax

In June 2007, the State Administrative of Taxation issued a tax circular (Circular No.664) to the local tax authorities requesting the relevant local tax authorities to rectify the applicable enterprise income tax (EIT) for nine listed companies listed in Hong Kong. After the notice was issued, the Company was required by the relevant tax authority to settle the EIT for 2007 at a rate of 33 percent. To date, the Company has not been requested by the tax authorities to pay additional EIT in respect of any years prior to 2007. There is no further development of this matter during the year ended 31 December 2011. No provision has been made in the financial statements at 31 December 2011 for this uncertainty because management believes it is not probable that the Group will be required to pay additional EIT for tax years prior to 2007.

(6) Recognition of deferred tax assets

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

Table of Contents

In making the assessment of whether it is probable the Group will realise or utilise the deferred tax assets, management primarily relies on the generation of future taxable income to support the recognition of deferred tax assets. In order to fully utilise the deferred tax assets recognised at 31 December 2011, the Group would need to generate future taxable income of at least RMB2,077 million, of which RMB1,497 million is required to be generated by 2013 prior to the expiration of the unused tax losses generated in 2008. Based on estimated forecast and historical experience, management believes that it is probable that the Group will generate sufficient taxable income before the unused tax losses expire.

A.3 Summary

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

	For the Years ended 31 December								
	2011			2010 (Restated)			2009 (Restated)		
	Sales Volume (000 tons)	Net Sales (Millions of RMB)	% of Total Net Sales	Sales Volume (000 tons)	Net Sales (Millions of RMB)	% of Total Net Sales	Sales Volume (000 tons)	Net Sales (Millions of RMB)	% of Total Net Sales
Synthetic Fibres	250.9	4,150.2	4.6	255.9	3,906.6	5.4	245.8	2,823.7	6.0
Resins and Plastics	1,590.7	16,418.6	18.3	1,620.2	14,900.0	20.7	1,543.3	12,263.6	25.9
Intermediate Petrochemicals	2,246.7	19,023.2	21.3	2,386.5	17,206.4	23.9	1,519.4	8,421.0	17.8
Petroleum Products	6,968.1	37,350.2	41.7	6,342.8	28,733.9	39.9	5,271.4	18,917.9	39.9
Trading of Petrochemical Products		11,617.0	13.0		6,565.9	9.1		4,624.0	9.8
Others		950.5	1.1		783.1	1.0		295.1	0.6
Total	11,056.4	89,509.7	100.0	10,605.4	72,095.9	100.0	8,579.9	47,345.3	100.0

21

Table of Contents

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

	For the Years ended 31 December					
	2011		2010 (Restated)		2009 (Restated)	
	Millions of RMB	% of Net sales	Millions of RMB	% of Net sales	Millions of RMB	% of Net sales
Synthetic Fibres						
Net sales	4,150.2	4.6	3,906.6	5.4	2,823.7	6.0
Operating expenses	(3,848.9)	(4.3)	(3,471.0)	(4.8)	(2,812.3)	(5.9)
Segment profit from operations	301.3	0.3	435.6	0.6	11.4	0.1
Resins and Plastics						
Net sales	16,418.6	18.3	14,900.0	20.7	12,263.6	25.9
Operating expenses	(16,406.6)	(18.3)	(13,908.9)	(19.3)	(11,419.3)	(24.1)
Segment profit from operations	12.0	0.0	991.1	1.4	844.3	1.8
Intermediate Petrochemicals Products						
Net sales	19,023.2	21.3	17,206.4	23.9	8,421.0	17.8
Operating expenses	(17,874.6)	(20.0)	(16,841.3)	(23.4)	(8,230.2)	(17.4)
Segment profit from operations	1,148.6	1.3	365.1	0.5	190.8	0.4
Petroleum Products						
Net sales	37,350.2	41.7	28,733.9	39.9	18,917.9	39.9
Operating expenses	(37,803.6)	(42.2)	(27,593.6)	(38.3)	(18,113.0)	(38.3)
Segment (loss)/profit from operations	(453.4)	(0.5)	1,140.3	1.6	804.9	1.6
Trading of Petrochemical Products						
Net sales	11,617.0	13.0	6,565.9	9.1	4,624.0	9.8
Operating expenses	(11,602.0)	(13.0)	(6,551.8)	(9.1)	(4,598.9)	(9.7)
Segment profit from operations	15.0	0.0	14.1	0.0	25.1	0.1
Others						
Net sales	950.5	1.1	783.1	1.0	295.1	0.6
Operating expenses	(914.2)	(1.0)	(765.7)	(1.0)	(151.6)	(0.3)
Segment profit from operations	36.3	0.1	17.4	0.0	143.5	0.3

