

SINOPEC SHANGHAI PETROCHEMICAL CO LTD

Form 20-F

April 27, 2018

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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 20-F**

**REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934**

OR

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2017

OR

**TRANSITION REPORT PURSUANT TO SECTION 13 or 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

OR

**SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Date of event requiring this shell company report

For the transition period from to

Commission file number 1-12158

**(Exact name of Registrant as specified in its charter)**

**Sinopec Shanghai Petrochemical Company Limited**

**(Translation of Registrant's name into English)**

**The People's Republic of China**

**(Jurisdiction of incorporation or organization)**

**No. 48 Jinyi Road, Jinshan District, Shanghai, PRC 200540**

**(Address of principal executive offices)**

**Mr. Guo Xiaojun**

**No. 48 Jinyi Road, Jinshan District, Shanghai, 200540**

**The People's Republic of China**

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**(Name, Telephone, Email and/or Facsimile number and Address of Company Contact Person)**

**Securities registered or to be registered pursuant to Section 12(b) of the Act.**

| <b>Title of each class</b>   | <b>Name of each exchange on which registered</b> |
|--|--|
| <b>American Depositary Shares, each representing 100 H Shares, par value RMB1.00 per Share</b> | <b>New York Stock Exchange</b>                   |
| <b>H Shares, par value RMB1.00 per Share</b>   | <b>The Stock Exchange of Hong Kong Limited</b>   |

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**Securities registered or to be registered pursuant to Section 12(g) of the Act.**

**None**

**(Title of Class)**

**Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act.**

**None**

**(Title of Class)**

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

**3,495,000,000 H Shares, par value RMB1.00 per Share**

**7,319,176,600 domestic shares, par value RMB1.00 per Share**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or (15) (d) of the Securities Exchange Act of 1934. Yes  No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232,405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or an emerging growth company. See definitions of large accelerated filer, accelerated filer, and emerging growth company in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer  Accelerated Filer  Non-Accelerated Filer  Emerging growth company

If an emerging growth company that prepares its financial statements in accordance with U.S.GAAP, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

The term new or revised financial accounting standard refers to any update issued by the Financial Accounting Standards Board to its Accounting Standards Codification after April 5, 2012.

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP  International Financial Reporting Standards as issued  Other

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by the International Accounting Standards Board

If  Other has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow.  Item 17  Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).  Yes  No

(APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PRECEDING FIVE YEARS)

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Sections 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court.  Yes  No

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**CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS**

This annual report includes forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. All statements, other than statements of historical facts, included in this annual report that address activities, events or developments which we expect or anticipate will or may occur in the future are hereby identified as forward-looking statements for the purpose of the safe harbor provided by Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. The words such as believe, intend, expect, anticipate, project, estimate, predict, plan and similar expressions are also intended to identify forward-looking statements. Forward-looking statements address, among others, such issues as:

amount and nature of future development;

future prices of and demand for our products;

future earnings and cash flow;

capital expansion programs;

future plans and capital expenditures;

expansion and other development trends of the petrochemical industry;

expected production or processing capacities, including expected Rated Capacities and primary distillation capacities, of units or facilities not yet in operation;

expansion and growth of our business and operations; and

our prospective operational and financial information.

These statements are based on assumptions and analyses made by us in light of our experience and our perception of historical trends, current conditions and expected future developments, as well as other factors we believe are appropriate in particular circumstances. However, whether actual results and developments will meet our expectations and predictions depends on a number of risks and uncertainties which could cause actual results to differ materially from our expectations, including the risks set forth in Item 3. Key Information Risk Factors and the following:

fluctuations in crude oil and natural gas prices;

fluctuations in prices of our products;

failures or delays in achieving production from development projects;

potential acquisitions and other business opportunities;

continued availability of capital and financing;

general economic, market and business conditions, including volatility in interest rates, changes in foreign exchange rates and volatility in commodity markets; and

other risks and factors beyond our control.

Consequently, all of the forward-looking statements made in this annual report are qualified by these cautionary statements and readers are cautioned not to place undue reliance on these forward-looking statements. These forward-looking statements should be considered in light of the various important factors set forth above and elsewhere in this annual report, including the risks set forth in Item 3. Key Information Risk Factors. In addition, we cannot assure you that the actual results or developments anticipated by us will be realized or, even if substantially realized, that they will have the expected effect on us or our business or operations.

### EXCHANGE RATES

Unless otherwise specified, references in this annual report to U.S. Dollars or U.S.\$ are to United States Dollars, references to HK dollars or HK\$ are to Hong Kong dollars and references to Renminbi or RMB are to Renminbi yuan, the legal tender currency of the PRC.

We publish our financial statements in Renminbi. Unless otherwise indicated, all translations from Renminbi to U.S. Dollars have been made at a rate of RMB6.5063 to U.S.\$1.00, the noon buying rate on December 29, 2017 as set forth in the H.10 statistical release of the U.S. Federal Reserve Board. We do not represent that Renminbi or U.S. dollar amounts could be converted into U.S. Dollars or Renminbi, as the case may be, at any particular rate.



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**CERTAIN TERMS AND CONVENTIONS**

References to we or us or Company are references to Sinopec Shanghai Petrochemical Company Limited and our subsidiaries, unless the context requires otherwise. Before our formation, these references relate to the petrochemical businesses carried on by the Complex.

References to Sinopec Corp. are references to China Petroleum & Chemical Corporation, the controlling shareholder of the Company.

References to the Sinopec Group are references to China Petrochemical Corporation, the controlling company of Sinopec Corp.

References to the Complex are references to Shanghai Petrochemical Complex, our predecessor founded in 1972.

References to China or the PRC are references to The People's Republic of China which, for the purpose of this annual report and for geographical reference only, excludes Hong Kong, Macau and Taiwan.

References to ADSs are references to our American Depositary Shares, which are listed and traded on the New York Stock Exchange. Each ADS represents 100 H Shares.

References to our domestic shares are references to 7,319,176,600 domestic shares of the Company, par value RMB1.00 per share, which are ordinary shares held by Chinese investors.

References to our H Shares are references to our overseas-listed foreign ordinary shares, par value RMB1.00 per share, which are listed and traded on the Stock Exchange of Hong Kong Limited ( HKSE ) under the number 338.

Rated Capacity is the output capacity of a given production plant or, where appropriate, the throughput capacity, calculated by estimating the number of days in a year that the production plant is expected to operate, including downtime for regular maintenance, and multiplying that number by an amount equal to the plant optimal daily output or throughput, as the case may be.

All references to tons are to metric tons.

Unless otherwise noted, references to sales volume are to sales to entities other than us or our divisions and subsidiaries.

**Table of Contents****PART I****ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISORS.**

Not applicable.

**ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE.**

Not applicable.

**ITEM 3. KEY INFORMATION.****A. Selected Financial Data.**

Our selected consolidated statements of operations data (except for ADS data) and cash flows data for each of the years ended December 31, 2015, 2016 and 2017 and our selected consolidated balance sheets data as of December 31, 2016 and 2017 are derived from our consolidated financial statements included in Item 18. Financial Statements. Our selected consolidated statements of operations data and cash flows data for the years ended December 31, 2013 and 2014 and our consolidated balance sheets data as of December 31, 2013, 2014 and 2015 are derived from our consolidated financial statements not included in this annual report. Our selected consolidated financial data should be read in conjunction with our consolidated financial statements, and the notes thereto, and Item 5. Operating and Financial Review and Prospects. Our consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board.

**Selected Consolidated Financial Data**

(RMB in millions, except per share and per ADS data)

|   | Year Ended December 31, |                       |                       |                       |                       |
|---|-------------------------|-----------------------|-----------------------|-----------------------|-----------------------|
|   | 2013<br>(RMB million)   | 2014<br>(RMB million) | 2015<br>(RMB million) | 2016<br>(RMB million) | 2017<br>(RMB million) |
| <b>CONSOLIDATED STATEMENTS OF OPERATIONS DATA</b>       |                         |                       |                       |                       |                       |
| Net sales:  |                         |                       |                       |                       |                       |
| Synthetic fibers  | 3,220.5                 | 2,891.5               | 2,328.2               | 1,855.5               | 2,005.3               |
| Resins and plastics                                     | 14,268.4                | 12,489.4              | 9,992.2               | 9,797.6               | 10,218.4              |
| Intermediate petrochemicals                             | 18,430.8                | 12,391.1              | 9,332.0               | 8,827.6               | 10,070.2              |
| Petroleum products                                      | 57,419.8                | 49,259.5              | 30,802.0              | 24,002.6              | 32,400.6              |
| Trading of petrochemical products                       | 11,157.6                | 14,791.0              | 13,718.2              | 20,585.4              | 23,697.3              |
| Others  | 1,006.0                 | 902.6                 | 864.6                 | 867.8                 | 826.5                 |
| Profit/(loss) from operations                           | 2,192.3                 | (587.9)               | 3,908.9               | 6,777.9               | 6,401.9               |
| Earnings/(loss) before income tax                       | 2,444.7                 | (889.9)               | 4,237.2               | 7,778.3               | 7,852.9               |
| Net income/(loss) attributable to owners of the Company | 2,055.3                 | (692.2)               | 3,274.3               | 5,968.5               | 6,143.2               |
| Net income attributable to non-controlling interests    | 10.2                    | 16.5                  | 36.1                  | 13.0                  | 11.0                  |
| Basic earnings/(loss) per share(RMB) (a) (b)            | 0.19                    | (0.064)               | 0.303                 | 0.553                 | 0.569                 |
| Basic earnings/(loss) per ADS(RMB) (c)                  | 19.03                   | (6.41)                | 30.32                 | 55.26                 | 56.86                 |

(a) After the implementation of share capital increase from the capital reserve under the domestic share reform in December 2013, total number of shares increased from 7,200,000,000 to 10,800,000,000. See Item 4. Information on the Company - A. History and Development of the Company - Domestic Share Reform. The calculation of earnings per share is retrospectively restated based on the weighted average number of shares outstanding of 10,800,000,000 in 2013 as if these shares were in issue since January 1, 2013.

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- (b) The Company exercised its Share Option Incentive Scheme for the first time in August 2017 and the total number of shares of the Company increased by 14,176, 600 shares upon exercise. See ITEM 6. Directors, Senior Management and Employees E. Share Ownership Share Option Incentive Scheme. Basic earnings per share is calculated by dividing the profit attributable to owners of the Company by the weighted average number of ordinary shares in issue during the year.
- (c) Earnings per ADS are calculated on the basis that one ADS is equivalent to 100 H Shares.

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|   | Year Ended December 31, |                       |                       |                       |                       |
|---|-------------------------|-----------------------|-----------------------|-----------------------|-----------------------|
|   | 2013<br>(RMB million)   | 2014<br>(RMB million) | 2015<br>(RMB million) | 2016<br>(RMB million) | 2017<br>(RMB million) |
| <b>CONSOLIDATED STATEMENTS OF CASH FLOWS DATA</b> |                         |                       |                       |                       |                       |
| Net cash generated from operating activities      | 5,098.5                 | 3,662.4               | 4,932.8               | 7,181.8               | 7,060.8               |
| Net cash used in investing activities             | (629.2)                 | (910.1)               | (439.0)               | (189.9)               | (2,400.7)             |
| Net cash used in financing activities             | (4,496.9)               | (2,606.5)             | (3,695.7)             | (2,637.2)             | (2,589.8)             |
| Capital expenditure                               | (1,323.1)               | (1,089.3)             | (695.3)               | (901.5)               | (1,197.1)             |
| Proceeds from borrowings                          | 55,037.6                | 51,385.3              | 31,999.8              | 2,589.4               | 2,119.1               |
| Repayments of borrowings                          | (59,155.9)              | (53,444.5)            | (35,684.7)            | (4,113.0)             | (2,059.4)             |

|  | As of December 31,    |                       |                       |                       |                       |
|--|-----------------------|-----------------------|-----------------------|-----------------------|-----------------------|
|  | 2013<br>(RMB million) | 2014<br>(RMB million) | 2015<br>(RMB million) | 2016<br>(RMB million) | 2017<br>(RMB million) |
| <b>CONSOLIDATED BALANCE SHEETS DATA</b>            |                       |                       |                       |                       |                       |
| Current assets                                     | 14,486.0              | 9,510.4               | 8,144.0               | 14,875.9              | 19,866.1              |
| Property, plant and equipment                      | 16,669.5              | 15,541.6              | 14,383.3              | 13,474.3              | 12,866.4              |
| Total assets                                       | 36,636.8              | 30,905.6              | 27,820.6              | 33,945.6              | 39,443.5              |
| Short term borrowings (a)                          | 7,094.0               | 4,078.2               | 2,070.0               | 546.4                 | 606.2                 |
| Current liabilities                                | 18,017.5              | 12,484.8              | 7,726.3               | 8,942.4               | 10,922.2              |
| Long term borrowings (excluding current portion)   | 627.8                 | 1,632.7               |                       |                       |                       |
| Total equity attributable to owners of the Company | 17,732.5              | 16,500.3              | 19,797.3              | 24,722.0              | 28,230.2              |

(a) Including corporate bonds and current portion of long term borrowings.

*Dividends*

The following table sets forth certain information concerning the dividends of the Company since January 1, 2013:

| Dividend Period                   | Dividend per Share       |
|-----------------------------------|--------------------------|
| January 1, 2013-December 31, 2013 | RMB0.05 (U.S.\$0.0081)   |
| January 1, 2014-December 31, 2014 | No dividend              |
| January 1, 2015-December 31, 2015 | RMB0.1 (U.S.\$0.0154)    |
| January 1, 2016-December 31, 2016 | RMB0.25 (U.S.\$0.036)    |
| January 1, 2017-December 31, 2017 | RMB0.30(U.S.\$0.046) (a) |

(a) Pursuant to the resolution of the Board on March 20, 2018, the Company proposed cash dividend to all the shareholders, RMB0.3 per share (including tax). The proposal remains to be approved at our 2017 Annual General Meeting.

See also Item 8. Financial Information – A. Consolidated Statements and Other Financial Information – Dividend Policy.

*Exchange Rates*

The Chinese government controls its foreign currency reserves in part through direct regulation of the conversion of Renminbi into foreign exchange and through restrictions on foreign trade. See Item 10. Additional Information – D. Exchange Controls.

The following table sets forth the high and low noon buying rates between Renminbi and U.S. Dollars for each month during the previous six months and the most recent practicable date:

|                                    | Noon Buying Rate<br>(1)  |        |
|------------------------------------|--------------------------|--------|
|                                    | High<br>(RMB per U.S.\$) | Low    |
| October 2017                       | 6.6533                   | 6.5712 |
| November 2017                      | 6.6385                   | 6.5967 |
| December 2017                      | 6.6210                   | 6.5063 |
| January 2018                       | 6.5263                   | 6.2841 |
| February 2018                      | 6.3471                   | 6.2649 |
| March 2018                         | 6.3565                   | 6.3093 |
| April 2018 (ending as of April 20) | 6.3045                   | 6.2655 |

(1) The exchange rates reflect the noon buying rates as set forth in the H.10 statistical release of the Federal Reserve Board.

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The following table sets forth the average noon buying rates between Renminbi and U.S. dollars for each of 2013, 2014, 2015, 2016 and 2017, calculated by averaging the noon buying rates on the last day of each month during the relevant year:

|      | <b>Average<br/>Noon<br/>Buying<br/>Rate<sup>(1)</sup><br/>(RMB<br/>per U.S.\$)</b> |
|------|--|
| 2013 | 6.1412   |
| 2014 | 6.1701   |
| 2015 | 6.2869   |
| 2016 | 6.6549   |
| 2017 | 6.7350   |

(1) The exchange rates reflect the noon buying rates as set forth in the H.10 statistical release of the Federal Reserve Board.

**B. Capitalization and Indebtedness.**

Not applicable.

**C. Reasons for the Offer and Use of Proceeds.**

Not applicable.

**D. Risk Factors.**

*An investment in our ADSs involves significant risks. The risks and uncertainties described below are not the only ones we face. You should consider carefully all of the information in this annual report, including the risks and uncertainties described below and our consolidated financial statements and related notes, before making an investment in our ADSs. Any of the following risks could have a material adverse effect on our business, financial condition and results of operations. In any such case, the market price of our ADSs could decline, and you may lose all or part of your investment.*

*Our operations may be adversely affected by the cyclical nature of the petroleum and petrochemical markets and by the volatility of prices of crude oil and petrochemical products.*

Most of our revenues are attributable to the sale of refined oil and petrochemical products, which have historically been cyclical and sensitive to the availability and price of raw materials and general economic conditions. Markets for many of our products are sensitive to changes in industry capacity and output levels, changes in regional and global economic conditions, the price and availability of substitute products and changes in consumer demand, which from time to time have had a significant impact on our product prices in the regional and global markets. Due to the decrease in tariff charges, the removal of other restrictions on importation and the Chinese government's gradual relaxation of its control of the allocation of products and pricing, many of our products have become increasingly vulnerable to the cyclical nature of regional and global petroleum and petrochemical markets, which may adversely affect our operations.

We consume large amounts of crude oil to manufacture our products of which more than 95% is typically imported. In 2017, crude oil costs accounted for RMB32.90 billion, or 45.45% of our annual cost of sales. As a result, changes in crude oil prices can affect our profitability. In recent years, due to various reasons, the price of crude oil has fluctuated significantly. We cannot rule out the possibility of the occurrence of certain global emergencies which might disrupt our crude oil supply. We expect that the volatility and uncertainty of the prices of crude oil and petrochemical products will continue, and that increasing crude oil prices and declines in prices of petrochemical products may adversely affect our business and results of operations and financial condition.

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*Some of our major products are subject to government price controls, and we are not able to pass on all cost increases from rising crude oil prices through higher product prices.*

We consume large amounts of crude oil to manufacture our products of which more than 95% is typically imported. We attempt to mitigate the effect of increased costs due to rising crude oil prices. However, our ability to pass on these increased costs to our customers is dependent on market conditions and government regulations. Given that the increase of the sales prices of our products may lag behind the increase of crude oil costs, we may fail to completely cover the increased costs by increasing our sales prices, particularly where government regulations restrict the prices of certain of our fuel products. In particular, gasoline, diesel and jet fuel, and liquefied petroleum gas are subject to government price controls at present. In 2015, 2016 and 2017 approximately 40.81%, 36.40% and 40.90% of our net sales were from such products subject to price controls. Although the current price-setting mechanism for refined petroleum products in China allows the Chinese government to adjust price in the PRC market when the average international crude oil price fluctuates beyond certain levels within a certain time period (see [Item 4. Information on the Company](#) **B. Business Overview** **Product Pricing**), the Chinese government still retains discretion as to whether or when to adjust the prices of the refined oil products. The Chinese government generally exercises certain price control over refined oil products once international crude oil prices experience a sustained rise or become significantly volatile. For instance, some of our fuel products are required to be sold to designated distributors (such as the subsidiaries of Sinopec Corp.). Because we cannot freely sell our fuel products to take advantage of opportunities for higher prices, we may not be able to fully cover increases in crude oil prices by increasing the sale prices of our products, which has had and will possibly continue to have a material adverse effect on our financial condition, results of operations and cash flows.

*Our development and operation plans have significant capital expenditure and financing requirements, which are subject to a number of risks and uncertainties.*

The petrochemical business is a capital intensive business. Our ability to maintain and increase our revenues, net income and cash flows depends upon continued capital spending. Our current business strategy contemplates capital expenditure for 2018 of approximately RMB1.2 billion (U.S.\$184.4 million), which will be provided through financing activities and use of our own capital. Our actual capital expenditures may vary significantly from these planned amounts, subject to our ability to generate sufficient cash flows from operations, investments and other factors that may be beyond our control. In addition, there can be no assurance as to whether, or at what cost, our capital projects will be completed or the success of these projects if completed.

As of March 31, 2018, we had an aggregate outstanding indebtedness of approximately RMB1,065.2 million (U.S.\$163.7 million). Most of our borrowings are with state-controlled banks in China and structured as short term debt obligations with payment due in one year or less. These banks have generally been willing to provide new short term loans while we pay off existing loans. Sinopec Corp., our controlling shareholder, did not provide any guarantee or credit support for our debt for the year ended December 31, 2017 and for the three months ended March 31, 2018.

Our ability to obtain external financing in the future and our ability to make timely repayments of our debt obligations are subject to a variety of uncertainties, including: our future results of operations, financial condition and cash flows; the condition of the economy in China and the condition of markets for our products; the cost of financing and the condition of financial markets; the issuance of relevant government approvals and other project risks associated with the development of infrastructure in China; and the continuing willingness of banks to provide new loans as we pay down existing debt.

While we anticipate that we will rely less on borrowings to finance capital expenditures and operations, our business, results of operations and financial condition could be adversely affected if we fail to obtain sufficient funding for our operations or development plans.

*Our business operations may be adversely affected by present or future environmental regulations.*

We are subject to extensive environmental protection laws and regulations in China. These laws and regulations permit:

the imposition of pollution charge for the discharge of waste substances;

the levy of payments and fines for damages for serious environmental offenses;

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the government to close down or suspend any facility which has caused or may cause environmental damages and require it to correct or stop operations causing environmental damages; and

litigations and liabilities arising from pollutions and damages to the environment and public interests.



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Our production operations produce substantial amounts of waste materials (*i.e.*, waste water, waste gas and waste residue). In addition, our production and operations require environmental related permits that are subject to renewal, modification and revocation. We were subject to various administrative penalties for violations of the relevant PRC environmental laws and regulations in the past years. See [Item 4. Information of the Company B. Business Overview Environmental Protection](#). We have established a system to treat waste materials to prevent and reduce pollution. The Chinese government (including the local governments), however, has moved, and may move further, toward the adoption of more regulations and more stringent environmental standards. Chinese national or local authorities may also apply more rigorous enforcement of such regulations which would require us to incur additional expenditures on environmental matters.

*If the Chinese government changes current regulations that allow us to make payments in foreign currencies, we may be unable to obtain the foreign currency necessary for our business.*

The Renminbi currently is not a freely convertible currency. We receive most of our revenue in Renminbi. A portion of our Renminbi revenue must be converted into other currencies to meet our foreign currency needs, which include, among other things:

debt service costs on foreign currency-denominated debt;

purchases of imported equipment;

payment of any cash dividends declared in respect of the H shares and the ADSs; and

import of crude oil and other materials.

Under existing foreign exchange regulations in China, we may undertake current account foreign exchange transactions, including the payment of dividends, without prior approval from the State Administration of Foreign Exchange (SAFE) by producing commercial documents evidencing the foreign exchange transactions, provided that they are processed through Chinese banks licensed to engage in foreign exchange transactions. Foreign exchange transactions under the capital account (international revenues and expenditures that increase or decrease debt or equity, including principal payments in respect of foreign currency-denominated obligations) continue to be subject to limitations and require the prior approval of the SAFE. These limitations could affect our ability to obtain foreign exchange through debt financing, or to make capital expenditures in foreign currency. The Chinese government has stated publicly that it intends to eventually make the Renminbi freely convertible in the future. However, we cannot predict whether the PRC government will continue its existing foreign exchange policy and when the PRC government will allow free conversion of Renminbi.

If the Chinese government restricts our ability to make payments in foreign currency, we may be unable to obtain the foreign currency necessary for our business. In that case, our business may be materially adversely affected, and we may default on our obligations.

*Change of currency policy and fluctuation of Renminbi might adversely affect our business and operating results.*

The exchange rate between the Renminbi and the U.S. Dollar or other foreign currencies might fluctuate and be affected by the change in China's political and economic conditions and China's foreign exchange policies. On July 21, 2005, the PRC government changed its decade-old policy of pegging the value of the RMB to the U.S. dollar, and the RMB appreciated more than 20% against the U.S. dollar over the following three years. However, the People's Bank of China, or the PBOC, regularly intervenes in the foreign exchange market to limit fluctuations in RMB exchange rates and achieve policy goals. During the period between July 2008 and June 2010, the exchange rate between the RMB and the U.S. dollar had been stable and traded within a narrow range. However, the RMB fluctuated significantly during that period against other freely traded currencies, in tandem with the U.S. dollar. Since June 2010, the RMB has started to slowly appreciate against the U.S. dollar, though there have been periods when the U.S. dollar has appreciated against the RMB. On August 11, 2015, the PBOC allowed the RMB to depreciate by approximately 2% against the U.S. dollar. During 2016, the RMB depreciated by over 6.83% against the U.S. dollar. During 2017, the RMB appreciated by over 6.16% against the U.S. dollar. It is difficult to predict how long such appreciation of RMB against the U.S. dollar may last and when and how the relationship between the RMB and the U.S. dollar may change again. There remains significant international pressure on the PRC government to adopt a flexible currency policy.

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A portion of our cash and cash equivalents is denominated in foreign currencies (mainly the U.S. Dollar). As of December 31, 2017, our bank deposits denominated in foreign currencies were equivalent to RMB247.5 million. The appreciation in the value of Renminbi against foreign currencies (including the U.S. Dollar) may cause a decrease in the Renminbi value of our cash and cash equivalents that are denominated in foreign currencies. In addition, the appreciation of Renminbi may harm the exports of our downstream manufacturers, thus adversely affecting the market demand for our products.

Although most of our revenue is denominated in Renminbi, most of our purchase of crude oil and some equipment and repayments of certain borrowings are made in foreign currencies. Any depreciation of the Renminbi would increase our cost and adversely affect our capacity of making profits. In addition, any depreciation of the Renminbi could adversely affect the value of the dividends of our H shares and ADSs, which we declare in Renminbi and pay in foreign currencies.

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*We are controlled by Sinopec Corp., whose interests may not be aligned with yours.*

As of March 31, 2018, Sinopec Corp. owned 50.44% of our shares. Accordingly, it has voting and management control over us, and its interests may be different from the interests of our other shareholders. Subject to our Articles of Association and applicable laws and regulations, Sinopec Corp. will be in a position to cause us to declare dividends, determine the outcome of corporate actions requiring shareholder approval or effect corporate transactions without the approval of the holders of the H shares and ADSs. Any such increase in our dividend payout would reduce funds available for reinvestment in our business and any such actions or transactions could adversely affect us or our minority shareholders. Sinopec Corp. may also experience changes in its own business strategy and policies. Although we are not currently aware of any specific changes, they could, in turn, lead Sinopec Corp. to change its policies or practices toward us in ways that we cannot predict, with corresponding unpredictable consequences for our business. Additionally, Sinopec Corp. may leverage its controlling shareholder position to influence our decisions with regard to the manufacturing and operation, allocation of financial resources and appointment and removal of senior management members, which could adversely affect us or our minority shareholders.

We have also engaged from time to time and will continue to engage in a variety of transactions with Sinopec Corp., Sinopec Group, the controlling company of Sinopec Corp., and their various subsidiaries or affiliates which provide a number of services to us, including the supply of raw materials, product distribution and sales agency, project design and installment service, petrochemical industry related insurance and financial services. We also sell oil and petrochemical products to Sinopec Corp. and its affiliates. Our transactions with these companies are governed by a Mutual Product Supply and Sales Services Framework Agreement with Sinopec Corp. and a Comprehensive Services Framework Agreement with Sinopec Group, the terms of which were negotiated on an arm's length basis. See Item 7. Major Shareholders and Related Party Transactions B. Related Party Transactions. Our business and results of operations could be adversely affected if Sinopec Corp. or Sinopec Group refuses to engage in such transactions or if it seeks to amend the contracts between the parties in a way adverse to us. In addition, Sinopec Corp. has interests in businesses which compete or are likely to compete, either directly or indirectly, with our businesses. Because Sinopec Corp. is our controlling shareholder and its interests may conflict with our own interests, Sinopec Corp. may take actions that favor itself over our interests.

*Our operations are exposed to risks relating to operating hazards and production safety and we have limited insurance coverage for resulting losses.*

Our operations involve the handling and storage of explosives and other hazardous articles. In addition, our operations involve the use of heavy machinery, which involves inherent risks that cannot be entirely eliminated through our preventive efforts. As a result, we may encounter fires, explosions and other unexpected incidents during our operations, which may cause personal injuries or death, property damage, environmental damage, interruption of operations and reputational damages to us. Each of such incidents could have a material adverse impact on our financial condition and results of operations.

We maintain a package of insurance coverage plan through Sinopec Group on our property, facilities and inventory. In addition, we maintain insurance policies for such assets as the engineering construction projects and products in transit with third-party commercial insurance companies. We carry a third party liability insurance with a coverage capped at RMB50 million in 2018 to cover claims, subject to deductibles, in respect of personal injury, property or environmental damage arising from accidents on our property or relating to our operations other than on our transportation vehicles. Our insurance coverage may not be sufficient to cover all the financial losses caused by operating hazards. Resulting losses required to be compensated or otherwise paid for by us due to such operating hazards that are not fully insured against may have a material adverse effect on our financial condition and results of operations.

*Our business may be limited or adversely affected by government regulations.*

The Chinese central and local governments continue to exercise a certain degree of control over the petrochemical industry in China by, among other things:

mandating distribution channels for our fuel products;

setting the allocations and pricing of certain resources, products and services;

assessing taxes and fees payable;

setting import and export quotas and procedures; and

setting safety, environmental and quality standards.

As a result, we may face significant constraints on our flexibility and ability to expand our business operations or to maximize our profitability. In the past, we have benefited from favorable regulatory policies that have, for example, reduced the competition we face from illegal imports of petroleum products. Existing policies that favor our industry may change in the future and our business could be adversely affected by any such changes.

*Our development plans may require regulatory approval.*

We are currently engaged in a number of construction and expansion projects. Most of our projects are subject to governmental review and approval. The timing and cost of completion of these projects will depend on numerous factors, including approvals from relevant government authorities and general economic conditions in China.

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While in general we attempt to obtain governmental approval as far in advance as practicable, we are unable to predict the timing and outcome of these governmental reviews and approvals. If any of our important projects required for our future growth are not approved, or not approved on a timely basis, our results of operations and financial condition could be adversely affected.

*We could face increasing competition in China.*

Our principal market, Eastern China, which is comprised of Shanghai, Shandong, Jiangsu, Anhui, Zhejiang, Jiangxi and Fujian, has enjoyed stronger economic growth and a higher demand for petrochemical products than other regions of China. As a result, we believe that our competitors will try to expand their sales and build up their distribution networks in our principal market. We believe this will have an adverse impact on the production and sale of our major products. Moreover, Chinese private enterprises have gradually overcome technological and funding barriers to extend their business from the downstream processing sector to the upstream petrochemical field. These enterprises have advantages in many areas such as flexibility in operation costs, preferential policy treatments and regional presence, and may use these advantages to compete with us in our target market.

*We face increasing foreign competition in our lines of business.*

China joined the WTO on December 11, 2001 and had committed to eliminate some tariff and non-tariff barriers to foreign competition in the domestic petrochemical industry that benefited us in the past. In particular, China:

has reduced tariffs on imported petrochemicals products that compete with ours;

increased levels of permitted foreign investment in the domestic petrochemicals industry, allowing foreign investors to own 100% of a domestic petrochemicals company from December 11, 2004;

has gradually relaxed restrictions on the import of crude oil by non-state-owned companies;

has granted foreign-owned companies the right to import petrochemical products; and

has permitted foreign-owned companies to distribute and market fuel products in both retail and wholesale markets in China. As a result of these measures, we face increasing competition from foreign companies and imports. In addition, competition for our products has increased, as many overseas companies have switched their focus to sales in China. Furthermore, tariff reductions could reduce our profit margins or otherwise negatively impact our revenue from certain products, including a small number of significant products. The Chinese government may also reduce the tariffs imposed on production equipment that we may import in the future.

*Changes in China's economic, political or social conditions or government policies could have a material adverse effect on our business and results of operations.*

Substantially all of our operations are conducted in China. Accordingly, our business, prospects, financial condition and results of operations may be influenced to a significant degree by political, economic and social conditions in China generally and by continued economic growth in China as a whole.

The Chinese economy differs from the economies of most developed countries in many respects, including the amount of government involvement, level of development, growth rate, control of foreign exchange and allocation of resources. Although the Chinese government has implemented measures emphasizing the utilization of market forces for economic reform, the reduction of state ownership of productive assets and the establishment of improved corporate governance in business enterprises, a substantial portion of productive assets in China is still owned by the government. In addition, the Chinese government continues to play a significant role in regulating industry development by imposing industrial policies. The Chinese government also exercises significant control over China's economic growth through allocating resources, controlling payment of foreign currency-denominated obligations, setting monetary policy, and providing preferential treatment to particular

industries or companies.

While the Chinese economy has experienced significant growth over the past decades, growth has been uneven, both geographically and among various sectors of the economy. The Chinese government has implemented various measures to encourage economic growth and guide the allocation of resources. Some of these measures may benefit the overall Chinese economy, but may have a negative effect on us. Our financial condition and results of operations may be adversely affected by government control over capital investments or changes in tax regulations that are applicable to us. In addition, the Chinese government has implemented in the past certain measures, including interest rate increases, to control the pace of economic growth. These measures may cause decreased economic activity in China, and since 2012, China's economic growth has slowed down. Any prolonged slowdown in the Chinese economy may reduce the demand for our products and services and materially and adversely affect our business and results of operations.

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*Interpretation and enforcement of Chinese laws and regulations is uncertain.*

The Chinese legal system is based on statutory law. Under this system, prior court decisions may be cited as persuasive authority, but do not have the binding effect of precedents. Since 1979, the Chinese government has been developing a comprehensive system of commercial laws and considerable progress has been made in the promulgation of laws and regulations dealing with economic matters, such as corporate organization and governance, foreign investment, commerce, taxation and trade. Because these laws, regulations and legal requirements are relatively new or otherwise undeveloped and not all accessible to the public and because prior court decisions have little precedential value, the interpretation and enforcement of these laws, regulations and legal requirements involve greater uncertainty than in other jurisdictions.

*Cyber attacks and security breaches may threaten the integrity of our intellectual property and other sensitive information and disrupt our business operations, which could adversely affect our reputation, business and financial position.*

We face global cybersecurity threats, which may range from uncoordinated individual attempts to sophisticated and targeted measures directed at us. Cyber attacks and security breaches may include, but are not limited to, attempts to access information, computer viruses, denial of service and other electronic security breaches.

Although we have not experienced any material cybersecurity incidents in the past, we cannot assure you that we will not experience them in the future. Due to the evolving nature of cybersecurity threats, the scope and impact of any future incident cannot be predicted. While we continually work to safeguard our systems and mitigate potential risks, there is no assurance that such actions will be sufficient to prevent cyber attacks or security breaches that manipulate or improperly use our systems or networks, compromise confidential or otherwise protected information, destroy or corrupt data, or otherwise disrupt our operations. The occurrence of such events could negatively impact our reputation and our competitive position and could result in litigation with third parties, regulatory action, loss of business, potential liability and increased remediation costs, any of which could have an adverse effect on our financial condition and results of operations.

*You may not enjoy shareholders' protections that you would be entitled to in other jurisdictions.*

As most of our business is conducted in China, our operations are governed principally by the laws of China. Despite the continuing improvement of the PRC Company Law and Securities Law, Chinese legal provisions for the protection of shareholders' rights and access to information are different from those applicable to companies formed in the United States, Hong Kong, the United Kingdom and other developed countries or regions. Moreover, there are significant differences between our corporate governance practices and those of U.S. issuers listed on the NYSE, as further described under Item 16 G. Corporate Governance. You may not enjoy shareholders' protections under Chinese law that you would be entitled to in other jurisdictions.

*Our Articles of Association require you to submit your disputes with us and other persons defined by our Articles of Association regarding the Company's affairs to arbitration. You will have no legal right to a court proceeding with respect to such disputes.*

Our Articles of Association require holders of our H shares or ADSs having a claim against, or a dispute with, us, our directors, supervisors, executive officers or a holder of our domestic shares relating to any rights or obligations conferred or imposed by our Articles of Association, the PRC Company Law or other relevant Chinese laws or regulations relating to our affairs, to submit such claim or dispute to arbitration with the China International Economic and Trade Arbitration Commission or to the Hong Kong International Arbitration Center. Our Articles of Association further provide that any arbitration decisions with respect to such disputes or claims shall be final and binding on all parties. As a result, you will have no legal right to a court proceeding with respect to such disputes.

*Our auditor, like other independent registered public accounting firms operating in China, is not permitted to be subject to inspection by Public Company Accounting Oversight Board and, as such, investors may be deprived of the benefits of such inspection.*

Our independent registered public accounting firm that issues the audit reports included in our annual reports filed with the SEC, as an auditor of companies that are traded publicly in the United States and a firm registered with the Public Company Accounting Oversight Board (United States), or PCAOB, is required by the laws of the United States to undergo regular inspections by PCAOB to assess its compliance with the applicable professional standards. Because our auditor is located in China, a jurisdiction where PCAOB is currently unable to conduct inspections without the approval of the PRC authorities, our auditor, like other independent registered public accounting firms operating in China, is currently not inspected by PCAOB.

Inspections of other firms that PCAOB has conducted outside of China have identified deficiencies in those firms' audit procedures and quality control procedures, which may be addressed as part of the inspection process to improve future audit quality. The inability of PCAOB to conduct inspections of independent registered public accounting firms operating in China makes it more difficult to regularly evaluate the effectiveness

of our auditor's audit procedures or quality control procedures. As a result, investors may be deprived of the benefits of PCAOB.



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*Proceedings instituted recently by the SEC against the Big Four PRC-based accounting firms, including our independent registered public accounting firm, could result in our financial statements being determined to not be in compliance with the requirements of the Exchange Act.*

In December 2012, the SEC brought administrative proceedings against the Big Four accounting firms, including our independent registered public accounting firm, in China, alleging that they had refused to produce audit work papers and other documents related to certain other China-based companies under investigation by the SEC for potential accounting fraud. On January 22, 2014, an initial administrative law decision, or Initial Decision, was issued, censuring these accounting firms and suspending four of the five firms from practicing before the SEC for a period of six months. The accounting firms filed a petition for review of the Initial Decision to the SEC. On February 6, 2015, the Big Four China-based accounting firms each agreed to a censure and to pay a fine to the SEC to settle the dispute and avoid suspension of their ability to practice before the SEC and audit U.S.-listed companies. The settlement required the firms to follow detailed procedures and to seek to provide the SEC with access to Chinese firms' audit documents via the China Securities Regulatory Commission (the CSRC). If future document productions fail to meet specified criteria, the SEC retains authority to impose a variety of additional remedial measures on the firms depending on the nature of the failure. While we cannot predict if the SEC will further review the four China-based accounting firms' compliance with specified criteria or if the results of such a review would result in the SEC imposing penalties such as suspensions or restarting the administrative proceedings, if the accounting firms are subject to additional remedial measures, our ability to file our financial statements in compliance with SEC requirements could be impacted. A determination that we have not timely filed financial statements in compliance with SEC requirements could ultimately lead to the delisting of our ADSs from the New York Stock Exchange or the termination of the registration of our H shares under the Securities Exchange Act of 1934, or both, which would substantially reduce or effectively terminate the trading of our ADSs in the United States.

*We may be or become a passive foreign investment company, which could result in adverse U.S. federal income tax consequences to U.S. investors.*

Generally, if, for any taxable year, at least 75% of our gross income is passive income, or at least 50% of the value of our assets is attributable to assets that produce passive income or are held for the production of passive income, we would be characterized as a passive foreign investment company ( PFIC ) for U.S. federal income tax purposes. We do not expect to be a PFIC for our current taxable year. However, since PFIC status depends on the composition of our income and the composition and value of our assets from time to time, there can be no assurance that we will not be considered a PFIC for any taxable year. If we are characterized as a PFIC, U.S. investors may suffer adverse tax consequences, including increased U.S. tax liabilities and reporting requirements. For further discussion of the adverse U.S. federal income tax consequences of our possible classification as a PFIC, see Item 10. Additional Information E. Taxation U.S. Taxation.

*We have in the past sourced a small portion of crude oil from Iran that may be targeted by economic sanctions under relevant U.S. laws, and if such activities are determined by the U.S. governmental authorities as sanctionable activities, we could be sanctioned or otherwise penalized.*

The United States has adopted a number of measures since 1996 that provide for the possible imposition of sanctions against non-U.S. companies engaged in certain activities in and with Iran in the energy and other sectors, including Executive Orders 13622 (effective July 31, 2012 and revoked January 16, 2016), 13628 (effective October 9, 2012), and 13645 (effective July 1, 2013 and revoked January 16, 2016), the Iran Threat Reduction and Syria Human Rights Act of 2012 ( ITRSHRA ) enacted August 10, 2012 and the Iran Freedom and Counter-Proliferation Act ( IFCA ) enacted January 2, 2013. The sanctionable activities include certain investments, the provision of goods, services, technology, or support that could contribute to the development of petroleum and petrochemical resources or the production of refined petroleum products in Iran, the exportation of refined petroleum products to Iran, the transportation of crude oil from Iran, or the engagement in a significant transaction for the purchase or acquisition of petroleum or petroleum products from Iran, and the engagement in transactions with certain Iranian specially designated nationals and blocked persons ( SDNs ) as identified and published by U.S. Department of the Treasury's Office of Foreign Assets Control, or OFAC, the agency primarily responsible for administering U.S. sanctions and embargoes.

We have sourced a small portion of our crude oil from Iran in the past through Sinopec Corp., our current controlling shareholder, and independent third parties, and we may continue to purchase crude oil from Iran. In addition, Sinopec Corp. and Sinopec Group, the controlling shareholder of Sinopec Corp., have engaged in operations in or purchasing crude oil sourced from Iran and may continue to do so in the future. We have no control over the activities of Sinopec Group or Sinopec Corp. in connection with any activities that they may conduct in Iran.

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If our purchases of crude oil from Iran and transactions related thereto are determined to be sanctionable activities by the U.S. President and/or the relevant U.S. governmental authorities, we may be subject to five or more of the twelve sanctions options available under the Iran Sanctions Act of 1996 (as amended) (ISA) and the ITRSHRA, which include restrictions on bank financing, outright blocking of the Company's property within U.S. jurisdiction, under the control of U.S. persons anywhere in the world, and prohibition of U.S. persons from investing or purchasing a significant amount of equity or debt instruments of the Company. Similar sanctions may also be imposed under the Executive Orders cited above, the IFCA, and other U.S. laws. In addition, many states in the United States have adopted legislation requiring state pension funds to divest themselves of securities in any company with active business operations in Iran. We cannot assure that we or any of our affiliates will not be sanctioned by the U.S. President and/or the relevant U.S. governmental authorities in light of the activities by us or our affiliates in Iran. The imposition of any such sanctions on us or our affiliates will have a negative impact on our business, reputation or stock price. In addition, purchase of crude oil by Sinopec Corp. subsidiaries that supply us with raw materials may from time to time be sourced from National Iranian Oil Company. This entity has been identified by the U.S. government as an SDN and sanctioned under various laws, including for assisting the government of Iran to avoid sanction and for engaging in activities related to nuclear proliferation. Under Executive Order 13645, the U.S. President can sanction non-U.S. companies that prior to January 16, 2016, had engaged in transactions with SDNs such as the National Iranian Oil Company. To the extent we indirectly (or directly) purchase raw materials from this entity, we risk potential U.S. government sanctions. Even absent any U.S. government sanctions, we risk adverse publicity in the world markets, which may impair our reputation and business.