22

Table of Contents

	For the Years ended 31 December					
	2011		2010 (Restated)		2009 (Restated)	
	Millions of RMB	% of Net sales	Millions of RMB	% of Net sales	Millions of RMB	% of Net sales
Total						
Net sales	89,509.7	100.0	72,095.9	100.0	47,345.3	100.0
Operating expenses	(88,449.9)	(98.8)	(69,132.3)	(95.9)	(45,325.3)	(95.7)
Profit from operations	1,059.8	1.2	2,963.6	4.1	2,020.0	4.3
Net finance income/(costs)	83.5	0.1	(95.2)	(0.1)	(321.1)	(0.7)
Investment income	0.7	0.0	0.2	0.0	222.8	0.5
Share of profit of associates and jointly controlled entities	152.7	0.1	661.3	0.9	241.3	0.5
Profit before taxation	1,296.7	1.4	3,529.9	4.9	2,163.0	4.6
Income tax	(310.2)	(0.3)	(735.5)	(1.0)	(510.2)	(1.1)
Profit for the year	986.5	1.1	2,794.4	3.9	1,652.8	3.5
Attributable to:						
Equity shareholders of the Company	956.1	1.0	2,769.0	3.8	1,588.3	3.4
Non-controlling interests	30.4	0.1	25.4	0.1	64.5	0.1
Profit for the year	986.5	1.1	2,794.4	3.9	1,652.8	3.5

A.4 Results of operations

The year ended 31 December 2011 compared to the year ended 31 December 2010.

(1) Net sales

In 2011, net sales of the Group amounted to RMB89,509.7 million, representing an increase of 24.15% from RMB72,095.9 million over the previous year. For the year ended 31 December 2011, the weighted average prices (excluding tax) of the Group s synthetic fibres, resins and plastics, intermediate petrochemical products and petroleum products increased by 8.35%, 12.23%, 17.44% and 18.32% over the previous year, respectively.

Table of Contents

(i) Synthetic fibres

In 2011, the Group s net sales of synthetic fibre products amounted to RMB4,150.2 million, representing a 6.24% increase compared to RMB3,906.6 million in the previous year. The weighted average price of synthetic fibres increased by 8.35% as compared to the previous year. In particular, the weighted average price of acrylic fibre and polyester fiber, the principal products of synthetic fibre of the Group, increased by 5.78% and 20.31% over the previous year, respectively. Sales of acrylic fibre and polyester fiber accounted for 74.67% and 19.78% of the total sales of synthetic fibres, respectively.

Net sales of synthetic fibre products accounted for 4.6% of the Group s total net sales in 2011, representing a decrease of 0.80 percentage points as compared to the previous year.

(ii) Resins and plastics

The Group s net sales of resins and plastics amounted to RMB16,418.6 million in 2011, representing an increase of 10.19% as compared to RMB14,900.0 million in 2010. The weighted average price of resins and plastics in 2011 increased by 12.23% and sales volume in 2011 decreased by 1.82%. Among resins and plastics products, the weighted average price of polyethylene for 2011 increased by 7.03% and sales volume decreased by 2.57%; the average sales price of polyester pellet for 2011 increased by 22.34% and sales volume decreased by 0.02%. The sales of polyethylene and polyester pellet accounted for 36.02% and 31.49% of the total sales of resins and plastics, respectively.