*Sinopec Group, the controlling shareholder of Sinopec Corp. which is our current controlling shareholder, or its affiliates' current or future activities in certain countries are the subject of economic sanctions under relevant U.S. laws and could result in negative media and investor attention to us and possible imposition of sanctions on Sinopec Group, which could materially and adversely affect our shareholders.*

Sinopec Group undertakes, from time to time and without our involvement, overseas investments and operations in the oil and gas industry, including the exploration and production of oil and gas, refining and Liquefied Natural Gas, or LNG, projects. Sinopec Group's overseas asset portfolio includes oil and gas development projects in Iran, Sudan and Syria, countries subject to U.S. sanctions and embargoes. We cannot predict the interpretation or implementation of government policy at the U.S. federal, state or local levels with respect to any current or future activities by Sinopec Group or its affiliates in countries or with individuals or entities that are the subject of U.S. sanctions. Similarly, we cannot predict whether U.S. sanctions will be further tightened, or the impact that such actions may have on Sinopec Group. It is possible that the United States could subject Sinopec Group to sanctions due to these activities. Certain U.S. state and local governments and colleges have restrictions on the investment of public funds or endowment funds, respectively, in companies that are members of corporate groups with activities in certain countries that are the subject of U.S. sanctions. These investors may not wish to invest, and may divest their investment, in us because of our relationship with Sinopec Group and its investments and activities in those U.S. government sanctioned countries. It is possible that, as a result of activities by Sinopec Group or its affiliates in countries that are the subject of U.S. sanctions, we may be subject to negative media or investor attention, which may distract management, consume internal resources and affect investors' perception of our company.

Further, the ISA authorizes the imposition of sanctions on companies that engage in certain activities in and with Iran, especially in Iran's energy sector. It is possible that Sinopec Group or its affiliates engage in activities that are targeted for sanction purposes by the ISA or other U.S. laws. If the U.S. President determines that Sinopec Group or one of its affiliates in fact engaged in the targeted activities, he would be required under the ISA to impose on Sinopec Group or its affiliates at least five sanctions from among twelve sanctions options available under the ISA, which range from restrictions on U.S. exports or bank financing to outright blocking of Sinopec Group or its affiliate's property within the U.S. or in the possession or control of U.S. persons anywhere in the world. In addition, the IFCA requires the U.S. President to block the property of persons and entities within U.S. jurisdiction or control of U.S. persons if he determines that, among other things, such persons or entities are engaged in certain transactions involving the energy, shipping or shipbuilding sectors of Iran or with certain SDNs. It also requires the U.S. President to impose five or more sanctions under the ISA on a person that he determines has knowingly, on or after July 1, 2013, sold, supplied or transferred to or from Iran precious metals or certain other materials (including graphite, aluminum, steel, coal and certain software) if used for specified purposes. If the U.S. President determines that Sinopec Group, or an entity it owns or controls, prior to January 16, 2016, had engaged in any such activities and if the most extreme sanction under the ISA or other U.S. sanctions laws, blocking, were applied to Sinopec Group's property, including controlled subsidiaries, Sinopec Group could be prohibited from engaging in business activities in the United States or with U.S. individuals or entities, and U.S. transactions in our securities and distributions to U.S. individuals and entities with respect to our securities could also be prohibited.

In addition, pursuant to the IFCA, Executive Order 13645 and other U.S. laws, the U.S. government can sanction financial institutions anywhere in the world that engage in certain Iran related transactions. Such sanctions include prohibiting the financial institution from opening, or imposing strict conditions on maintaining, a correspondent or payable through account in the United States. The potential for financial institutions to be sanctioned for Iran related activities may impact our ability to engage in financial transactions related to Iran transactions. Although many of the sanctions discussed above were terminated on January 16, 2016 pursuant to the commitments of the United States under Joint Comprehensive Plan of Action, such termination would not affect sanctionable activities occurring prior to that date.



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*The trading prices of our ADSs and H Shares have been volatile and may continue to be volatile regardless of our operating performance.*

The trading prices of our ADSs and H Shares have been and may continue to be subject to wide fluctuations. The market price for our ADSs may continue to be volatile and subject to wide fluctuations in response to factors including the following:

actual or anticipated fluctuations in our quarterly results of operations;

changes in financial estimates by securities research analysts;

conditions in petroleum and petrochemical markets;

changes in the operating performance or market valuations of other petroleum and petrochemical companies;

announcements by us or our competitors of new products, acquisitions, strategic partnerships, joint ventures or capital commitments;

fluctuations of exchange rates between RMB and the U.S. dollar; and

general economic or political conditions in China or elsewhere in the world.

In addition, the stock market in general, and the market prices for companies with operations in China in particular, have experienced volatility that often has been unrelated to the operating performance of such companies. The securities of some China-based companies that have listed their securities in the United States have experienced significant volatility since their initial public offerings in recent years, including, in some cases, substantial declines in the trading prices of their securities. The trading performances of these companies' securities after their offerings may affect the attitudes of investors towards Chinese companies listed in the United States in general, which consequently may impact the trading performance of our ADSs, regardless of our actual operating performance. In addition, any negative news or perceptions about inadequate corporate governance practices or fraudulent accounting, corporate structure or other matters of other Chinese companies may also negatively affect the attitudes of investors towards Chinese companies in general, including us, regardless of whether we have engaged in any inappropriate activities. In particular, the global financial crisis and the ensuing economic recessions in many countries have contributed and may continue to contribute to extreme volatility in the global stock markets. These broad market and industry fluctuations may adversely affect the market price of our ADSs.

## **ITEM 4. INFORMATION ON THE COMPANY.**

### ***A. History and Development of the Company***

#### *General Information*

We were established in the People's Republic of China as a joint stock limited company under the PRC Company Law on June 29, 1993 as Shanghai Petrochemical Company Limited. On October 12, 2000, we changed our name to Sinopec Shanghai Petrochemical Company Limited. Our registered office is at No. 48 Jinyi Road, Jinshan District, Shanghai, China 200540. Our telephone number there is (86-21) 5794-1941.

#### ***Our Predecessor***

Our predecessor, Shanghai Petrochemical Complex (the Complex), was founded in 1972 as one of the first large scale Chinese petrochemical enterprises using advanced imported technology and equipment. Prior to June 29, 1993, the Complex was wholly-owned by Sinopec Group, at

the time a ministerial level enterprise (before its restructuring in 1998, Sinopec ). The Complex's location was chosen because of accessibility by water and land transportation to Shanghai, a major industrial city of China, and the availability of reclaimable land. The Complex was initially under the administration of the Ministry of Textile Industry and in 1983 was placed under the administration of Sinopec.

***Construction Projects***

The Complex and we, as its successor, have completed six major stages of construction. The first stage of construction (1972-1976) included reclamation of land and the installation of 18 production units. The second stage of construction (1980-1986) increased the Complex's capacity for processing crude oil and doubled its capacity for synthetic fiber production. The third stage of construction (1987-1992) primarily consisted of the installation of a 300,000 ton Rated Capacity ethylene unit, an additional crude oil refining unit and other units for the production of petrochemical products. The third stage of construction completed our transition from a synthetic fiber producer to a highly integrated producer of a wide variety of petrochemical products. The fourth stage of construction (2000-2002) mainly included the 700,000 ton Ethylene Expansion Project and Coal-Fired Power Plant Expansion Project. The fifth stage of construction (2003-2009) was mainly designed to optimize our structure and realize sustainable development, and mainly included 3,300,000t/a diesel hydrogenation unit, 1,200,000t/a delayed coking unit and other projects implemented for removing bottlenecks in refinery, the building of new 600,000t/a PX hydrocarbon complex unit, 150,000t/a C5 segregation unit, 380,000t/a ethane unit, etc.

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The Company commenced the sixth stage of construction in 2010 (the Phase 6 Project) and completed the project in December 2012. The key component of the Phase 6 Project was the refinery revamping and expansion project. The Phase 6 Project also included the technology development and fine chemicals projects. The purpose of the Phase 6 Project was to improve the Company's overall industrial structure, core competitiveness and the capability of maintaining sustainable developments. The Phase 6 Project was focused on the objective to achieve intensive utilization of natural resources and the build-up of a complete set of facilities, in accordance with the fundamental industrial model of integrating oil refining and petrochemical production. Through this project, the Company further enhanced its oil refining process and strengthened and expanded the Company's core businesses while continuing to explore the development of fine chemicals and products with high value added.

Over the past four decades, the Company has built up an infrastructure system to support its production needs. The Company has its own facilities to supply water, electricity, steam and other utilities and to treat waste water, as well as ocean and inland waterway wharfs and railroad and road transportation facilities.

### ***Our Initial Public Offering and Listing***

We were established as a subsidiary of Sinopec on June 29, 1993. In preparation for our initial public offering of ordinary shares, all assets and liabilities of the Complex were transferred either to us or to Sinopec Shanghai Jinshan Industrial Company (JI), a separate subsidiary of Sinopec. The Complex's non-core businesses and assets, such as housing, stores, schools, transportation and medical services, were transferred to JI. The Complex's core business and assets were transferred to us. The Complex then ceased to exist as a legal entity. In 1998, Sinopec was restructured into a limited liability company under the name of China Petrochemical Corporation (Sinopec Group). On February 25, 2000, Sinopec Group transferred its interest in us to its subsidiary, Sinopec Corp. In 1997, JI was restructured and its subsidiaries were either transferred to Sinopec or Shanghai Jinshan District. Sinopec Group now provides community services to us that were formerly provided by JI.

Our H Shares commenced listing on the HKSE on July 26, 1993. Our ADSs, each representing 100 H Shares, are listed on the New York Stock Exchange (NYSE). Our domestic shares are listed on the Shanghai Stock Exchange. We were the first Chinese joint stock limited company to have securities concurrently traded in Hong Kong, the United States and China. On November 8, 1993, our domestic shares were included in the Shanghai Stock Exchange Stock Index.

### ***Domestic Share Reform***

Pursuant to regulations issued by the CSRC, we were required to obtain shareholder approval for and implement certain share reform. As a result of such share reform, all non-publicly tradable domestic shares of the Company would be converted into publicly tradable domestic shares and may be sold publicly on the Shanghai Stock Exchange subject to any applicable lock-up period.

In connection with the share reform, the Distribution Proposal regarding 2013 Interim Distribution of Cash Dividend and the Conversion of Capital Fund and Surplus Reserve into Shares of the Company (Proposal) was approved at the Company's 2013 First Extraordinary General Meeting, 2013 First A Shareholders Class Meeting and 2013 First H Shareholders Class Meeting held on October 22, 2013. According to the Proposal, based on the Company's total share capital of 7,200,000,000 shares as of June 30, 2013, RMB2,421 million of the capital surplus of the Company from its share premium account was used to fund the issue of 3.36 new bonus shares with respect to every 10 issued and outstanding shares, the surplus reserve was used to fund the issue of 1.64 new bonus shares with respect to every 10 issued and outstanding shares, and an interim cash dividend of RMB0.50 (tax included) for every 10 issued and outstanding shares was distributed to all shareholders.

In addition, Sinopec Corp. undertakes under the Proposal that it shall not, within 12 months from the date on which Sinopec Corp. becomes entitled to trade, deal in or transfer its non-publicly tradable shares of the Company in the market (meaning the first trading day after the implementation of the Proposal), trade such shares in the market. Also, after the expiration of the aforesaid 12-month term, the amount of existing non-publicly tradable shares to be disposed of by Sinopec Corp. through trading on the stock exchange shall not represent more than 5% of the total number of our shares held by Sinopec Corp. within the next 12 months, and not more than 10% within the next 24 months.

Immediately upon completion of the conversion of capital surplus and surplus reserve into new shares of the Company, the total number of domestic shares of the Company reached, as of December 4, 2013, 7,305,000,000, and the total amount of H Shares of the Company reached 3,495,000,000. Therefore, the Company's total share capital consists of 10,800,000,000 shares. Sinopec Corp., being the controlling shareholder of the Company, holds 5,460,000,000 domestic shares, representing 50.56% of the total share capital of the Company.

The share certificates of new H Shares issued in connection with the share reform were dispatched and the cash dividend was paid to the holders of H Shares on December 4, 2013. The dealings in the new H Shares commenced on December 5, 2013.



**Table of Contents*****Description of Principal Capital Expenditures and Divestitures***

For a description of capital expansion projects related to our facilities, see Item 4. Information on the Company – D. Property, Plant and Equipment – Capital Expansion Program.

***B. Business Overview***

We are one of the largest petrochemical companies in China based on 2017 net sales and ethylene production. Our highly integrated petrochemical complex processes crude oil into a broad range of products in four major product areas:

synthetic fibers,

resins and plastics,

intermediate petrochemicals, and

petroleum products.

Based on 2017 sales volumes, we are a leading Chinese producer of synthetic fibers and resins and plastic products. We believe that we are also a leading competitor in sales of petroleum products and intermediate petrochemicals in our regional markets.

Our net sales by business lines as a percentage of total net sales in each of 2015, 2016 and 2017 are summarized as follows:

**Net Sales of RMB67,037.2 million in 2015**

|                                   |                |
|-----------------------------------|----------------|
| Synthetic fibers                  | 3.47%          |
| Resins and plastics               | 14.91%         |
| Intermediate petrochemicals       | 13.92%         |
| Petroleum products                | 45.95%         |
| Trading of petrochemical products | 20.46%         |
| Others                            | 1.29%          |
| <b>Total</b>                      | <b>100.00%</b> |

**Net Sales of RMB65,936.5 million in 2016**

|                                   |                |
|-----------------------------------|----------------|
| Synthetic fibers                  | 2.81%          |
| Resins and plastics               | 14.86%         |
| Intermediate petrochemicals       | 13.39%         |
| Petroleum products                | 36.40%         |
| Trading of petrochemical products | 31.22%         |
| Others                            | 1.32%          |
| <b>Total</b>                      | <b>100.00%</b> |





**Table of Contents****Net Sales of RMB79,218.3 million in 2017**

|                                   |                |
|-----------------------------------|----------------|
| Synthetic fibers                  | 2.53%          |
| Resins and plastics               | 12.90%         |
| Intermediate petrochemicals       | 12.71%         |
| Petroleum products                | 40.90%         |
| Trading of petrochemical products | 29.91%         |
| Others                            | 1.05%          |
| <b>Total</b>                      | <b>100.00%</b> |

We derive a substantial portion of our revenues from customers in Eastern China (principally Shanghai and its six neighboring provinces), an area that has experienced economic growth above the national average in recent years. Shown by geographic region and exports, our net sales by business lines as a percentage of total net sales for each of 2015, 2016 and 2017 are as follows:

**2015 Net Sales by Region (%)**

|                                   | Eastern China | Other parts of China | Exports |
|-----------------------------------|---------------|----------------------|---------|
| Synthetic fibers                  | 88.42         | 11.58                | 0.00    |
| Resins and plastics               | 88.59         | 11.41                | 0.00    |
| Intermediate petrochemicals       | 95.60         | 1.51                 | 2.89    |
| Petroleum products                | 99.55         | 0.45                 | 0.00    |
| Trading of petrochemical products | 46.33         | 23.94                | 29.73   |
| Total net sales                   | 88.67         | 6.26                 | 5.07    |

**2016 Net Sales by Region (%)**

|                                   | Eastern China | Other parts of China | Exports |
|-----------------------------------|---------------|----------------------|---------|
| Synthetic fibers                  | 86.58         | 12.40                | 1.02    |
| Resins and plastics               | 91.49         | 8.50                 | 0.01    |
| Intermediate petrochemicals       | 97.77         | 1.07                 | 1.16    |
| Petroleum products                | 90.98         | 9.02                 | 0.00    |
| Trading of petrochemical products | 36.53         | 9.52                 | 53.95   |
| Total net sales                   | 76.69         | 8.03                 | 15.28   |

**2017 Net Sales by Region (%)**

|                                   | Eastern China | Other parts of China | Exports |
|-----------------------------------|---------------|----------------------|---------|
| Synthetic fibers                  | 88.07         | 11.93                | 0.00    |
| Resins and plastics               | 92.75         | 7.25                 | 0.00    |
| Intermediate petrochemicals       | 96.52         | 2.25                 | 1.23    |
| Petroleum products                | 91.99         | 3.81                 | 4.20    |
| Trading of petrochemical products | 40.86         | 47.49                | 11.65   |
| Total net sales                   | 92.68         | 7.13                 | 0.19    |

**Business Strategy**

In 2018, we will continue our efforts to ensure high quality and effectiveness in our production. We will also endeavor to maintain the safety and environmental protection standards while realizing sustained promising operating results in 2018. We will seek to further deepen system optimization, lower costs and enhance efficiency in order to maintain our sustainable growth.



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To achieve our business objectives in 2018, we will strive to fulfill the following goals:

Strengthening efforts in safety and environmental protection works

Strengthening the production and operation management

Intensifying the progress of system optimization and cost/expenditure reduction

Fostering project construction, technological advancement and information technology

Further enhancement of internal management

**Table of Contents***Principal Products*

We produce four principal types of products with different specifications, including synthetic fibers, resins and plastics, intermediate petrochemicals and petroleum products. We use many of the important petroleum products and intermediate petrochemicals we produce in producing our own downstream products.

The following table shows a comparison of the production volume and sales volume in 2016 and 2017 by our major products.

| Products                           | Production               |                       |                        | Sales                    |                       |                        |
|------------------------------------|--------------------------|-----------------------|------------------------|--------------------------|-----------------------|------------------------|
|                                    | 2017<br>(10,000<br>tons) | 2016<br>(10,000 tons) | Year-on-year<br>change | 2017<br>(10,000<br>tons) | 2016<br>(10,000 tons) | Year-on-year<br>change |
| Diesel <sup>Note 1</sup>           | <b>386.38</b>            | 388.22                | -0.47%                 | 338.87                   | 280.70                | 20.72%                 |
| Gasoline                           | <b>316.61</b>            | 287.87                | 9.98%                  | 317.15                   | 285.01                | 11.28%                 |
| Jet Fuel <sup>Note 1</sup>         | <b>157.41</b>            | 159.83                | -1.51%                 | 75.13                    | 55.91                 | 34.38%                 |
| Paraxylene                         | <b>63.29</b>             | 67.06                 | -5.62%                 | 41.32                    | 46.60                 | -11.33%                |
| Benzene <sup>Note 2</sup>          | <b>34.06</b>             | 37.27                 | -8.61%                 | 31.97                    | 35.91                 | -10.97%                |
| Ethylene Glycol                    | <b>41.11</b>             | 36.14                 | 13.75%                 | 29.34                    | 24.37                 | 20.39%                 |
| Ethylene Oxide                     | <b>14.64</b>             | 14.84                 | -1.35%                 | 14.25                    | 14.59                 | -2.33%                 |
| Ethylene <sup>Note 2</sup>         | <b>76.69</b>             | 82.56                 | -7.11%                 | 0.55                     | 3.75                  | -85.33%                |
| Polyethylene                       | <b>47.13</b>             | 53.10                 | -11.24%                | 46.25                    | 53.51                 | -13.57%                |
| Polypropylene                      | <b>48.18</b>             | 49.23                 | -2.13%                 | 44.02                    | 45.40                 | -3.04%                 |
| Polyester Pellet <sup>Note 2</sup> | <b>41.26</b>             | 41.56                 | -0.72%                 | 31.52                    | 29.83                 | 5.67%                  |
| Acrylic                            | <b>13.19</b>             | 14.05                 | -6.12%                 | 13.26                    | 14.06                 | -5.69%                 |
| Polyester Staple                   | <b>4.58</b>              | 6.47                  | -29.21%                | 3.93                     | 6.08                  | -35.36%                |

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

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

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

The following table shows our 2017 net sales by major products as a percentage of total net sales together with the typical uses of these products.

| Product                    | % of net sales | Typical Use   |
|----------------------------|----------------|---|
| <b>SYNTHETIC FIBERS</b>    |                |   |
| Polyester staple fiber     | 0.22%          | Textiles and apparel  |
| Acrylic staple fiber       | 2.11%          | Cotton type fabrics, wool type fabrics  |
| Others                     | 0.20%          |   |
| <b>Sub-total</b>           | <b>2.53%</b>   |   |
| <b>RESINS AND PLASTICS</b> |                |   |
| Polyester chips            | 2.57%          | Polyester fibers, films and containers  |
| Polypropylene pellets      | 5.36%          | Films, ground sheeting, wire and cable compound and other injection molding products such as housewares and toys              |
| Polypropylene pellets      | 4.38%          | Films or sheets, injection molding products such as housewares, toys and household electrical appliances and automobile parts |
| Polyvinyl alcohol ( PVA )  | 0.13%          | PVA fibers, building coating materials and textile starch   |
| Others                     | 0.46%          |   |
| <b>Sub-total</b>           | <b>12.90%</b>  |   |