Net sales of resins and plastics accounted for 18.3% of the Group s total net sales in 2011, representing a decrease of 2.4 percentage points as compared to the previous year.

(iii) Intermediate petrochemical products

The Group s net sales of intermediate petrochemical products amounted to RMB19,023.2 million in 2011, representing an increase of 10.56% as compared to RMB17,206.4 million in 2010, with the weighted average price of intermediate petrochemical products increased by 17.44% as compared to the previous year while sales volume decreased by 5.86%. Among the intermediate petrochemical products, weighted average prices of paraxylene, butadiene and benzene increased by 31.33%, 30.50% and 11.57%, respectively. The sales of paraxylene, butadiene and benzene accounted for 34.70%, 11.74% and 14.28% of the total sales of intermediate petrochemical products, respectively.

Net sales of intermediate petrochemical accounted for 21.3% of the Group s total net sales in 2011, representing a decrease of 2.6 percentage points as compared to the previous year.

Table of Contents

(iv) Petroleum products

The Group s net sales of petroleum products amounted to RMB37,350.2 million in 2011, representing an increase of 29.99% as compared to RMB28,733.9 million in the previous year, with the weighted average product prices increased by 18.32% as compared to 2010 while sales volume increased by 9.86%. Due to the impact of increase in demand of domestic market, the market demand for diesel and gasoline increased as compared to the previous year which led to the increases of 13.72% and 2.25% in the Group s sales volume of diesel and gasoline respectively. The sales of diesel and gasoline accounted for 59.90% and 17.78% of the total sales of petroleum products respectively.

Net sales of petroleum products accounted for 41.7% of the Group s total net sales in 2011, representing an increase of 1.8 percentage points as compared to the previous year.

(v) Trading of petrochemical products

The Group s net sales of the trading of petroleum products amounted to RMB11,617.0 million in 2011, representing an increase of 76.93% as compared to RMB6,565.9 million in the previous year. Such increase in the net sales was mainly attributed to a significant increase in the Group s trading volume of petrochemical products as compared to the previous year.

Net sales of trading of petrochemical products accounted for 13.0% of the Group s total net sales in 2011, representing an increase of 3.9 percentage points as compared to the previous year.

(vi) Others

The Group s net sales of others amounted to RMB950.5 million in 2011, representing an increase of 21.38% as compared to RMB783.1 million in the previous year. Such increase in the net sales was mainly attributed to an increase in the Group s business of crude oil processed on a sub-contract basis.

Net sales of others accounted for 1.1% of the Group s total net sales in 2011, basically at par with the previous year.

Table of Contents

(2) Operating expenses

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

Operating expenses of the Group increased substantially by RMB19,317.6 million to RMB88,449.9 million in 2011, an increase of 27.94% as compared to RMB69,132.3 million in 2010. The operating expenses of synthetic fibres, resins and plastics, intermediate petrochemicals, petroleum products, trading of petrochemical products and others amounted to RMB3,848.9 million, RMB16,406.6 million, RMB17,874.6 million, RMB37,803.6 million, RMB11,602.0 million and RMB91,420.0 million, and representing an increase of 10.89%, 17.96%, 6.14%, 37.00%, 77.08% and 19.39% as compared to the previous year, respectively.

(i) Synthetic fibres

The Group s operating expenses of synthetic fibres in 2011 increased by RMB377.9 million as compared to the previous year, primarily due to increased unit prices for raw materials (e.g. acrylonitrile) for producing synthetic fibres.

(ii) Resins and plastics

The Group s operating expenses of resins and plastics in 2011 increased by RMB2,497.7 million as compared to the previous year, primarily due to increased unit costs for raw materials such as ethylene and propylene.