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| Product                            | % of net sales | Typical Use   |
|------------------------------------|----------------|---|
| <b>INTERMEDIATE PETROCHEMICALS</b> |                |   |
| Ethylene                           | 0.06%          | Feedstock for polyethylene, ethylene glycol, polyvinyl chloride and other intermediate petrochemicals which can be further processed into resins, plastics and synthetic fiber. |
| Ethylene oxide                     | 1.45%          | Intermediate products for the chemical and pharmaceutical industry, including dyes, detergents and adjuvant   |
| Benzene                            | 2.23%          | Intermediate petrochemical products, styrene, plastics, explosives, dyes, detergents, epoxies and polyamide fiber   |
| Paraxylene                         | 2.93%          | Intermediate petrochemicals and polyester   |
| Butadiene                          | 1.20%          | Synthetic rubber and plastics   |
| Ethylene glycol                    | 2.26%          | Fine chemicals  |
| Others                             | 2.58%          |   |
| <b>Sub-total</b>                   | <b>12.71%</b>  |   |
| <b>PETROLEUM PRODUCTS</b>          |                |   |
| Gasoline                           | 17.15%         | Transportation fuels  |
| Diesel                             | 14.75%         | Transportation fuels and agricultural machinery fuels   |
| Jet Fuel                           | 3.29%          | Transportation fuels  |
| Others                             | 5.71%          |   |
| <b>Sub-total</b>                   | <b>40.90%</b>  |   |
| Trading of petrochemical products  | 29.91%         |   |
| Others                             | 1.05%          |   |
| <b>Total</b>                       | <b>100.00%</b> |   |

The following table provides a detailed description of our major products by industry segment, primary upstream raw materials, transport and storage method, primary downstream application fields and key price-influencing factors:

| Product  | Industry segment            | Primary upstream raw | Transport/storage                                  | Primary downstream                                | Key price-influencing                                |
|----------|-----------------------------|----------------------|--|---|--|
|          |                             | material             | method   | application fields                                | factors  |
| Diesel   | Petroleum products          | Petroleum            | Pipeline transportation and shipping/storage tank  | Transportation fuel, agricultural machinery fuel  | International crude oil price, government control    |
| Gasoline | Petroleum products          | Petroleum            | Pipeline transportation and shipping/ storage tank | Transportation fuel                               | International crude oil price, government control    |
| Jet Fuel | Petroleum products          | Petroleum            | Pipeline transportation and shipping/ storage tank | Transportation fuel                               | International crude oil price, supply-demand balance |
| PX       | Intermediate petrochemicals | Naphtha              | Road transportation/ storage tank                  | Intermediate petrochemical products and polyester | Raw material price, supply-demand balance            |

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| <b>Product</b>  | <b>Industry segment</b>        | <b>Primary upstream raw material</b> | <b>Transport/storage method</b>             | <b>Primary downstream application fields</b>   | <b>Key price-influencing factors</b>                                   |
|-----------------|--------------------------------|--------------------------------------|---|--|--|
| Benzene         | Intermediate<br>petrochemicals | Naphtha                              | Road transportation,                        | Intermediate   | International crude  |
|                 |                                |                                      | shipping, rail                              | petrochemical  | oil price, market  |
|                 |                                |                                      | transportation/<br>storage tank             | products, styrene,<br>plastic, explosive,<br>dye, detergent,<br>epoxy resin,<br>chinlon  | supply-demand<br>condition   |
|                 |                                |                                      |   |  |  |
| Ethylene Glycol | Intermediate<br>petrochemicals | Naphtha                              | Road transportation/<br>storage tank        | Fine Chemicals<br>engineering  | International crude<br>oil price, market<br>supply-demand<br>condition |
|                 |                                |                                      |   |  |  |
|                 |                                |                                      |   |  |  |
| Ethylene Oxide  | Intermediate<br>petrochemicals | Naphtha                              | Road transportation,<br>pipeline            | Chemical and<br>medical industry   | International crude<br>oil price, market                               |
|                 |                                |                                      | transportation/ storage<br>tank             | intermediate<br>products, including<br>dyes, detergents  | supply-demand<br>condition   |
|                 |                                |                                      |   | and auxiliary  |  |
|                 |                                |                                      |   |  |  |
| Ethylene        | Intermediate<br>petrochemicals | Naphtha                              | Road transportation,<br>pipeline            | Polypropylene,<br>ethylene glycol,<br>polyvinyl chloride and<br>other raw  | International crude<br>oil price,<br>supply-demand balance             |
|                 |                                |                                      | transportation,<br>shipping/storage<br>tank | material for further<br>processing of<br>intermediate<br>petrochemical<br>products such as<br>resins, plastics and<br>synthetic fibers |  |
|                 |                                |                                      |   |  |  |
|                 |                                |                                      |   |  |  |
|                 |                                |                                      |   |  |  |
|                 |                                |                                      |   |  |  |

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|                 |                     |                      |   |   |  |
|-----------------|---------------------|----------------------|---|---|--|
| Polypropylene   | Resins and plastics | Ethylene             | Road transportation,<br>shipping and rail<br>transportation/<br>warehousing | Film, mulching film,<br>cable insulation<br>material and<br>housewares, toys<br>injection moulding<br>products        | Raw material price<br>and market<br>supply-demand<br>condition |
| Polypropylene   | Resins and plastics | Propylene            | Road transportation,<br>shipping and rail<br>transportation/<br>warehousing | Film, mulching film,<br>housewares,<br>toys, household<br>appliances and<br>auto parts injection<br>moulding products | Raw material price<br>and market<br>supply-demand condition    |
| Polyester chips | Resins and plastics | PTA, ethylene glycol | Road transportation,<br>shipping and rail<br>transportation/<br>warehousing | Polyester fiber or<br>film, container   | Raw material price<br>and market<br>supply-demand<br>condition |
| Acrylics        | Synthetic fibers    | Acrylonitrile        | Road transportation,<br>shipping and rail<br>transportation/<br>warehousing | Simple spinning or<br>blend with other<br>material for texture<br>or acrylic top                                      | Raw material price<br>and market<br>supply-demand condition    |
| Polyester       | Synthetic fibers    | Polyester            | Road transportation,<br>shipping and rail<br>transportation/<br>warehousing | Texture, apparel  | Raw material price<br>and market<br>supply-demand condition    |



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*Production Processes*

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

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### ***Intermediate Petrochemicals***

**Ethylene** Ethylene is either directly processed into polypropylene resins or processed into other intermediate petrochemicals. The most important of these is MEG. MEG is a key ingredient in polyester. It is produced by oxidizing ethylene in the ethylene oxide /ethylene glycol unit. Ethylene is also used to produce vinyl acetate which is processed into PVA.

**Propylene** Propylene is either processed directly into polypropylene resins or is further processed into other intermediate petrochemicals such as acrylonitrile, acetonitrile, hydroxyl acetonitrile and sodium cyanide. Acrylonitrile is used in producing acrylics.

**Vacuum gas oil** VGO is passed through the hydrocracker, and the resulting heavy naphtha is fed into the aromatics plants to produce PX and benzene. PX is processed into PTA, one of the principal raw materials in producing polyester.

### ***Resins and Plastics and Synthetic Fibers***

We process our intermediate petrochemical products into five kinds of synthetic fiber raw materials: (1) polyester, (2) acrylonitrile, (3) polypropylene, (4) polyethylene, and (5) PVA. Each of these five products has its own production line or lines. We further process polyester and acrylonitrile into various types of synthetic fibers.

**Polyester** MEG and PTA are fed into a polymerization unit which produces polyester chips and polyester melt. Both chips and melt are used as raw materials in the production of polyester staple and filaments. Some chips are also sold to third parties.

Polyester staple fiber is a multi-strand fiber cut into short lengths which can be spun into fabric on its own or blended with cotton, wool or flax to produce textiles. Polyester filaments are a class of more highly processed polyester materials which have been drawn and oriented to produce a long thread-like fiber.

**Acrylonitrile** We produce polyacrylonitrile by feeding acrylonitrile into a polymerization unit. By passing the polyacrylonitrile through the fiber unit, acrylic fiber and acrylic staple fiber are produced, including cotton and wool type staple fibers. Wool acrylic staple fiber can be processed into acrylic wool strips.

**Polypropylene** We produce polypropylene resins by feeding propylene into a polymerization unit. Our fiber grade polypropylene resin is the main ingredient for polypropylene fiber production.

**Polyethylene** We have three sets of units producing polypropylene, two of which produce low-density polyethylene ( LDPE ) using the kettle type process, and the other unit produces all density polypropylene products using the Borstar bimodal process.

**PVA** PVA granules are produced from vinyl acetate, derived from ethylene.

### ***Raw Materials***

In 2017, we continued to strengthen our advantages in refining and chemical integration and leverage the strong adaptability of our refining plants to process more high-sulfur crude oil; we used a Process Industry Modeling System to determine the cost performance of crude oil to further improve the cost control of crude oil purchases; and the total volume of the top ten main types of oil purchased in the whole year of 2017 accounted for 100% of the total purchase of crude oil, and as a result of the increased concentration, the overall cost of crude oil we purchased reduced.

To enhance the overall profitability, we optimized our ethylene cracking stocks, adjusted and improved our natural gas and fuel gas structure, optimized our hydrogen system, reduced the emission and increased the efficiency of flare gas, increased the outputs of gasoline and aviation kerosene, and optimized naphtha, residual oil and wax oil processing lines. By reducing the output of paraxylene, we increased our supply of high-octane gasoline blending components to produce more gasoline. By substituting aviation kerosene hydrogenation for diesel hydrogenation and upgrading the quality of 3.3 million tons of diesel through hydrogenation, we further optimized the structure of our finished oil products, achieving a diesel to gasoline ratio of 1.22:1 for 2017. We strengthened our tracking of the margin contribution of our units, and continuously carried out daily profitability measurement for each product so as to promptly detect changes in profitability, quickly adjust the load and running schedule of our production units and afford priority to the production of products with high profitability and market demand.

### ***Crude Oil***

Crude oil is our primary raw material and the most significant raw material we purchase from outside sources. In 2017, crude oil accounted for approximately 45.45% of our total cost of sales. Accordingly, the supply and price of crude oil are key factors in determining our profitability.

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*Supply and Transportation* All crude oil required by us, whether from domestic or foreign sources, is purchased through the channels of Sinopec Corp. as an agent. During 2017, we did not experience any significant problems in obtaining sufficient crude oil to meet our production needs.

Sinopec Group is responsible for preparing an annual plan on demand and supply for crude oil and petroleum products that forms the basis of the Chinese government's annual balancing plan which effectively dictates our planned volume of crude oil processing in each year. Likewise, under the balancing plan, some of our petroleum products are designated for sale to the subsidiaries of Sinopec Group or other designated customers at market prices and we must consult Sinopec Group to sell elsewhere.

We have received confirmation from Sinopec Corp. that it will purchase on our behalf 14.35 million tons of imported crude oil in 2018. Sinopec Corp. has further confirmed that, subject to China's national crude oil policy and our actual production needs, it will continue to purchase on our behalf sufficient quantities and appropriate types of crude oil, including domestic offshore and imported crude oil, to satisfy our anticipated annual needs. We anticipate that we will fully utilize our supply of crude oil in 2018. We believe that the mix of crude oil feedstock currently available is satisfactory for our 2018 production capacity and targets. Additionally, as part of China's commitment at its accession into WTO, certain non-state-owned enterprises have been granted an increasing amount of quota to import crude oil. Although we do not expect to obtain crude oil through this channel in the foreseeable future due to the current crude oil supply system, this may provide us with an alternative source of crude oil supply.

*Crude Oil Mix* Our refining equipment is designed to process certain grades of crude oil. Therefore, the origin and quality of the crude oil available can be important to our business. We believe that as we have been significantly increasing usage of imported crude oil, we will continue to be able to obtain from the market such imported crude oil that is compatible with our refining equipment. The overall mix of foreign versus domestic crude oil we process in 2018 will depend on a variety of factors, including the amount of future supply of domestic offshore crude oil and the availability, price, quality, processing profitability and compatibility with our refining capabilities of imported crude oil. Provided there are no significant modifications to the existing channels of crude oil supply, we believe that sufficient supplies of crude oil will be available on the domestic or international markets for our 2018 production capacity and goals.

In 2017, our crude oil was sourced as follows:

|                             |                |
|-----------------------------|----------------|
| Domestic offshore crude oil | 0.97%          |
| Imported crude oil          | 99.03%         |
| <b>Total:</b>               | <b>100.00%</b> |

We expect that we will continue to rely principally on foreign sources for our crude oil supply. However, we believe that we will be able to maintain our processing efficiency through technological adjustments of our equipment and quality control and that increased use of imported oil will not materially adversely impact our business and results of operations.

Foreign and domestic offshore crude oil is supplied by tanker and pipeline to our oil terminal wharf and oil storage tank. See [Item 4.D. Property, Plants and Equipment -Wharfs](#).

In the past, we have not experienced disruption in our crude oil supply. We have on-site crude oil storage tanks at Chenshan wharf capable of storing approximately 300,000 cubic meters of crude oil, primarily to provide crude oil to our No. 2 atmosphere vacuum distillation facility. This crude oil storage can provide us with approximately a 2-week supply of crude oil. The crude oil for our No. 3 atmosphere vacuum distillation facility is mainly supplied from the Ningbo-Shanghai-Nanjing oil pipeline. Due to our ability to obtain crude oil from multiple sources, we are able to meet our normal requirements for crude oil.

*Pricing* The price of domestic crude oil shall apply the market adjusted rate and the imported crude oil is generally sold to us at prevailing international market prices. The average cost of imported crude oil and domestic offshore crude oil in 2017 was RMB2,577.75 (U.S.\$ 396.19) per ton and RMB2,969.06 (U.S.\$456.34) per ton, respectively. In 2017, we processed 14.24 million tons of imported crude oil and 0.12 million tons of domestic offshore crude oil (including 1.61 million tons of crude oil processed on a sub-contract basis).

Until March 2001 the Chinese government implemented a unified pricing system for crude oil. Each month, the National Development and Reform Commission ( NDRC ) established an indicative price for each grade of domestic onshore crude oil based on comparable international market prices, inclusive of any duties that would have been imposed had the oil been imported. The actual price for domestic onshore oil would

be such indicative price plus a surcharge. This surcharge was determined by China National Petroleum Corporation and Sinopec Group to reflect any transportation and other miscellaneous costs that would have been incurred in having the oil delivered to various refineries. Beginning March 2001, NDRC ceased publishing an indicative price. Instead, the indicative price for domestic onshore oil has been calculated and determined directly by China National Petroleum Corporation and Sinopec Group based on the principles and methods formerly applied by NDRC.

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On January 13, 2016, NDRC issued the *Circular on Several Issues on Further Improving the Pricing Mechanism of Refined Oil* (Fa Gai Jia Ge [2016] No. 64) to adjust the existing refined oil pricing mechanism, which include, among other things, (i) setting a price floor of U.S.\$40 for the downward adjustment of the crude refined oil. When the international crude oil price drops to U.S.\$40 per barrel or below, i.e., the adjustment price floor, the refined oil price in China shall no longer be adjusted downwards; and (ii) creating a reserve for risks associated with the adjustment and control of oil prices. When the international crude oil price drops to U.S.\$40 per barrel or below, all unadjusted amount shall be allocated to the reserve abovementioned for use for the purpose of energy saving or reduction of emission, improving the oil quality and securing a safe supply of oil.

We purchase crude oil through Sinopec Corp. and its affiliates from the sources selected and in the quantities confirmed by the Company at market prices. On this basis, we believe that changes in crude oil prices should not have a material effect on our competitiveness with other domestic producers. Nevertheless, any increase in the price of crude oil could have an adverse impact on our profitability to the extent that we are unable to pass cost increases on to our customers.

In 2017, the world economy had shown strong recovery with accelerated growth of developed economies and overall growth rally of emerging and developing economies. Price of global commodity had steadily risen and international trade had picked up growth. In 2017, the average West Texas Intermediate crude oil price on the U.S. mercantile exchanges was U.S.\$50.92/barrel, representing an increase of 17.44% from U.S.\$ 43.36/barrel in 2016. In 2017, the average price of Brent crude oil on the London Intercontinental Exchange was U.S.\$54.79/barrel, representing an increase of 22.99% from U.S.\$ 44.55/barrel in 2016; and in 2017, the average price of crude oil in Dubai was U.S.\$53.45/barrel, representing a decrease of 27.47% from U.S.\$ 41.93/barrel in 2016.

For the year ended December 31, 2017 we processed a total of 14.4 million tons of crude oil (including 1.6 million tons of crude oil processed on a sub-contract basis), representing a slight increase of 50,000 tons, or 0.35%, over the previous year. Of the crude oil we processed in 2017, domestic offshore oil accounted for 0.12 million tons and imported crude oil accounted for 14.24 million tons. After the launching of the refinery revamping and expansion project as part of Phase 6 Project in 2012, we enhanced the adaptability of the crude oil and significantly improved the ability to process the relatively low-cost high-sulfur crude oil in 2017. The average unit cost of crude oil processed (by us) in 2017 was RMB2,581.35/ton (RMB1,979.58 /ton in 2016), representing an increase of 30.40% over the previous year. Our total cost of crude oil processed reached RMB32.90 billion in 2017, representing an increase of 41.89% as compared to RMB23.19 billion in 2016, which represented 45.45% of the total cost of sales.

### ***Coal***

Most of the coal used for electricity generation is purchased through a unified system of procurement by Sinopec Corp., and the rest is purchased directly by us from mines. Coal is transported by rail from the mines to Qinhuangdao port and shipped by barge to Jinshanwei where it is delivered to the plant via a wharf and conveyer system. Our cost is primarily dependent on coal price and transportation charges. Although coal may be purchased from alternative sources, railroad transportation must be obtained by allocation from the Chinese government on a monthly basis.

We expect that our total requirement for coal to generate electricity in 2018 will be approximately 2.00 million tons. In 2017, we consumed approximately 1.98 million tons of coal, a decrease from 2016 of 2.01 million tons.

### ***Other Raw Materials***

We produce most of the raw materials used as feedstock for our operations. If any of these raw materials, other than ethylene, becomes unavailable from internal production, we believe that there are sufficient alternative sources at reasonable prices and the unavailability of raw materials from internal sources will not have a significant effect on our operations and profitability.

We purchase some ancillary raw materials from outside sources. These raw materials include natural gas, MX, methanol, ammonia, sodium hydroxide, sulfur, acetone, acrylonitrile, PTA, propylene and a variety of catalytic agents. In 2017, the total cost of these materials accounted for approximately 12.67% of our total cost of sales. We do not expect any difficulties in obtaining a supply of any of these ancillary raw materials in amounts sufficient to meet our needs in the foreseeable future.

### ***Sales and Marketing***

### ***Distribution***

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The distribution of our fuel products is subject to government regulations. We are required to sell certain refined products to the subsidiaries of Sinopec Group or customers designated by Sinopec Group. Since the second half of 2005, Sinopec Group has executed reforms to its system of selling petrochemical products and implemented what it refers to as a Five Consolidations strategy featuring consolidated marketing strategy, consolidated promotion, consolidated logistics optimization, consolidated sales and consolidated branding. As a result, the sales of our major petrochemical products are now conducted in a consolidated manner by sales agents designated by Sinopec Group. However, we have the autonomy to decide on the distribution method of our other products in accordance with market conditions. The products we sold in 2017 that were subject to planned distribution by Sinopec Group, sales by agents and sales based on our own discretion accounted for 55.04%, 36.74% and 8.22%, respectively, of the total products we sold.



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We generally sell our products to larger trading companies and industrial users with whom we have long-standing relationships, including Sinopec Group or customers designated by Sinopec Group. We believe that the transition to sales of major petrochemical products by agents designated by Sinopec Group will increase our distribution efficiency, reduce horizontal competition and enhance our overall bargaining power, by allowing us to benefit from Sinopec Group's extensive and highly specialized sales network. It will also allow us to focus more of our resources on reducing production costs and enhancing our technical support.

We use long term contracts to sell most of our products. We did not experience significant write-offs or defaults on our accounts receivable or other trading accounts in 2017. In general we managed to maintain a stable correlation between production and sales in 2017.

### ***Product breakdown***

*Synthetic Fibers* In 2017, 31.2% of our synthetic fiber products were purchased by provincial and municipal government trading companies that act as intermediaries between us and end-users. No single customer accounted for more than 20% of our sales of synthetic fibers in 2017.

*Resins and Plastics* In 2017, approximately 53.9% of our resins and plastics sales were to provincial and municipal government trading companies and approximately 46.1% were sold to industrial users. No single customer accounted for more than 5% of our sales of resins and plastics in 2017.

*Intermediate Petrochemicals* We sell a variety of intermediate petrochemical products, among which the sale volume of petroleum benzene and paraxylene was relatively high in 2017. SECCO is the principal outside consumer of our petroleum benzene. In 2017, we sold 14.0 million tons of petroleum benzene to SECCO, representing 43.7% of our total 2017 production of such product.

Jiaxing Petrochemical Company Limited and Oriental Petrochemical (Shanghai) Corporation are the principal outside consumers of our paraxylene. In 2017, we sold 0.30 million tons and 0.11 million tons of paraxylene, representing 73.3% and 26.7% of our total 2017 production of such product, to Jiaxing Petrochemical Company Limited and Oriental Petrochemical (Shanghai) Corporation respectively, at prices mutually agreed upon by the relevant parties.

*Petroleum Products* In 2017, our primary gasoline and diesel customer was Sinopec Huadong Sales Company Limited.

*Trading of Petrochemical Products* In 2017, our largest trading customer for petrochemical products was Sinopec Chemical Commercial Holding Company Limited.

### ***Major Suppliers and Customers***

Our top five suppliers in 2017 were China International United Petroleum & Chemical Co., Ltd., Shanghai International Holding Co., Shengyuan Ji (Jiangsu) Industrial Co., Ltd., SECCO and Marubeni Corporation. Total procurement costs involving these five suppliers, which amounted to RMB44,667.0 million, accounted for 66.33% of our total procurement costs for the year. The procurement from the largest supplier amounted to RMB34,819.9 million, representing 51.71% of the total costs of purchases by our Group for the year.

Our top five customers in 2017 were East China Branch of Sinopec Sales Company Limited, Hengli Petrochemical (Dalian) Co., Ltd., SECCO, Hangzhou Huasu Industrial Co., Ltd., China International United Petroleum & Chemical Co. Ltd., total sales to these five customers amounted to RMB51,706.4 million, representing 56.19% of our total turnover for the year. Sales to our largest customer amounted to RMB39,804.0 million, representing 43.26% of our total revenue for the year.

To the knowledge of the Board, among the suppliers and customers listed above, none of the Directors or shareholders of the Company (and their respective close associates) had any interests in Shengyuan Ji (Jiangsu) Industrial Co., Ltd., Shanghai International Holding Co., Marubeni Corporation and Hengli Petrochemical (Dalian) Co., Ltd. and Hangzhou Huasu Industrial Co., Ltd.. China International United Petroleum & Chemical Co. Ltd. and East China Branch of Sinopec Sales Company Limited are subsidiaries of Sinopec Corp., the controlling shareholder of the Company. SECCO is a subsidiary of Sinopec Corp., and an associated company of us.

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### *Product Pricing*

Most of our products are permitted to be sold at market prices. However, four types of petroleum products (gasoline, diesel and jet fuel, and liquefied petroleum gas) that we sell are subject to varying degrees of government pricing control and are, accordingly, sold at prices set by the Chinese government, which may sometimes be below our costs. In 2015, 2016 and 2017, approximately 40.81%, 53.49% and 57.75% of our net sales, respectively, were from products subject to price controls. Price controls may apply to these products in various ways. Such price controls are sometimes applied exclusively to our products, exclusively to our competitors' products or sometimes applied to neither our products nor our competitors' products. The Chinese government has adopted changes to the pricing mechanism for domestic refined oil to be indirectly aligned with international crude oil prices in a controlled manner through use of certain formula(s).

For products that are not subject to price controls, we set our prices with reference to prices in the major Chinese chemical commodities markets in Shanghai and other parts of China. We also monitor pricing developments in major international commodities markets, particularly in Southeast Asia. In most cases, we revise product prices each month, or more frequently during periods of price volatility. Due to our economies of scale, brand recognition and high quality of products, we believe that we can continue to price our products competitively.

### *Competition*

We compete principally in the Chinese domestic market where 94.9% of our products in volume were sold in 2017. In addition, we believe the limitation in transportation infrastructure in China and the difficulties involved in transporting petrochemical products force petrochemical companies in China, including us, to compete primarily on a regional basis. In 2017, 92.7% of our net sales were made to customers in Eastern China.

### *Our Competitive Advantages*

We believe our primary competitive advantages are quality of product, pricing, brand recognition, geographic location and vertical integration. We have received many prizes and awards from both central and local government authorities for high product quality. Furthermore, our location on the outskirts of the densely populated and highly industrialized Shanghai area places us in close proximity to many of our customers. This location also gives us convenient access to ocean transport and inland waterways, which results in a competitive advantage in terms of transportation cost and reliability and punctuality of product delivery.

We believe that our vertical integration in business model represents a significant competitive advantage over non-integrated competitors in China, both in terms of reliability in delivery and price. For most downstream products, our vertical integration results in significant savings on transportation and storage costs which would be incurred by less vertically integrated facilities.

### *The Domestic Competitive Environment*

Prior to 1993, because distribution and pricing of our products were determined in accordance with the state plan, we did not operate in a competitive environment. With the liberalization of control over pricing and product allocation by the Chinese government, competition in the domestic market has been gradually increasing. At the same time, Chinese private enterprises have gradually overcome technological and funding barriers to extend their business from the downstream processing sector to the upstream petrochemical field. These enterprises have advantages in many areas such as flexibility in operation costs, preferential policy treatment and regional presence, and may use these advantages to compete with us in markets for our products.

### *Foreign Competition and the World Trade Organization*

China joined the WTO on December 11, 2001. As part of its membership commitments, China agreed to eliminate certain tariff and non-tariff barriers to foreign competition in the domestic petrochemical industry that benefited us in the past. In accordance with its WTO commitments, China:

has reduced tariffs on imported petrochemicals products that compete with ours;

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increased levels of permitted foreign investment in the domestic petrochemicals industry, allowing foreign investors to own 100% of a domestic petrochemicals company from December 11, 2004;

has gradually relaxed restrictions on the import of crude oil by non-state owned companies;

has granted foreign-owned companies the right to import petrochemical products; and

has permitted foreign-owned companies to distribute and market fuel products in both retail and wholesale markets in China.

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As a result of these measures, we are facing increasing competition from foreign companies and imports. On the other hand, we think that China's WTO entry and increasing foreign investments in China have contributed and will continue to contribute to the growth of investment and business in China, resulting in an increase in sales opportunities for us.

***Our Competitive Position***

In the following discussion, internal consumption of resins and intermediate petrochemicals produced by integrated manufacturers in the production of downstream products are treated as sales.

***Synthetic Fibers***

In 2017, we had an approximate 0.44% share of total domestic polyester and acrylic consumption while imports had an approximate 1.18% share.

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The following table summarizes the competitive position of our principal synthetic fibers according to domestic sales in 2017.

| Product | Our share of domestic consumption (%) | Our competitive ranking | Location of principal domestic competitor | Principal domestic competitor's share of consumption (%) | Imports share of consumption (%) |
|---------|---------------------------------------|-------------------------|---|--|----------------------------------|
| Acrylic | 16.4%                                 | 2                       | Jilin Province                            | 29.7%  | 18.3%                            |

Sources: Zhuochuang Information ([www.chem99.com](http://www.chem99.com)).

*Resins and Plastics*

In 2017, we had an approximate 2.93% share of total domestic resins and plastics consumption while imports had an approximate 25.13% share. The following table summarizes the competitive position of our principal resins and plastics products according to domestic sales in 2017.

| Product         | Our share of domestic consumption (%) | Our competitive ranking | Location of principal domestic competitor | Principal Domestic competitor's Share of consumption (%) | Imports share of consumption (%) |
|-----------------|---------------------------------------|-------------------------|---|--|----------------------------------|
| Polyester chips | 3.25%                                 | 3                       | Jiangsu Province                          | 8.25%  | 1.39%                            |
| Polypropylene   | 1.81%                                 | 18                      | Guangdong Province                        | 2.41%  | 44.83%                           |
| Polypropylene   | 2.19%                                 | 15                      | Guangdong Province                        | 3.01%  | 14.34%                           |

Sources: Zhuochuang Information ([www.chem99.com](http://www.chem99.com)).

*Intermediate Petrochemicals*

In 2017, we were one of the largest sellers of intermediate petrochemicals in China, holding an approximate 3.24% share of total domestic consumption, while imports had an approximate 26.68% share of domestic consumption. Ethylene glycol, paraxylene, benzene and butadiene are our major intermediate petrochemical products. In 2017, we were a major producer of ethylene glycol, paraxylene and benzene in China. The following table summarizes the competitive position of our principal intermediate petrochemicals according to domestic sales in 2017.

| Product         | Our share of domestic consumption (%) | Our competitive ranking | Location of principal domestic competitor | Principal Domestic competitor's Share of consumption (%) | Imports share of consumption (%) |
|-----------------|---------------------------------------|-------------------------|---|--|----------------------------------|
| Ethylene glycol | 2.85%                                 | 6                       | Zhejiang Province                         | 3.93%  | 60.57%                           |
| Paraxylene      | 2.65%                                 | 13                      | Jiangsu Province                          | 3.59%  | 60.56%                           |
| Benzene         | 3.09%                                 | 1                       | Zhejiang Province                         | 2.25%  | 23.02%                           |
| Butadiene       | 3.27%                                 | 18                      | Zhejiang Province                         | 5.27%  | 11.99%                           |

Sources: Zhuochuang Information ([www.chem99.com](http://www.chem99.com)).

*Petroleum Products*

In 2017, we had an approximate 2.38% share of total domestic petroleum products market while imports had an approximate 6.09% share. Although we have one of the largest refining capabilities in China, we use most of our refining capacity to produce feedstock for our own downstream processing of petrochemical products.



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The domestic markets for each of our major petroleum products are geographically concentrated because these markets tend to be highly localized with individual producers controlling a large share of the markets in their locality. In 2017, we sold approximately 92.68% of our petroleum products in Eastern China.

### *Investments*

We established SECCO, a Sino-foreign equity joint venture, in late 2001 with BP and Sinopec Corp., primarily to build and operate a 900,000 ton Rated Capacity ethylene petrochemical manufacturing facility. SECCO completed construction and commenced its manufacturing operations in 2005. In 2009, SECCO had expanded the capacity of certain facilities to 1,090,000 tons of ethylene per annum. We own 20% of the equity interest of SECCO, while BP and Sinopec Corp. own 50% and 30% interests in SECCO, respectively. In October 2017, BP transferred its 50% equity interests in SECCO to a subsidiary of Sinopec Corp., Sinopec Shanghai Gaoqiao Petrochemical Co., Ltd.. As a result of equity transfer, we, Sinopec Corp. and Sinopec Shanghai Gaoqiao Petrochemical Co., Ltd. own 20%, 30% and 50% interests in SECCO, respectively, and SECCO was converted into a PRC domestic company. The registered capital of SECCO is RMB7,800,811,272.00, all of which had been fully contributed by the shareholders in accordance with their equity percentages in SECCO as of October 18, 2017.

In 2017, SECCO achieved a sales revenue of RMB29.18 billion (U.S.\$4.48 billion), representing an increase of 22.67% from its sales revenue of RMB23.78 billion (U.S.\$3.43 billion) in 2016. SECCO produced 1.25 million tons of ethylene in 2017, representing a slight decrease of 0.02 million tons over the previous year. SECCO had a net profit of RMB5.2 billion (U.S.\$799.23 million) in 2017, representing an increase of RMB1.4 billion (U.S.\$218.40 million), or 38.13% over the previous year. The net profit was primarily because SECCO's production facilities were operated safely and stably in 2017 and realized a high production/sale ratio.

### *Environmental Protection*

We are subject to national and local environmental protection regulations, which currently impose a graduated schedule of fees for the discharge of waste substances, require the payment of fines for pollution and provide for the forced closure of any facility that fails to comply with orders requiring it to cease or cure certain environmentally damaging practices. We have established environmental protection systems which consist of pollution control facilities to treat certain of our waste materials and to safeguard against accidents. Because of the nature of our business, however, we store a significant amount of waste substances in the plants and discharge them into the environment after making such waste substances meet the discharge standards. During 2017, we were assessed a total of RMB109.3 million (U.S.\$16.8 million) in fees for discharges of waste substances.

We were subject to various administrative penalties for its violations of the relevant PRC environmental laws and regulations in the past three years. In 2017, we were subject to 19 administrative penalties for violations of the relevant PRC environmental laws and regulations, with fines in a total of RMB3.3 million and ranging from RMB35,000 to RMB650,000.

We believe our environmental protection facilities and systems are adequate for the existing national and local environmental protection regulations. In 2017, we continued to carry out various energy-saving and emissions reduction measures in accordance with the relevant domestic energy conservation and emissions reduction requirements, and achieved all energy-saving and emissions reduction goals set by the Chinese government during the year.

During 2017, the Company's overall level of energy consumption per RMB10,000 of product value was 0.769 ton of standard coal, decreased by 1.03% from the previous year. As compared with 2016, the total volume of chemical oxygen demand discharged was decreased 4.06%, while that of ammonia nitrogen, sulfur dioxide, nitrogen oxides and volatile organic compounds declined by 1.97%, 22.97%, 17.66% and 16.87%, respectively. At the same time, the compliance rate of waste water and waste gas emissions reached 100%, and all hazardous waste was disposed of properly at 100%. The average heat efficiency of heaters increased 0.14% to 92.54% due to the load reduction.

### *Insurance*

We currently participate in a package of insurance coverage plan through Sinopec Group as its controlled subsidiary, which, as of December 31, 2017, was approximately RMB42.4 billion (U.S.\$6.5 billion) on our property and facilities and approximately RMB1.9 billion (U.S.\$0.29 billion) on our inventory. In addition, we maintain insurance policies for such assets as engineering construction projects and products in transit with third-party's commercial insurance company. The Sinopec Group insurance coverage is compulsory and applies to all enterprises controlled by Sinopec Group, pursuant to guidelines of Sinopec Group which may not be legally enforceable against Sinopec Group. Thus, there are uncertainties under Chinese law as to what percentage insurance claims we may demand against Sinopec Group.

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We carry a third party liability insurance with a coverage capped at RMB50 million to cover claims, subject to deductibles, in respect of personal injury, property or environmental damage arising from accidents on our property or relating to our operations other than on our transportation vehicles. We have not had a third party liability claim filed against us during the last five years. Since business interruption insurance is not customary in China, we do not carry such insurance.



**Table of Contents***Cyber Security*

With respect to our internal internet policies on cybersecurity, we have established an information safety management system and issued internal regulations on cybersecurity, internal hardware and data safety systems and we are gradually implementing measures relating to the office environment information safety management, information system access control, protection from any malicious software, and internal review and audit of information safety risks, in order to prevent loss of information due to cybersecurity incidents, network outages or hardware incidents. In 2017, we did not experience any material cybersecurity incidents or related losses.

*Government Regulations*

Following the development of several major oil fields and a growth in demand for petroleum and petrochemical products in China in the early 1970s, the Chinese government organized petroleum refining and petrochemical production and processing plants into large complexes that would permit integrated production of petroleum products, intermediate petrochemicals, resins and plastics, and synthetic fibers.

Although the Chinese government is liberalizing its control over the petroleum and petrochemical industries in China, significant government regulations that limit the business strategies available to us remain. Central government agencies and their local or provincial level counterparts do not own or directly control our production plants. However, they exercise significant control over the petrochemical industry in areas such as pricing, production quotas, quality standards, allocation of raw materials and finished products, allocation of foreign exchange and Renminbi loans for capital construction projects. The Chinese government's intentions with respect to the development objectives and policies for the petrochemical industry are stated as part of the Five Year Plans for National Economic and Social Development formulated every five years. These plans at both the national and Shanghai municipality level have identified the petrochemical industry as a development industry.

Historically, we were supervised by Sinopec, a ministry-level enterprise under the direct supervision of the State Council, China's highest administrative body. As a result of a governmental restructuring in 1998, we became subject to the administration of the State Bureau of Petroleum and Chemical Industry. After its functions were terminated in March 2001, we became subject to the administration of the State Economic and Trade Commission. The State Economic and Trade Commission was dissolved in March 2003 and its function in directing the reform and management of state-owned enterprises was assumed by the State-owned Assets Supervision and Administration Commission, its function in industry planning and policy making was assumed by NDRC, and its functions in administering domestic trade, coordinating and implementing import and export plans of critical industrial products and raw materials were assumed by the Ministry of Commerce. Since then, we have been subject to the industrial oversight of these three governmental agencies at the national level.

As part of this restructuring, Sinopec was also restructured in July 1998. The succeeding entity, Sinopec Group, was authorized to conduct petrochemical business and to control the exploration of crude oil and natural gas and crude oil refining, mainly in the southern and eastern regions of China. China Petroleum and Natural Gas Corporation, another major state-owned petrochemical company, was also restructured, renamed China National Petroleum Corporation and authorized to conduct the same type of business, mainly in the northern and western regions of China. On December 31, 1999, Sinopec Group completed a reorganization pursuant to which certain of its core oil and gas and chemical operations and businesses and related assets and liabilities were transferred to its subsidiary, Sinopec Corp., currently our controlling shareholder.

*Business Operations Relating to Iran and other U.S. Sanctioned Countries*

In 2017, we sourced a small amount of crude oil from Iran through a wholly-owned subsidiary of Sinopec Corp., our controlling shareholder, and such amount represented 3.56% of our total purchase volume of crude oil. Details of the purchase volume and purchase expenses are provided below:

|               | Volume<br>(thousand tons) | % of total | Amount<br>(RMB billion) | % of total |
|---------------|---------------------------|------------|-------------------------|------------|
| <b>Iran</b>   | 452.68                    | 3.56       | 1.12                    | 3.39       |
| <b>Others</b> | 12,268.79                 | 96.44      | 31.94                   | 96.61      |
| <b>Total</b>  | 12,721.47                 | 100.00     | 33.06                   | 100.00     |



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In addition, based on feedback to our inquiries to Sinopec Group, the controlling shareholder of Sinopec Corp., Sinopec Group, directly or indirectly, engaged in a small amount of business activities in Iran such as providing engineering support and designs. Sales revenue from these business activities accounted for 0.00001% of Sinopec Group's total unaudited sales revenue in 2017. Sinopec Corp. engaged in a small amount of trading activities with an Iranian company with net profit of approximately U.S.\$2.32 million in 2017.

We have no performance obligations under any contract to continue to purchase crude oil sourced from Iran in 2018.

**C. Organizational Structure.***Our Subsidiaries*

As of December 31, 2017, our significant subsidiaries are listed below. All of the subsidiaries named below are incorporated in China.

| Subsidiary Name   | Our ownership interest (%) | Our voting power (%) |
|---|----------------------------|----------------------|
| Shanghai Petrochemical Investment Development Company Limited | 100.00                     | 100.00               |
| China Jinshan Associated Trading Corporation                  | 67.33                      | 67.33                |
| Shanghai Jinchang Engineering Plastics Company Limited        | 74.25                      | 71.43                |
| Shanghai Golden Phillips Petrochemical Company Limited        | 60.00                      | 60.00                |
| Zhejiang Jin Yong Acrylic Fiber Company Limited               | 75.00                      | 75.00                |
| Shanghai Jinshan Trading Corporation                          | 67.33                      | 67.33                |
| Shanghai Golden Conti Petrochemical Company Limited           | 100.00                     | 100.00               |

*Sinopec Corp.*

We are a member of a group (defined as a parent and all its subsidiaries) for purposes of the disclosure rules of the Securities and Exchange Commission. The parent company of this group is Sinopec Corp., our controlling shareholder. Sinopec Corp. is operated by separate management and from time to time uses its interest as a shareholder to direct our policies and management.

Sinopec Corp. is the largest integrated petroleum and petrochemical company in China and one of the largest in Asia in terms of operating revenues. Sinopec Corp. is one of the largest refiners, distributors and marketers of gasoline, diesel, jet fuel and most other major refined products in China and Asia with principal markets in the eastern and southern regions of China. Sinopec Corp. is also a producer and distributor of petrochemicals in China and additionally explores, develops and produces crude oil and natural gas principally to supply its refining and chemical operations.