(iii) Intermediate petrochemicals

The Group s operating expenses of intermediate petrochemicals in 2011 increased by RMB1,033.3 million as compared to the previous year, primarily due to a significant increase in costs and expenses of intermediate petrochemical products resulting from the increase in unit cost of intermediate petrochemical products following the increase in unit cost of crude oil.

(iv) Petroleum products

The Group s operating expenses of petroleum products in 2011 increased by RMB10,210.0 million as compared to the previous year, primarily due to the increase in crude oil prices (which was the major raw material of the Group) and an increased processing volume, which directly led to an increase in the operating expenses of petroleum products.

(v) Trading of petrochemical products

The Group s operating expenses of trading of petrochemical products in 2011 increased by RMB5,050.2 million as compared to the previous year, primarily due to the significant increase in the Group s trading volume of petrochemical products as compared to the previous year.

Table of Contents

(vi) Others

The Group s operating expenses of others in 2011 increased by RMB148.5 million as compared to the previous year, primarily due to an increase in the cost of crude oil processed on a sub-contract basis.

Cost of sales

The Group s cost of sales amounted to RMB87,881.2 million in 2011, representing a significant increase of 28.64% compared to RMB68,317.4 million in 2010. Cost of sales accounted for 98.18% of the net sales for 2011, primarily due to an increase in crude oil prices in 2011 which was the Group s major raw material.

(i) Crude Oil

In 2011, the Group processed 10,866,700 tons of crude oil (including 257,000 tons of crude oil processed on a sub-contract basis), representing an increase of 346,000 tons as compared to 10,520,700 tons in the previous year. The volumes of imported crude oil and domestic offshore crude oil processed by the Group were 9,662,500 tons and 1,204,200 tons, respectively. The total cost of crude oil processed by the Group in 2011 amounted to RMB53,521.9 million, representing a significant increase of 34.83% as compared to RMB39,694.6 million in the previous year and accounting for 60.90% of the total cost of sales. The weighted average cost of crude oil of the Group was RMB5,044.64 per ton, representing an increase of 28.51% as compared to the previous year. The average costs of imported crude oil and domestic offshore crude oil were RMB5,030.16 per ton and RMB5,157.75 per ton, respectively.

(ii) Other expenses

The Group s other expenses were RMB14,846.8 million in 2011, basically at par with RMB14,699.0 million in the previous year.

Selling and administrative expenses

The Group s selling and administrative expenses amounted to RMB675.8 million in 2011, representing an increase of 7.47% as compared to RMB628.8 million in the previous year, mainly due to an increase in the sales transportation expenses as a result of an increase in sales volume of the Group during the Reporting Period, and an increase in agency fees with respect to product sales in routine (continuing) connected transactions resulted from the increase in sales volume.

Other operating income

The Group s other operating income amounted to RMB164.3 million in 2011, representing an increase of 49.64% compared to RMB109.8 million in the previous year, mainly due to an increase of RMB39.8 million in the government grants received in 2011 as compared to the previous year.

Table of Contents

Other operating expenses

The Group s other operating expenses decreased from RMB296.0 million in the previous year to RMB57.2 million in 2011, representing a decrease of 80.68%, mainly due to a decrease of RMB227.6 million in the Group s impairment losses of fixed assets in 2011 as compared to the previous year.

(3) Profit from operations

The Group s profit from operations amounted to RMB1,059.8 million in 2011, representing a decrease of RMB1,903.8 million as compared to RMB2,963.6 million in the previous year.

(4) Net finance income/costs

The Group s net finance income was RMB83.5 million in 2011, while there were net finance costs of RMB95.2 million in 2010. The record of net finance income was primarily attributable to an increase of RMB58.6 million in net foreign exchange gain of the Group during the Reporting Period, a decrease of RMB58.2 million in interest expense as compared to the previous year, and an increase of RMB62.0 million in interest income.

(5) Investment