*Subsidiaries*

Details of Sinopec Corp.'s principal subsidiaries are given in the table below. Except for Sinopec Kantons Holdings Limited and Sinopec Overseas Investment Holding Limited, which are incorporated in Bermuda and Hong Kong respectively, all of the below principal subsidiaries are incorporated in China.

| Name of Company | Particulars of issued capital (millions) | Type of legal entity | Percentage of equity held by Sinopec Corp. and its subsidiary (%) | Principal activities              |
|-----------------|--|----------------------|---|-----------------------------------|
|                 | RMB1,400                                 |                      | 100.00  | Trading of petrochemical products |

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|   |           |                 |        |   |
|---|-----------|-----------------|--------|---|
| China Petrochemical International Company Limited |           | Limited company |        |   |
| Sinopec Chemical Sales Company Limited            | RMB1,000  | Limited company | 100.00 | Trading of petrochemical products   |
| Sinopec Marketing Co.                             | RMB28,403 | Limited company | 70.42  | Marketing and distribution of refined petroleum products                              |
| Sinopec Yangzi Petrochemical Company Limited      | RMB13,203 | Limited company | 100.00 | Manufacturing of intermediate petrochemical products and petroleum products           |
| Fujian Petrochemical Company Limited              | RMB6,898  | Limited company | 50.00  | Manufacturing of plastics, intermediate petrochemical products and petroleum products |

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| <b>Name of Company</b>   | <b>Particulars of issued capital (millions)</b> | <b>Type of legal entity</b> | <b>Percentage of equity held by Sinopec Corp. and its subsidiary (%)</b> | <b>Principal activities</b>   |
|--|---|-----------------------------|--|---|
| Sinopec Shanghai Petrochemical Company Limited                             | RMB10,814                                       | Limited company             | 50.44  | Manufacturing of synthetic fibers, Resin and plastics, intermediate petrochemical products and petroleum products |
| Sinopec Kantons Holdings Limited   | HK\$248   | Limited company             | 60.34  | Trading of crude oil and petroleum products   |
| Sinopec Yizheng Chemical Fiber Limited Liability Company                   | RMB4,000  | Limited company             | 100.00   | Production and sale of polyester chips and polyester fibers   |
| Sinopec International Petroleum Exploration and Production Company Limited | RMB8,000  | Limited company             | 100.00   | Investment in exploration, development, production, sales of petroleum and natural gas and other areas            |
| Sinopec Catalyst Company Limited   | RMB1,500  | Limited company             | 100.00   | Production and sale of catalyst products  |
| Sinopec Pipeline Storage & Transportation Company Limited                  | RMB12,000                                       | Limited company             | 100.00   | Pipeline storage and transportation of crude oil  |
| Sinopec Qingdao Refining and Chemical Company Limited                      | RMB5,000  | Limited company             | 85.00  | Manufacturing of intermediate petrochemical products and petroleum products                                       |
| China International United Petroleum & Chemical Company Limited            | RMB3,000  | Limited company             | 100.00   | Trading of crude oil and petrochemical products   |
| Sinopec Hainan Refining & Chemical Company Limited                         | RMB3,986  | Limited company             | 75.00  | Manufacturing of intermediate petrochemical products and petroleum products                                       |
| Sinopec Overseas Investment Holding Limited                                | U.S.\$1,638                                     | Limited company             | 100.00   | Overseas investment and management of equities  |
| Sinopec Lubricant Company Limited  | RMB3,374  | Limited company             | 100.00   | Production and sale of lubricant products, lubricant base oil, and petrochemical materials                        |
| Sinopec Great Wall Energy and Chemical Company Limited                     | RMB22,761                                       | Limited company             | 100.00   | Coal chemical industry investment management, production and sale of coal chemical products                       |
| Sinopec Beihai Refining and Chemical Limited Liability Company             | RMB5,294  | Limited company             | 98.98  | Import and processing of crude oil, production, storage and sales of petroleum and petrochemical products         |
| Sinopec-SK(Wuhan) Petrochemical Company Ltd.                               | RMB6,270  | Limited company             | 65.00  | Production, sales, research and development of ethylene and downstream derivatives                                |
| Sinopec Qingdao Petrochemical Company Limited                              | RMB1,595  | Limited company             | 100.00   | Manufacturing of intermediate petrochemical products and petroleum products                                       |
| Sinopec Zhanjiang Dongxing Petrochemical Company Limited                   | RMB4,397  | Limited company             | 75.00  | Manufacturing of intermediate petrochemical products and petroleum products                                       |
| Sinopec Shanghai Gaoqiao Petrochemical Company Limited                     | RMB10,000                                       | Limited company             | 55.00  | Manufacturing of intermediate petrochemical products and petroleum products                                       |
| Shanghai SECCO Petrochemical Company Limited                               | RMB7,801  | Limited company             | 67.60  | Manufacturing and sales of petrochemical products   |

**Table of Contents****D. Property, Plant and Equipment.***Real Property*

Our corporate headquarters and production facilities, occupying an area of approximately 7.03 square kilometers, are located in Jinshanwei, approximately 75 kilometers from downtown Shanghai. The total gross floor area of all our production and other facilities is approximately 2 million square meters. We own all of the buildings and facilities located at the site. We have the right to use the land upon which our buildings and facilities are located for a term of 50 years beginning in 1993 without the payment of any rent or usage fees other than land use taxes. We also have the right to transfer our land use rights to third parties without any payment to the Chinese government, so long as the use of the land remains the same as when the land use right was granted to us and the terms of the land use right we received will be applicable to any transferees.

*Plants and Facilities*

The following tables set forth the Rated Capacities of our principal production units. The actual production capacity of a production unit can exceed the Rated Capacity and may be further increased without increasing the Rated Capacity through technical improvements or expansion of such unit. The utilization rate of a production unit is based upon the Rated Capacity rather than actual production capacity and may vary with technical enhancements, changes in production management and scheduling of maintenance.

The following table sets forth the Rated Capacities and weighted average utilization rates of our principal production units for petroleum products and intermediate petrochemicals in 2017:

| <b>Production Unit (number of units)</b>   | <b>Rated Capacity (tons)</b> | <b>Utilization Rate (%)</b> |
|--|------------------------------|-----------------------------|
| Crude oil distillation units (2)           | 14,000,000                   | 99.71                       |
| Hydrocracker (2)                           | 3,000,000                    | 92.30                       |
| Ethylene unit                              | 700,000                      | 107.29                      |
| *Aromatics units (2)                       | 835,000                      | 97.09                       |
| PTA unit                                   | 400,000                      | 82.99                       |
| Ethylene oxide / ethylene glycol units (2) | 525,000                      | 87.19                       |
| Cracking and catalyzing                    | 3,500,000                    | 101.50                      |
| Delayed Coking (2)                         | 2,200,000                    | 96.71                       |
| **Diesel oil hydrogenation unit (3)        | 4,500,000                    | 93.51                       |
| C5 segregation unit (2)                    | 205,000                      | 95.53                       |

\* The No. 1 paraxylene unit (23.5 tons/year) ceased operating during 2017, and the average utilization rate was based on production of the No.2. paraxylene unit.

\*\* The upgrade for No.2 diesel oil hydrogenation unit (1.2 million tons/year) was completed at the end of 2016 and its capacity was increased to 650,000 tons/year.

Our two crude oil distillation units were designed and built in China. In 2017, the actual quantity of crude oil we processed was approximately 14.35 million tons. Our hydrocracker uses technology from United Oil Products Corporation of the United States. Our second ethylene unit uses technology from ABB Lummus Global Inc. of the United States. The aromatics unit uses technology from Universal Oil Products Corporation of the United States. The PTA unit uses technology from Mitsui Petrochemical Corporation of Japan. The ethylene oxide / ethylene glycol unit was constructed using technology from Scientific Design Corporation of the United States.

The following table sets forth the Rated Capacities and weighted average utilization rates of our principal production units for resins and plastics and synthetic fibers in 2017:

| <b>Production Unit (number of units)</b> | <b>Rated Capacity (tons)</b> | <b>Utilization Rate (%)</b> |
|--|------------------------------|-----------------------------|
| *Polyester units (3)                     | 550,000                      | 91.33                       |
| ***Polyester staple units (2)            | 158,000                      | 95.60                       |

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|                                |         |        |
|--------------------------------|---------|--------|
| Polyester filament units       | 21,000  | 87.12  |
| Acrylic staple fiber units (3) | 141,000 | 113.19 |
| Polypropylene units (3)        | 408,000 | 96.88  |
| Polypropylene units (3)        | 400,000 | 100.06 |
| Vinyl acetate unit             | 86,100  | 93.27  |

- \* The No.3 polyester unit (100,000 tons/year) ceased operating on September 1, 2013, and the average utilization rate was based on the production of No.1 and the No.2 polyester unit.
- \*\* The No.1 polyester staple unit (4,000 tone/year) ceased operating during 2016.

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Our polyester units use technology from Kanebo Corporation of Japan and E.I. Dupont DeNemours & Co. Inc. of the United States. The polyester staple units use technology from Teijin of Japan and Jima of Germany as well as Chinese technology. The polyester filament units use technology from Murata Manufacturing Company Limited and Teijin Corporation of Japan, Barmag AG of Germany and E.I. Dupont DeNemours & Co. Inc.. We produce polyethylene in three units; two LDPE units which use technology from Mitsubishi Petrochemical Corporation of Japan and BASF LDPE of Germany; and one high-density polypropylene unit uses the Borstar bimodal polyethylene technology from Northern European Chemical Engineering Company.

The acrylic fiber units were built domestically, based on a design of equipment which had been imported into China in the 1960s and that we substantially improved. In 1996, we acquired two additional acrylic fiber units which use technology from the Kawasaki Corporation of Japan. We produce polypropylene in three identical units using technology from Himont Corporation of Italy. The PVA unit uses technology acquired from Kuraray Corporation of Japan.

### *Power Facilities*

Our electricity requirements are currently supplied by our own 425 megawatt coal-fired power plant and petroleum coke power plant. These power plants are designed to provide sufficient power supply needed by our facilities. We are connected to the Eastern China electricity grid, which provides a back-up source of power in case of a shortfall in our self-generated power supply.

### *Other Facilities*

We also have facilities to produce industrial water, steam, hydrogen, oxygen and nitrogen which we use in our production facilities.

### *Maintenance*

We engage in production stoppages for facility maintenance and repairs and implement our routine monthly maintenance and repair plans according to the needs of our production facilities, our requirements for product quality, and our commitment to security and environmental protection. The technicians in our facility management department have responsibility for the daily management of maintenance and repair work. We also outsource facility maintenance and repair projects to qualified contractors.

In 2017, we continued to place emphasis on QHSE by implementing a QHSE responsibility system at each level to strengthen the safety supervision at our operations and construction sites and to improve the QHSE-related performance appraisal. We believe these efforts have resulted in continued improvement in our safety and environmental protection practices. We did not encounter serious accidents involving production safety, environmental pollution or occupational poisoning in 2017. Among the 83 major indicators that measure technical and economic capacity, 41 exceeded those of the previous year while 17 reached advanced levels in our industry.

### *Transportation-Related Fixtures*

Crude oil, our principal raw material, is transported by pipeline and oil tanker to a crude oil terminal wharf and storage tanks. Our products leave the factory by water, rail, road and pipeline. In 2017, approximately 88.7% of our products by sales volume were collected by customers from our premises, and we delivered the balance. Our major ethylene customer is supplied via a pipeline. Some of the products collected by customers were also transported using our facilities.

### *Wharfs*

We own one chemical wharf at Jinshan with five berths of 2,000, 5,000, 8,000, 10,000 and 25,000 tons. We also own a connecting pipeline capable of loading up to approximately 1.4 million tons of chemical products annually onto ocean-going barges and ships. In 2017, products representing 26.6% of total sales volume were shipped from the wharf. We also have a facility to load ships and barges which use the region's inland waterways. In 2017, products representing 1.5% of total sales volume were shipped from these facilities. We believe that we have a competitive advantage because a greater proportion of our products are shipped by water as opposed to rail and truck, which is subject to capacity constraints on China's rail and highway networks. Additionally, we own facilities for receiving crude oil and coal at docks that we own and transporting such materials by pipeline or conveyor to our production facilities.



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***Rail***

We own a railroad loading depot with an annual capacity of 500,000 tons. The depot provides access via a spur line to the national Chinese railway system. In 2017, products representing 0.24% of total sales volume were transported from the factory by rail. Our ability to transport products by rail is limited because of China's overburdened railway system, the allocation of use of which remains strictly controlled by the Chinese government.

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### *Capital Expansion Program*

We have planned or started a number of other principal capital expansion projects. In 2015, 2016 and 2017, we invested RMB0.7 billion, RMB0.8 billion and RMB1.4 billion, respectively, in capital expansion projects. We expect that total investment in the projects described below will be approximately RMB1.2 billion in 2018.

### *Refining Capacity Expansion*

In 2016, we launched No. 2 Diesel Hydrogenation Unit Reconstruction and Diesel Quality Upgrading Project so as to further improve the quality of oil product and perfect oil product structure. In 2017, we launched gasoline upgrade project involving an alkylation plant with a capacity of 300,000 tons/year, which is anticipated to complete in 2019.

### *Expansion of New and Existing Downstream Petrochemical Products*

As a large-scale integrated petrochemical enterprise, we produce a wide range of intermediate and downstream petrochemical products. In order to adapt to the changes in the world's energy market and the development trends in the oil and chemical products market in China, we will seek to further integrate the existing refining, olefin and aromatic processing chains, and further develop our chemical business.

To take advantage of our specialty in producing acrylics fiber and to improve our industrial structure and upgrade certain products, we plan to construct a carbon fiber project with a capacity of 1,500 tons/year. Sinopec Corp. approved the basic design for this project in December 2010; pile foundation construction was commenced in December 2010; civil engineering was commenced in February 2011 and one series of facilities under phase 1 were launched for trial operation in 2012. The construction of the second phase of the project was commenced in December 2017.

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### ***Upgrading Environmental Protection Facilities Projects***

To enhance our capacity for sustainable development and response to the government requirements of environmental protection, we intend to increase our capital expenditures on a series of environmental projects, mainly including transformation project for ultra clean discharge work in cogeneration unit, transformation of No. 2 olefin cracking burner, environmental protection project for airtight decoking at delayed coking unit 2#, transformation project for the obscuration of burning storage areas of our thermoelectricity department. These projects are anticipated to finish in 2018.

### **TEM 4A. UNRESOLVED STAFF COMMENTS.**

None.

### **ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS.**

#### ***General***

You should read the following discussion and analysis in conjunction with our audited financial statements and our selected financial data, in each case, together with the accompanying notes included elsewhere in this annual report. Our audited financial statements have been prepared in accordance with IFRS, as issued by the International Accounting Standards Board.

#### ***Critical Accounting Policies***

The following discussion and analysis of our financial condition and results of operations are based on our consolidated financial statements. The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during 2017. Our financial condition and results of operations are sensitive to accounting methods, assumptions and estimates that underlie the preparation of our financial statements. We based our assumptions and estimates on historical experience and on various other assumptions that we believe to be reasonable and which form the basis for making judgments about matters that are not readily apparent from other sources. On an on-going basis, our management evaluates its estimates. Actual results may differ from those estimates as facts, circumstances and conditions change.

Our principal accounting policies are set forth in Note 2 to our consolidated financial statements. The selection of critical accounting policies, the judgments 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 our financial statements. We believe the following critical accounting policies involve the most significant judgments and estimates used in the preparation of our financial statements.

#### ***Impairments for long-lived assets***

Assets that have an indefinite useful life must be tested annually for impairment. Long term assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. In determining the value in use, expected cash flows generated by the asset or the cash-generating unit are discounted to their present value. We use 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. During the years ended December 31, 2015, 2016 and 2017, we recognized impairment charges on property, plant and equipment and other long-term assets of RMB50 million, RMB254.2 million and RMB118.2 million, respectively.

#### ***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. We review 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 our 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. There were no significant changes in these estimates during the years ended December 31, 2015, 2016 and 2017.

*Inventory management*

At the beginning of every year, the management team determines the appropriate levels of inventories to maintain on the basis of annual production and operating plans, financial budgets and market conditions. Every six months, the management team conducts an inventory status analysis in conjunction with its supply, production, marketing, financial and other departments and develops a plan for keeping inventories at an appropriate level.

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Management assesses the realizability of our inventories based on the estimates of the net realizable value of the inventories at the end of each reporting period. Net realizable 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. We base the estimates on all available information, including the current market prices of the finished goods and raw materials and historical operating costs. Any excess of the cost over the net realizable value of each item of inventories is recognized as a provision for diminution in the value of inventories. If the actual selling prices were to be lower or the costs of completion were to be higher than the estimates, the actual allowance for diminution in value of inventories could be higher than estimated. In addition, management periodically reviews inventory aging information to assess if any obsolete inventories are required to be written down at the period end. Based on our assessments, we recorded write-down of inventories of RMB45 million, RMB76 million and RMB60 million, respectively, for the years ended December 31, 2015, 2016 and 2017. Barring unforeseeable changes that may occur to the current economic environment in either China or worldwide, our management does not anticipate encountering major difficulties with our attempt to realize by the end of 2018 the bulk of our inventories as of December 31, 2017 after deducting for diminution in values.

### *Recognition of deferred tax assets*

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

Deferred tax assets are recognized in respect of temporary deductible differences and the carry forward of unused tax losses. We recognize deferred tax assets only to the extent that it is probable that future taxable profit will be available against the assets which can be realized or utilized. At the end of each reporting period, we assess whether previously unrecognized deferred tax assets should be recognized. The Company recognizes a previously unrecognized deferred tax asset to the extent that it is probable that future taxable profit will allow the deferred tax asset to be utilized. In addition, we assess the carrying amount of deferred tax assets that are recognized at the end of each reporting period. The Company 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 utilized.

In making the assessment of whether it is probable the Company will realize or utilize the deferred tax assets, we primarily rely on the generation of future taxable income to support the recognition of deferred tax assets. In order to fully utilize the deferred tax assets recognized at December 31, 2017, the Company would need to generate future taxable income of at least RMB477 million.

We believe that it is probable that the Company will generate sufficient taxable income before the unused tax losses expire. Favorable factors include the enlargement of crude oil refinery capacity of the Company and the new pricing mechanism in the PRC for setting gasoline and diesel prices to more closely track crude oil costs. Uncertainties which could affect the estimated taxable income include various factors such as the volatility of international crude oil prices and the cyclical nature of the petroleum and petrochemical industry. Upon changes in facts and circumstances, management may conclude that deferred tax assets may not be realizable in future periods, resulting in a future reduction in the carrying amount of a deferred tax asset.

### ***Government Policies***

The impact of government economic, fiscal, and monetary policies can materially affect our financial condition, results of operations, and cash flows (see [Item 3. Key Information - D. Risk Factors](#)).

In particular, we consume large amounts of crude oil to manufacture our products of which more than 95% is typically imported. We attempt to mitigate the effect of increased costs due to rising crude oil prices. However, our ability to pass on these increased costs to our customers is dependent on government regulations, among other factors. Given that the increase of the sales prices of our products can lag behind the increase of crude oil costs, we sometimes fail to completely cover the increased costs by increasing our sales prices, particularly where government regulations restrict the prices of certain of our fuel products such as gasoline, diesel and jet fuel, and liquefied petroleum gas. In 2015, 2016 and 2017, approximately 43.33%, 32.52% and 35.25% of our net sales were from such products subject to price controls. Although the current price-setting mechanism for refined petroleum products in China allows the Chinese government to adjust price in the PRC market when the average international crude oil price fluctuates beyond certain levels within a certain time period (see [Item 4. Information on the Company - B. Business Overview - Product Pricing](#)), the Chinese government still retains discretion as to whether or when to adjust the prices of the refined oil products. The Chinese government generally exercises certain price control over refined oil products once international crude oil prices experience a sustained rise or become significantly volatile. Moreover, the Chinese government controls the distribution of many fuel products in China. For instance, some of our fuel products are required to be sold to designated distributors (such as the subsidiaries of Sinopec Corp.). Because we cannot freely sell our fuel products to take advantage of opportunities for higher prices, we may not be able to fully cover increases in crude oil prices by increases in the sale prices of our products, which has had and will continue to have a material adverse effect on our

financial condition, results of operations and cash flows.

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In addition, the exchange rates between the Renminbi and the U.S. Dollar or other foreign currencies are affected by Chinese government policies. In particular, the value of the Renminbi is only permitted to fluctuate within a narrow and managed band against a basket of certain foreign currencies. The Chinese government continues to receive significant international pressure to liberalize its currency policy. Most of our revenue is denominated in Renminbi, and most of our purchase of crude oil and some equipment and repayment of certain borrowings are made in foreign currencies. Historically, the trend for appreciation of the Renminbi was helpful to us since our imported crude oil purchases constitute such a large portion of our total costs. However, the recent depreciation of the Renminbi increased our costs and affected our capacity of making profits. In addition, any depreciation of the Renminbi could adversely affect the value of the dividends of our H shares and ADSs, which we pay in foreign currencies. Further appreciation in the value of Renminbi against foreign currencies (including the U.S. Dollar) may cause a decrease in the value of our cash and cash equivalents that are denominated in foreign currencies.

**Summary**

The following table sets forth our sales volumes and net sales for the years indicated:

|                                   | Year ended December 31,       |                            |                         |                               |                            |                         |                               |                            |                         |
|-----------------------------------|-------------------------------|----------------------------|-------------------------|-------------------------------|----------------------------|-------------------------|-------------------------------|----------------------------|-------------------------|
|                                   | 2015                          |                            |                         | 2016                          |                            |                         | 2017                          |                            |                         |
|                                   | Sales Volume<br>( ' 000 tons) | Net Sales<br>(RMB million) | % of Total<br>Net Sales | Sales Volume<br>( ' 000 tons) | Net Sales<br>(RMB million) | % of Total<br>Net Sales | Sales Volume<br>( ' 000 tons) | Net Sales<br>(RMB million) | % of Total<br>Net Sales |
| Synthetic fibers                  | 222.2                         | 2,328.2                    | 3.5                     | 202.1                         | 1,855.5                    | 2.8                     | 172.6                         | 2,005.3                    | 2.5                     |
| Resins and plastics               | 1,316.0                       | 9,992.2                    | 14.9                    | 1,341.7                       | 9,797.6                    | 14.9                    | 1,262.4                       | 10,218.4                   | 12.9                    |
| Intermediate petrochemicals       | 2,162.1                       | 9,332.0                    | 13.9                    | 2,055.7                       | 8,827.6                    | 13.4                    | 1,938.5                       | 10,070.2                   | 12.7                    |
| Petroleum products                | 9,268.9                       | 30,802.0                   | 45.9                    | 8,097.9                       | 24,002.6                   | 36.4                    | 9,233.5                       | 32,400.6                   | 40.9                    |
| Trading of petrochemical products |                               | 13,718.2                   | 20.5                    |                               | 20,585.4                   | 31.2                    |                               | 23,697.3                   | 29.9                    |
| Others                            |                               | 864.6                      | 1.3                     |                               | 867.8                      | 1.3                     |                               | 826.5                      | 1.1                     |
| <b>Total</b>                      | <b>12,969.2</b>               | <b>67,037.2</b>            | <b>100.0</b>            | <b>11,697.4</b>               | <b>65,936.5</b>            | <b>100.0</b>            | <b>12,607.0</b>               | <b>79,218.3</b>            | <b>100.0</b>            |

The following table sets forth a summary statement of our consolidated statements of operations for the years indicated:

|                             | Year ended December 31, |                |             |                |             |                |
|-----------------------------|-------------------------|----------------|-------------|----------------|-------------|----------------|
|                             | 2015                    |                | 2016        |                | 2017        |                |
|                             | RMB million             | % of Net sales | RMB million | % of Net sales | RMB million | % of Net sales |
| Synthetic fibers            |                         |                |             |                |             |                |
| Net sales                   | 2,328.2                 | 3.5            | 1,855.5     | 2.8            | 2,005.3     | 2.5            |
| Operating expenses          | (2,684.6)               | (4.0)          | (2,466.4)   | (3.7)          | (2,480.6)   | (3.1)          |
| Segment loss                | (356.4)                 | (0.5)          | (608.9)     | (0.9)          | (475.3)     | (0.6)          |
| Resins and plastics         |                         |                |             |                |             |                |
| Net sales                   | 9,992.2                 | 14.9           | 9,797.6     | 14.9           | 10,218.4    | 12.9           |
| Operating expenses          | (8,773.6)               | (13.1)         | (8,160.0)   | (12.4)         | (8,862.5)   | (11.2)         |
| Segment profit              | 1,218.6                 | 1.8            | 1,637.6     | 2.5            | 1,355.9     | 1.7            |
| Intermediate petrochemicals |                         |                |             |                |             |                |
| Net sales                   | 9,332.0                 | 13.9           | 8,827.6     | 13.4           | 10,070.2    | 12.7           |
| Operating expenses          | (8,375.2)               | (12.5)         | (7,017.6)   | (10.6)         | (7,864.1)   | (9.9)          |
| Segment profit              | 956.8                   | 1.4            | 1,810.0     | 2.7            | 2,206.1     | 2.8            |
| Petroleum products          |                         |                |             |                |             |                |

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|   | Year ended December 31, |                   |                |                   |                |                   |
|---|-------------------------|-------------------|----------------|-------------------|----------------|-------------------|
|   | 2015                    |                   | 2016           |                   | 2017           |                   |
|   | RMB<br>million          | % of<br>Net sales | RMB<br>million | % of<br>Net sales | RMB<br>million | % of<br>Net sales |
| Net sales   | 30,802.0                | 45.9              | 24,002.6       | 36.4              | 32,400.6       | 40.9              |
| Operating expenses  | (28,939.7)              | (43.1)            | (20,189.6)     | (30.6)            | (29,280.6)     | (37.0)            |
| Segment profit  | 1,862.3                 | 2.8               | 3,813.0        | 5.8               | 3,120.0        | 3.9               |
| Trading of petrochemical products                             |                         |                   |                |                   |                |                   |
| Net sales   | 13,718.2                | 20.5              | 20,585.4       | 31.2              | 23,697.3       | 29.9              |
| Operating expenses  | (13,703.0)              | (20.5)            | (20,534.2)     | (31.1)            | (23,636.7)     | (29.8)            |
| Segment profit  | 15.2                    | 0.0               | 51.2           | 0.1               | 60.6           | 0.1               |
| Others  |                         |                   |                |                   |                |                   |
| Net sales   | 864.6                   | 1.3               | 867.8          | 1.3               | 826.5          | 1.1               |
| Operating expenses  | (652.2)                 | (1.0)             | (792.8)        | (1.2)             | (691.9)        | 0.9               |
| Segment profit  | 212.4                   | 0.3               | 75.0           | 0.1               | 134.6          | 0.2               |
| Total   |                         |                   |                |                   |                |                   |
| Net sales   | 67,037.2                | 100.0             | 65,936.5       | 100.0             | 79,218.3       | 100.0             |
| Operating expenses  | (63,128.3)              | (94.2)            | (59,158.6)     | (89.7)            | (72,816.4)     | (91.9)            |
| Profit from operations  | 3,908.9                 | 5.8               | 6,777.9        | 10.3              | 6,401.9        | 8.1               |
| Net financing (costs)/income                                  | (243.8)                 | (0.4)             | 83.7           | 0.1               | 207.3          | 0.3               |
| Investment income   |                         |                   |                |                   |                |                   |
| Share of profit of associates and jointly controlled entities | 572.1                   | 0.9               | 916.8          | 1.4               | 1,243.7        | 1.6               |
| Earnings before income tax                                    | 4,237.2                 | 6.3               | 7,778.3        | 11.8              | 7,852.9        | 10.0              |
| Income tax  | (926.8)                 | (1.4)             | (1,796.8)      | (2.7)             | (1,698.7)      | (2.2)             |
| Net income  | 3,310.4                 | 4.9               | 5,981.5        | 9.1               | 6,154.2        | 7.8               |
| Attributable to:  |                         |                   |                |                   |                |                   |
| Equity shareholders of the Company                            | 3,274.3                 | 4.8               | 5,968.5        | 9.1               | 6,143.2        | 7.8               |
| Non-controlling interests                                     | 36.1                    | 0.1               | 13.0           | 0.0               | 11.0           | 0.0               |
| Net income  | 3,310.4                 | 4.9               | 5,981.5        | 9.1               | 6,154.2        | 7.8               |

Net sales represent sales revenue of the respective segments after sales taxes and surcharges. Operating expenses here represent cost of sales, selling and administrative expenses and other operating expenses /income, as allocated to respective segments. This definition is only applicable for the financial review.

**A. Results of Operations**

In 2017, the world economy had shown strong recovery with accelerated growth of developed economies and overall growth rally of emerging and developing economies. Price of global commodity had steadily risen and international trade had picked up growth. The world economy has grown at a higher rate than in 2016. China had pushed forward supply-side structural reform to continue to release economic vitality, power and potential, which achieved national economy in stable state with good momentum and annual GDP (gross domestic product) growth of 6.9% that was better than expectation. China's petrochemical industry was operated in stable trend with good momentum with basically steady production, overall stable market demands, risen product price and improved industrial efficiency.

In 2017, centered on overall efficiency and profits of the Company, we made great efforts to seize the favorable market situation and actively carried out safety and environmental protection, optimizing operation, market development and cost reduction, which achieved good results in production and operation and created a high level of economic benefits in history.



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*Year ended December 31, 2017 compared with year ended December 31, 2016*

**Net sales**

In 2017, our net sales amounted to RMB79,218.3 million, increased by 20.14 % compared with 2016. The increase was primarily due to the increase in weighted average sales price of our petroleum and petrochemical products, among which, the weighted average prices (exclude tax) of our synthetic fibers, resins and plastics, intermediate petrochemical products and petroleum products increased by 26.60%, 10.85%, 20.97% and 18.39% over the previous year, respectively. The total volume of our products was 12.6 million tons in 2017, representing an increase of 7.7% over the previous year. Our production/sale ratio was 99.80 %, and the trade receivables recovery rate was 100 %. Our total amount of sales from export was RMB13.85 billion, increased by 16.33 % compared with 2016.

*(i) Synthetic fibers*

In 2017, our net sales for synthetic fibers amounted to RMB2,005.3 million, representing an increase of 8.07% compared to RMB1,855.5 million in 2016. The increase was primarily due to the increase in price of synthetic fibers, driven by the increase in cost of raw materials. The continued sluggish downstream demand and under-performing initiatives in raw material procurement yet led to a drop in sales volume. Sales volume for synthetic fibers fell by 14.60% compared with the previous year, while weighted average sales price rose 26.60%. In particular, the weighted average sales price of acrylic fiber, the main product of our synthetic fibers, increased by 17.13%, and the weighted average sales price of polyester fiber increased by 21.75% over the previous year. Sales of acrylic fiber and polyester fiber accounted for 83.52% and 8.57% of the total sales of synthetic fibers, respectively.

The net sales of synthetic fiber products accounted for 2.5% of the total net sales in 2017, representing a decrease of 0.3% as compared to the previous year.

*(ii) Resins and plastics*

The net sales of resins and plastics amounted to RMB10,218.4 million in 2017, representing an increase of 4.30% as compared to RMB9,797.6 million in 2016. The increase in net sales was mainly attributable to the increase in unit price of resin and plastics, driven by the increase in the costs of raw materials. Due to the lower demand in the downstream market, the sales volume of resins and plastics decreased 5.91% as compared to the previous year, while the weighted average sales price rose by 10.84%. In particular, the weighted average sales price of polyethylene, polypropylene and polyester pellet increased by 11.58%, 7.61% and 15.52%, respectively. Sales of polyethylene, polypropylene and polyester pellet accounted for 32.58%, 33.97% and 19.90% of the total sales of resins and plastics, respectively.

The net sales of resins and plastics accounted for 12.9% of total net sales in 2017, representing a decrease of 2.0% as compared to the previous year.

*(iii) Intermediate petrochemicals*

The net sales of intermediate petrochemical products amounted to RMB10,070.2 million in 2017, representing an increase of 14.08% as compared to RMB8,827.6 million in 2016. This was mainly due to the increase in unit price of intermediate petrochemical products resulted from the increase in costs of raw materials. The weighted average sales price increased 20.97% as compared to the previous year. The sales volume decreased 5.7% as compared to the previous year due to the decreased downstream demand. The two factors together drove an increase in net sales. Sales of paraxylene, butadiene, ethylene oxide, benzene and glycol accounted for 23.04%, 9.48%, 11.41%, 17.51% and 17.75% of the total sales of intermediate petrochemical products, respectively.

The net sales of intermediate petrochemicals accounted for 12.7% of the total net sales in 2017, representing a decrease of 0.7% as compared to the previous year.

*(iv) Petroleum products*

The net sales of petroleum products amounted to RMB32,400.6 million in 2017, representing an increase of 34.99% as compared to RMB24,002.6 million in 2016, which was mainly attributable to the increase in prices of refined oil in China driven by the increase in the global crude oil unit price. The weighted average sales price of major products increased by 18.39%, while sales volume increased by 14.02% as compared to the previous year.

The net sales of petroleum products accounted for 40.9% of the total net sales in 2017, representing an increase of 4.5% as compared to the previous year.

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### *(v) Trading of petrochemical products*

The net sales of the trading of petroleum products amounted to RMB23,697.3 million in 2017, representing an increase of 15.12% as compared to RMB20,585.4 million in 2016. The increase is mainly due to the significant growth in sales of Shanghai Jinmao International Trading Company Limited, a subsidiary of the Company, during 2017.

The net sales of trading of petrochemical products accounted for 29.9% of the total net sales in 2017, representing a decrease of 1.3% as compared to the previous year.

### *(vi) Others*

The net sales of others amounted to RMB826.5 million in 2017, representing a decrease of 4.76% as compared to RMB867.8 million in the previous year. This decrease in net sales was mainly due to the decrease in sales of processing business during 2017.

The net sales of others accounted for 1.1% of our total net sales in 2017, representing a decrease of 0.2% as compared to the previous year.

### ***Cost of sales and operating expenses***

Our cost of sales and operating expenses are comprised of cost of sales, selling and administrative expenses, other operating income, other operating expenses and other gains/(losses)-net.

Our cost of sales and operating expenses increased from RMB59,158.6 million in 2016 to RMB72,816.4 million in 2017. Our cost of sales and operating expenses of synthetic fibers, resins and plastics, intermediate petrochemicals, petroleum products, trading of petrochemical products and others were RMB2,480.6 million, RMB8,862.5 million, RMB7,864.1 million, RMB29,280.6 million, RMB23,636.7 million and RMB691.9 million, representing increases of 0.66%, 8.61%, 12.06%, 45.03%, 15.11%, and a decrease of 12.73% as compared to the previous year, respectively as compared to the previous year, respectively. Such increases were primarily due to the increase in cost of raw materials driven by the growth in world crude oil unit price, which substantially increased the cost of sales.

#### ***Cost of sales***

Our cost of sales amounted to RMB72,398.3 million in 2017, increased by 23.27% from RMB58,731.7 million in 2016. Cost of sales accounted for 91.39% of net sales for 2017. The increase in cost of sales was primarily due to the increase in crude oil price in 2017.

#### ***Selling and administrative expenses***

Our selling and administrative expenses amounted to RMB535.3 million in 2017, representing a decrease of 1.98% as compared to RMB546.1 million in the previous year, mainly due to termination of overhead charge of the riverway from April 2017, resulting in a decrease in administrative expenses.

#### ***Other operating income***

Our other operating income amounted to RMB119.0 million in 2017, representing a decrease of 39.69% as compared to RMB197.3 million in the previous year. The significant decrease in other operating income was because the headquarter of the Company did not receive additional refunds of local education fees in Jinshan District, resulting in a decrease of RMB80 million compared with 2016 in government subsidy that was included in other business income.

#### ***Other operating expenses***

Our other operating expenses were RMB21.4 million in 2017, representing a decrease of RMB2.9 million as compared to RMB24.3 million in the previous year.

***Other gains/(losses)-net***

Our other gains net amounted to RMB19.5 million in 2017, representing an increase of RMB73.4 million as compared to other losses net of RMB53.9 million in the previous year. The significant increase in other gains/(losses)-net was primarily due to the net gain on foreign exchange of RMB35.6 million and the decrease of net loss on disposal of property, plant and equipment of RMB29.0 million in 2017.

**Table of Contents*****Profits/(losses) from operations***

Our profit from operations amounted to RMB6,401.9 million in 2017, representing a decrease of RMB376.0 million as compared to RMB6,777.9 million in the previous year. In 2017, there was an increase in costs for all segments generally as compared with those in last year as a result of the increase in average annual price of international crude oil. Despite the subsequent increase in unit price of finished products, the unit purchase price of raw materials increased to a larger extent than the unit price of finished products due to the impact brought by the production cycle and demand of downstream market, leading to a slight fall in profit from operations as compared to last year.

***(i) Synthetic fibers***

Loss from operations of synthetic fibers amounted to RMB475.3 million in 2017, representing a decrease of RMB133.6 million in loss as compared to loss of RMB608.9 million in the previous year. The decrease in loss was primarily due to a 14.63% decrease in the sales volume of synthetic fibers this year compared to the previous year, resulting in a reduction in losses of synthetic fibers this year.

***(ii) Resins and plastics***

Profit from operations of resins and plastics amounted to RMB1,355.9 million in 2017, representing a decrease of RMB281.7 million as compared to RMB1,637.6 million in the previous year. The decrease in operating profit was mainly attributable to the significant increase in costs of raw materials driven by the increase in world crude oil price. The significant price increase in polyethylene and polypropylene and a 4.30% increase in net sales of resins and plastics led to an 8.61% increase in cost of sales and expenses for the period.

***(iii) Intermediate petrochemicals***

Profit from operations of intermediate petrochemical products amounted to RMB2,206.1 million in 2017, representing an increase of RMB396.1 million as compared to RMB1,810.0 million in the previous year. The increase was mainly attributable to an increase of RMB1,242.6 million in net sales of intermediate petrochemicals, while the cost of sales and expenses for the same period rose by RMB846.5 million, leading to a profit growth as compared to the previous year.

***(iv) Petroleum products***

Profit from operations of petroleum products amounted to RMB3,120.0 million in 2017, representing a decrease of RMB693.0 million as compared to RMB3,813.0 million in the previous year. The decrease was mainly attributable to the increase of RMB9,091.0 million in cost of sales and expenses, while the net sales of petroleum products increased RMB8,398.0 million, which resulted in a lower profit during the year..

***(v) Trading of petrochemical products***

Profit from operations of trading of petrochemical products amounted to RMB60.6 million in 2017, representing an increase of RMB9.4 million as compared to RMB51.2 million in the previous year. The increase was mainly attributable to an increase of RMB3,111.9 million in net sales of the trading business, while the cost of sales and expenses for the same period was up by RMB3,102.5 million, leading to a higher profit as compared to the previous year.

***(vi) Others***

Profit from operations of others amounted to RMB134.6 million in 2017, representing an increase of 79.47% as compared to RMB75.0 million in the previous year. The increase in profit was mainly attributable to a decrease of RMB41.3 million in net sales of other products, while cost of sales and expenses for the same period decreased by RMB100.9 million, which led to a growth in profit as compared to the previous year.

***Net financing income/costs***

Our net financing costs were RMB207.3 million in 2017, representing an increase of RMB123.6 million as compared to the net financing costs of RMB83.7 million in the previous year. The increase was mainly due to a significant increase in our bank deposits during 2017, which in turn drove an increase of RMB131.1 million in interest income. In addition, interest expenses increased from RMB53.6 million in 2016 to RMB61.0 million in 2017.



**Table of Contents*****Profit before income tax***

Our profit before taxation was RMB7,852.9 million in 2017, representing an increase of RMB74.6 million, or 1.0% as compared to the profit before taxation of RMB7,778.3 million in the previous year. The increase was mainly due to an increase in our share of profit of associates and jointly controlled entities as a result of the good performance achieved by our associates and jointly controlled entities in 2017.

***Income tax***

Our income tax expenses amounted to RMB1,698.7 million in 2017, representing a decrease of RMB98.1 million as compared to RMB1,796.8 million in the previous year. The decrease was primarily attributable to the tax impact of tax-free investment income generated by us amounted to RMB307.5 million, which increased by RMB81.7 million from RMB225.8 million in the previous year. As a result, the income tax payable by the Company for the current period decreased accordingly.

In accordance with the PRC Enterprise Income Tax Law (amended) which took effect from 1 January 2008, the income tax rate of the Company in 2017 was 25% (2016:25%). However, the effective rate for income tax was 21.63% in 2017, compared to 23.10% in 2016. The relatively low effective income tax rate in 2017 was mainly because that share profit of investments accounted for using the equity method amounted to RMB1,243.7 million in 2017, representing an increase of RMB329.6 million as compared to RMB916.8 million in 2016.

***Net income***

Our net income was RMB6,154.2 million in 2017, representing an increase of RMB172.7 million, or 80.7%, as compared to RMB5,981.5 million in 2016.

*Year ended December 31, 2016 compared with year ended December 31, 2015*

***Net sales***

Primarily due to the decrease in crude oil price, the market prices of petrochemical products dropped in 2016. The excessive production capacity of petrochemical products and the weak demand in domestic and international markets led to intensive market competition. In 2016, our net sales amounted to RMB65,936.5 million, representing a decrease of 1.64%, as compared to RMB67,037.2 million in 2015. The decrease in our net sales was primarily due to the decline in market prices of petrochemical products as a result of the decrease of crude oil price and weak customer demand for our products. The processing volume of crude oil decreased slightly in 2016 considering the domestic demands, which led to a decrease in the sales volume of our petroleum products. For the year ended December 31, 2016, the weighted average prices (excluding tax) of our synthetic fibers, resins and plastics, intermediate petrochemical products, and petroleum products decreased by 12.41%, 3.83%, 0.51% and 10.81% over the previous year, respectively.

***(i) Synthetic fibers***

In 2016, the net sales for synthetic fibers amounted to RMB1,855.5 million, representing a decrease of 20.30% as compared to RMB2,328.2 million in 2015. The decrease was primarily due to the decline in price of synthetic fibers, driven by the decline in crude oil price, and also due to the decline in sales volume because of the continued sluggish downstream demand and under-performing initiatives in raw material procurement. The weighted average sales price of synthetic fibers decreased by 12.41%. While the weighted average sales price of acrylic fiber, the principal synthetic fiber product of our Company, decreased by 13.51%, the weighted average sales price of polyester fiber decreased by 5.99% compared to that of the previous year. The decrease in the weighted average price of acrylic fiber and polyester fiber was primarily due to the decline in cost of raw materials resulted from the decrease in crude oil price. The sales of acrylic fiber and polyester fiber accounted for 79.22% and 14.90% of the total sales of synthetic fibers, respectively. Sales volume of synthetic fibers decreased by 9.02% in 2016 compared to that of the previous year.

The net sales of synthetic fiber products accounted for 2.8% of the total net sales in 2016, representing a decrease of 0.7% as compared to the previous year.

***(ii) Resins and plastics***

The net sales of resins and plastics amounted to RMB9,797.6 million in 2016, representing a decrease of 1.95% as compared to RMB9,992.2 million in 2015. The decrease in net sales was mainly attributable to the decrease in price of resin and plastics, driven by the

decline in crude oil price. The weighted average sales price of resins and plastics fell by 3.83%. Among resins and plastics products, the weighted average sales price of polyethylene for 2016 decreased by 3.23%; the weighted average sales price of polypropylene for 2016 decreased by 4.22%; and the weighted average sales price of polyester pellet for 2016 decreased by 0.58%. The decrease in the weighted average price of polyester pellet was primarily due to the decline in cost of raw materials resulted from the decrease in crude oil price. Sales of polyethylene, polypropylene and polyester pellet accounted for 45.11%, 33.07% and 16.56% of the total sales of resins and plastics, respectively. The sales volume of resins and plastics slightly increased by 1.95% in 2016 as compared to the previous year.



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The net sales of resins and plastics remain stable at 14.9% of total net sales in 2015 and 2016.

### *(iii) Intermediate petrochemicals*

The net sales of intermediate petrochemical products amounted to RMB8,827.6 million in 2016, representing a decrease of 5.41% as compared to RMB9,332.0 million in 2015. The decrease was primarily due to the decline in the price of intermediate petrochemical products, driven by the decline in crude oil price, and also due to the decline in sales volume because of the decreased downstream demand. The weighted average sales price of intermediate petrochemical products decreased by 0.51%. Among the intermediate petrochemicals, the weighted average sales prices of paraxylene, butadiene, ethylene oxide, benzene and glycol decreased by 0.38%, 1.32%, 8.50%, 0.42% and 9.88%, respectively. The decreases in weighted average sales prices of paraxylene, butadiene, ethylene oxide, benzene and glycol were primarily due to the decline in cost of raw materials resulted from the decrease in crude oil price. Sales of paraxylene, butadiene, ethylene oxide, benzene and glycol accounted for 27.01%, 8.76%, 11.58%, 16.99% and 12.7% of the total sales of intermediate petrochemicals, respectively. The sales volume of intermediate petrochemical products decreased by 4.92% in 2016 as compared to the previous year.

The net sales of intermediate petrochemicals accounted for 13.4% of the total net sales in 2016, representing a decrease of 0.5% as compared to the previous year.

### *(iv) Petroleum products*

The net sales of petroleum products amounted to RMB24,002.6 million in 2016, representing a decrease of 22.07% as compared to RMB30,802.0 million in 2015, with the weighted average sales price decreased by 10.81% and the sales volume of petroleum products decreased by 12.63%. The weighted average sales price of petroleum products decreased in 2016 as compared to the previous year primarily due to the decrease in refined oil price in China as a result of the decline in crude oil price. The decrease in sales volume was mainly due to the reduced processing volume of crude oil after taking into account of the domestic demands.

The net sales of petroleum products accounted for 36.4% of the total net sales in 2016, representing a decrease of 9.5% as compared to the previous year.

### *(v) Trading of petrochemical products*

The net sales of the trading of petroleum products amounted to RMB20,585.4 million in 2016, representing an increase of 50.06% as compared to RMB13,718.2 million in 2015. This increase was mainly attributable to the significant growth in sales of Shanghai Jinmao International Trading Company Limited, one of our subsidiaries, during the year.

The net sales of trading of petrochemical products accounted for 31.2% of the total net sales in 2016, representing an increase of 10.7% as compared to the previous year.

### *(vi) Others*

The net sales of others amounted to RMB867.8 million in 2016, which remained stable as compared to RMB864.6 million in 2015.

The net sales of others accounted for 1.3% of our total net sales in 2016, which remained at the same level as the previous year.

## ***Operating expenses***

Our operating expenses are comprised of cost of sales, selling and administrative expenses, other operating income, other operating expenses and other (losses)/gains-net.

Our operating expenses decreased by 6.29% from RMB63,128.3 million in 2015 to RMB59,158.6 million in 2016. Our operating expenses of synthetic fibers, resins and plastics, intermediate petrochemicals, petroleum products, trading of petrochemical products and others were RMB2,464.4 million, RMB8,160.0 million, RMB7,017.6 million, RMB20,189.6 million, RMB20,534.2 million and RMB792.9 million, respectively, representing decreases of 8.20%, 6.99%, 16.21%, 30.24%, and increases of 49.85% and 21.57% as compared to the previous year, respectively. The decreases in costs of sales and expenses of synthetic fibers, resins and plastics, intermediate petrochemicals products and petroleum products were primarily due to the decline in cost of raw materials resulted from the decrease in crude oil price. The increases in the cost of sales of the trading of petrochemical products and others are mainly attributable to the increases in the trading volume of and expansion

of business in crude oil processed on a sub-contract bases.

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**Table of Contents*****Cost of sales***

Our cost of sales amounted to RMB58,731.7 million in 2016, decreased by 6.41% from RMB62,757.1 million in 2015. Cost of sales accounted for 89.07% of net sales for 2016, as compared to 93.62% in 2015. The decrease in cost of sales was primarily due to the decline in crude oil price in 2016.

***Selling and administrative expenses***

Our selling and administrative expenses amounted to RMB546.1 million in 2016, representing a decrease of 9.12% as compared to RMB600.9 million in 2015, mainly due to a decrease in sales compared with the previous year, which resulted in a decline in warehousing and sales agency fees.

***Other operating income***

Our other operating income amounted to RMB197.3 million in 2016, representing a decrease of 16.01% as compared to RMB234.9 million in 2015. The decrease in other operating income was mainly attributable to the decrease of leasing income due to termination of some property leasing and change into the company's own usage. Meanwhile, the pipeline transportation fees dropped due to the decrease in sales volume.

***Other (losses)/gains - net***

Our other losses net amounted to RMB53.9 million in 2016, representing a decrease of RMB82.5 million as compared to other gains net of RMB28.6 million in 2015. This was mainly due to the increase of net loss on disposal of property, plant and equipment of RMB32.6 million and the decrease of gain on forward foreign exchange contracts of RMB37.2 million, as we did not enter into any forward foreign exchange contracts in 2016.

***Profits/(losses) from operations***

Our profit from operations amounted to RMB6,777.9 million in 2016, representing an increase of RMB2,869.0 million as compared to RMB3,908.9 million in 2015. In 2016, costs for all segments dropped generally as a result of the decrease of crude oil price. Compared with the decline in unit price of finished products, the unit purchase price of raw materials dropped to a larger extent than the unit price of finished products, leading to a significant growth in our profit from operations as compared to the previous year.

***(i) Synthetic fibers***

Loss from operations of synthetic fibers amounted to RMB608.9 million in 2016, representing an increase of RMB252.5 million in loss as compared to loss of RMB356.4 million in 2015. The increase was mainly attributable to the continuous increase in the price of acrylonitrile which is the raw material for acrylic fiber products due to capacity fluctuation, which resulted in a surge in costs. The loss was further intensified by the reduction of the profit margin of synthetic fibers products under the sluggish downstream demand.

***(ii) Resins and plastics***

Profit from operations of resins and plastics amounted to RMB1,637.6 million in 2016, representing an increase of RMB419.0 million as compared to RMB1,218.6 million in 2015. The increase in profit was primarily due to a 6.99% decrease in operating expenses of resins and plastics to RMB8,160.3 million in 2016 from RMB8,773.6 million in 2015 while the market demand and the price of products, in particular polyethylene are relatively stable. The decreases in operating expenses and net sales were primarily attributable to significantly lower costs of raw materials as a result of the decrease in crude oil price.

***(iii) Intermediate petrochemicals***

Profit from operations of intermediate petrochemicals amounted to RMB1,810.0 million in 2016, representing an increase of RMB853.2 million as compared to profit of RMB956.8 million in 2015. The significant increase in profit was primarily attributable to a decrease of RMB1,357.6 million in cost of sales of intermediate petrochemicals in 2016, while the net sales for the same period only decreased by RMB504.4 million, which leads to a profit growth as compared to the previous year.

*(iv) Petroleum products*

Profit from operations of petroleum products amounted to RMB3,813.0 million, representing an increase of RMB1,950.7 million as compared to RMB1,862.3 million in 2015. The significant increase in profit was primarily attributable to a decrease of RMB8,750.1 million in cost of sales of petroleum products in 2016, while the net sales for the same period only decreased by RMB6,799.4 million, which leads to a profit growth as compared to the previous year.

**Table of Contents***(v) Trading of petrochemical products*

Profit from operations of trading of petrochemical products amounted to RMB51.2 million in 2016, representing an increase of RMB36.0 million as compared to RMB15.2 million in 2015. The increase in profit was primarily due to an increase in net sales of RMB6,867.2 million in 2016, while the operating expenses of trading of petrochemical products decreased by RMB6,831.2 million, which leads to a profit growth as compared to the previous year.

*(vi) Others*

Profit from operations of others amounted to RMB75.0 million in 2016, representing a decrease of 64.69% as compared to RMB212.4 million in 2015. The decrease in profit was mainly attributable to an increase of RMB140.7 million in cost of sales and expenses of other products, while the net sales of other products increased by RMB3.2 million, which leads to a profit decrease as compared to the previous year. The increase in cost of sales and expenses of other products was primarily due to the increase in the net loss on disposal of property, plant and equipment and the decrease in gains on forward foreign exchange contracts.

*Net financing income*

Our net financing income was RMB83.7 million in 2016, compared with a net financing expenses of RMB243.8 million in 2015. The change was mainly due to the repayment of long term borrowings and certain short term borrowings by us in 2016, which lowered the interest expense from RMB211.9 million in 2015 to RMB53.6 million in 2016. Furthermore, our interest income increased by RMB84.2 million as a result of an increase in bank deposits.

*Share of profit of associates and jointly controlled entities*

Our share of profit of associates and jointly controlled entities amounted to RMB916.8 million in 2016, representing an increase of 60.25% as compared to RMB572.1 million in 2015. The increase was mainly attributable to a significant increase in our share of profit in SECCO from RMB437.0 million in 2015 to RMB742.7 million in 2016.

*Earnings before income tax*

Our earnings before taxation was RMB7,778.3 million in 2016, representing an increase of RMB3,541.1 million, or 83.6%, as compared to RMB4,237.2 million in 2015.

*Income tax*

Our income tax expenses amounted to RMB1,796.8 million in 2016, representing an increase of RMB870.0 million, or 93.9%, as compared to RMB926.8 million in 2015. The change was primarily attributable to profit increase.

In accordance with the PRC Enterprise Income Tax Law (amended) which took effect from 1 January 2008, the income tax rate of the Company in 2016 was 25% (2015:25%). Our effective income tax rate was 23.10% in 2016, as compared to 21.87% in 2015. The relatively high effective income tax rate in 2016 was mainly due to the ratio of the share profit of investments accounted for using the equity method to profit before taxation is 11.61% in 2016, representing a decrease of 1.65% compared with 13.26% in 2015.

*Net income*

Our net income was RMB5,981.5 million in 2016, representing an increase of RMB2,671.1 million, or 80.7%, as compared to RMB3,310.4 million in 2015.

*B. Liquidity and Capital Resources.*

We strive to always have sufficient liquidity to meet our liabilities when due, preparing for both normal and stressed conditions, without incurring unacceptable losses or risking damage to our reputation.

Our primary sources of funding have been cash provided by our operating activities and short term and long term borrowings. Our primary uses of cash have been for cost of sales, other operating expenses and capital expenditures. We prepare monthly cash flow budgets to ensure that we

will always have sufficient liquidity to meet our financial obligations as they become due. We arrange and negotiate financing with financial institutions and maintain a certain level of standby credit facilities to reduce liquidity risk. We believe that our current cash on hand, expected cash flows from operations and available standby credit facilities from financial institutions will be sufficient to meet our working capital requirements and repay our short term borrowings and obligations when they become due. In addition, we will continue to optimize our fund raising strategy from short and long term perspectives to take advantage of low interest rates by issuing corporate bonds or debts with low financing costs.

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The following table sets forth a condensed summary of our consolidated statement of cash flows for the years ended December 31, 2015, 2016 and 2017.

| Cash flow data                               | Year Ended December 31, |         |         |
|--|-------------------------|---------|---------|
|  | 2015                    | 2016    | 2017    |
|  | (RMB million)           |         |         |
| Net cash generated from operating activities | 4,932.8                 | 7,181.8 | 7,060.8 |
| Net cash used in investing activities        | 439.0                   | 189.9   | 2,400.7 |
| Net cash used in financing activities        | 3,695.7                 | 2,637.2 | 2,589.8 |
| Net increase in cash and cash equivalents    | 798.0                   | 4,354.7 | 2,070.3 |

***Net cash generated from operating activities***

The net cash generated from operating activities amounted to RMB7,060.8 million in 2017, representing a decrease in cash inflows of RMB121.0 million as compared to the net cash inflows of RMB7,181.8 million in 2016. We recorded profit from operation in 2017, cash inflows from operation amounted to RMB8,784.5 million, representing an increase of RMB305.4 million as compared with cash inflows of RMB8,479.1 million in 2016. We paid RMB1,706.0 million of income tax in 2017, representing an increase of RMB437.9 million in cash outflow as compared with the income tax of RMB1,268.1 million in 2016.

The net cash generated from operating activities amounted to RMB7,181.8 million in 2016, representing an increase in cash inflows of RMB2,249.0 million as compared to the net cash inflows of RMB4,932.8 million in 2015, due to the following reasons: (1) we recorded profit before income tax of RMB7,778.3 million in 2016, representing an increase of RMB3,541.1 million as compared to RMB4,237.2 million in 2015; (2) we paid income tax amounted to RMB1,268.1 million in 2016, representing an increase of RMB1,235.0 million as compared to RMB33.1 million in 2015.

***Net cash used in investing activities***

Our net cash used in investing activities increased from RMB189.9 million in 2016 to RMB2,400.7 million in 2017. This was primarily because the increase in fixed term deposits over 6 months.

Our net cash used in investing activities decreased from RMB439.0 million in 2015 to RMB189.9 million in 2016. This was primarily because the dividends we received from associates and jointly controlled entities increased from RMB216.5 million in 2015 to RMB557.3 million in 2016.

***Net cash used in financing activities***

Our net cash used in financing activities was RMB2,589.8 million in 2017, while our net cash used in financing activities was RMB2,637.2 million in 2016. The decrease was primarily due to the decrease in repayments of borrowings to third parties of RMB1,683.6 million, the effect of which was partially offset by the increase in payment of dividends to shareholders of RMB1,612.4 million.

Our net cash used in financing activities was RMB2,637.2 million in 2016, while our net cash used in financing activities was RMB3,695.7 million in 2015. The decrease was primarily due to the decrease in repayments of borrowings to third parties of RMB25,521.7 million, the effect of which was partially offset by the decrease in proceeds from borrowings from third parties of RMB23,690.3 million from 2015 to 2016 as we reduced crude oil processing volume in 2016 due to weak customer demand for our petroleum products.

***Borrowings and banking facilities***

Due to the Company's net profit position and the reduced capital expenditure, the Company managed to maintain the balance of cash and cash equivalents at a prudent level with a decrease in the amount of borrowings in 2017. Our total borrowings at the end of 2017 amounted to RMB606.2 million, representing an increase of RMB39.8 million as compared to RMB546.4 million at the end of the previous year. We have generally been able to arrange short term loans with several PRC financial institutions as and when needed. The debt obligations as of December 31, 2016 and 2017 were as follows.

| Debt instruments                          | Year Ended December 31, |       |
|---|-------------------------|-------|
|   | 2016                    | 2017  |
|   | (RMB million)           |       |
| Short term bank loans (1)                 | 546.4                   | 606.2 |
| Short term loans from a related party (2) |                         |       |
| Long term bank loans (1)                  |                         |       |
|   | 546.4                   | 606.2 |



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- (1) As of December 31, 2017, no borrowings were secured by the way of property, plant and equipment. We obtained a credit rating of AAA for financing loans, assessed by Shanghai Huajie Credit Rating & Investors Service Co., Ltd., a credit rating agency authorized by the Shanghai Branch of the People's Bank of China. As of December 31, 2017, the current assets exceeded current liabilities by RMB8,943.8 million. The liquidity of the Company is primarily dependent on the ability to maintain adequate cash inflow from operations, the renewal of its short-term bank loans and on its ability to obtain adequate external financing to support its working capital and meet its debt obligation when they become due. As of December 31, 2017, we had standby credit facilities of RMB21,296.0 million, within which the maturity dates of unused facility amounting to RMB20,273.5 million will be after 31 December 2018. We assessed that all the facilities could be renewed upon their expiration dates. We have carried out a detailed review of the cash flow forecast for the 12 months ending December 31, 2018. Based on such forecast, we believe that we will be able to renew these facilities when they expire based on our well-established relationships with various lenders and adequate sources of liquidity exist to fund our working capital and capital expenditure requirements.
- (2) We borrowed short term loans from a subsidiary of Sinopec Group, Sinopec Finance Company Limited, on terms no less favorable to us than terms available from the other commercial banks in China. We have entered into the Comprehensive Services Framework Agreement with Sinopec Group so as to obtain financial services from Sinopec Finance Company Limited for the three years ending December 31, 2017, 2018 and 2019.

Our ability to renew our short term borrowings and obtain additional external financing in the future and the cost of such financing are subject to a variety of uncertainties, including:

the cost of financing and the condition of financial markets;

our future operating performance, financial condition and cash flows; and

potential changes in monetary policy of the Chinese government with respect to bank interest rates and lending practices.

If we fail to rollover, extend or refinance our short term borrowings as necessary in a timely manner, we may be unable to meet our obligations in connection with debt servicing, trade and bills payable and/or other liabilities when they become due. See also Item 3. Key Information – D. Risk Factors. Our development and operation plans have significant capital expenditure and financing requirements, which are subject to a number of risks and uncertainties.

In light of our good credit standing and various financing channels, we believe that we will not experience any difficulty in obtaining sufficient financing for our operations.

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

***Gearing ratio***

As of December 31, 2017, our gearing ratio was 27.71%, while as of December 31, 2016, our gearing ratio was 26.34%. The ratio is calculated using this formula: total liabilities divided by total assets.

**Table of Contents***Capital expenditure*

In 2017, our capital expenditure amounted to RMB1,417.0 million, representing an increase of 71.97% as compared to RMB824 million in capital expenditure in 2016. Major projects include the following:

|   | <b>Total amount of<br/>project<br/>investment<br/>RMB million</b> | <b>Amount of<br/>project<br/>Investment in 2017<br/>RMB million</b> | <b>Project progress as<br/>of<br/>December 31, 2017</b> |
|---|---|---|---|
| <b>Major Project</b>  |   |   |   |
| Gasoline upgrade project involving an alkylation plant with a capacity of 300,000 tons/year                     | 483   | 8   | Preliminary design                                      |
| Shanghai Petrochemical's renovation project involving cogeneration units meeting emission standards             | 289   | 174   | Under Construction                                      |
| Shanghai Petrochemical's project involving third circuit's incoming power lines with a supply capacity of 220KV | 241   | 113   | Under Construction                                      |
| Renovation project involving low nitrogen combustion in olefin cracking furnace No. 2                           | 121   | 80  | Under Construction                                      |
| Thermoelectric Department's rectification project involving an airtight fuel storage yard                       | 100   | 76  | Under Construction                                      |
| Thermoelectric Department's renovation project involving furnaces Nos. 3 and 4 meeting emission standards       | 99  | 30  | Under Construction                                      |
| Our capital expenditure for 2018 is estimated at approximately RMB1.2 billion.                                  |   |   |   |

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***Proposed Dividend Distribution***

A dividend for the year ended December 31, 2017 of RMB0.3 per share (including tax), based on 10,823,813,500 shares outstanding, amounted to a total dividend of RMB3,247,144,000, was proposed by the Board of Directors on March 20, 2018. The proposal remains to be approved at our 2017 Annual General Meeting.

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### *C. Research and Development, Patents and Licenses, etc.*

We have a number of technology development units, including the Petrochemical Research Institute, the Plastics Research Institute, the Polyester Fiber Research Institute, the Acrylic Fiber Research Institute and the Environmental Protection Research Institute. These units are charged with various research and development tasks with respect to new technology, new products, new production processes and equipment and environmental protection. Our research and development expenditures in 2015, 2016 and 2017 were RMB87.6 million, RMB102.1 million and RMB36.7 million, respectively. The decrease in research and development expenditures in 2017 was mainly due to the completion of a research and development project on carbon fiber in the first half of 2017.

We are not, in any material aspect, dependent on any patents, licenses, industrial, commercial or financial contracts, or new production processes.

### *D. Trend Information*

In 2018, the world economy is expected to continue its recovery momentum, but the contributions from the conventional industries to economic growth would weaken and the effect of commodity price rises would subside as well. With the economic recovery, the pace of normalization of monetary policies in various countries around the world is expected to be accelerated and the risk resistance capability of the financial markets would be further strengthened. In particular, the implementation of the tax reform policy in the US would compel other countries to cut taxes. This will reduce the burden on enterprises, enhance the vitality of enterprises and boost global economic growth. It is estimated that developed economies would see growth accelerating generally, while emerging and developing economies would remain as the major force behind world economic growth in 2018.

China's economy has shifted from a phase of speedy growth to a phase of high-quality development. Its economic growth is now at a critical period of transforming development model, optimizing economic structure and changing growth momentum. In 2018, China is expected to continue to maintain the general keynote of work which is to make progress while ensuring stability; continue with the supply-side structural reform as the main direction; and make overall plans for carrying out various tasks to maintain growth, boost reforms, readjust the structure, improve people's livelihood and prevent risks. China's economy is anticipated to remain stable with good development momentum.

In 2018, oil demand is expected to further grow as the world economy continues to recover, while OPEC is expected to continue to implement the agreement to limit production. However, the rebound in oil prices is expected to stimulate further rise of U.S. crude oil output, thus impeding the rise of oil prices. Moreover, the trend of the U.S. dollar and the geopolitical situation would continue to impact the oil price trend to a certain extent. The petroleum market is anticipated to be able to strike a balance between supply and demand in 2018, while the average crude oil price is expected to go up further.

As the escalating global economy is expected to fuel an increasing demand for petrochemical products, the global petrochemical industry is expected to remain stable with a rise trend in 2018. Since the supply-side reform is proceeding and the growth in downstream demand remains stable in China, the petrochemical industry is expected to continue to see structural improvement to the supply and demand. However, since there is no fundamental change in the imbalance between the supply-side structural surplus and the structural shortage in the domestic refined oil market and petrochemicals market, the expansion of the scale of domestic large private refining and petrochemical enterprises and the recovery of coal chemical production capacity would further intensify market competition in the future. China's Belt and Road initiative and Sinopec's plan for the construction of a petrochemical industrial base in Shanghai would also bring about a new round of development opportunities for the Company.

### *E. Off-balance Sheet Arrangements*

As of December 31, 2017, we had no contingent liabilities in respect of guarantees issued to banks in favor of our associated companies and other unlisted investments (December 31, 2016: nil). Other than our capital commitments disclosed in Note 32 in our consolidated financial statements included in Item 18. Financial Statements, we do not have any other off-balance sheet arrangements.

**Table of Contents***F. Contractual Obligations and Commercial Commitments*

The following table sets forth our obligations to make future payments under contracts effective as of December 31, 2017.

|  | As of December 31, 2017/Payment Due by Period |           |           |           |           |
|--|---|-----------|-----------|-----------|-----------|
|  | Total   | Within 1  | More      | More      | More      |
|  | (RMB 000)                                     | year or   | than      | than      | than      |
|  |   | on        | 1 year    | 2 years   | 5 years   |
|  |   | demand    | but       | but       | 5 years   |
|  |   | (RMB 000) | within 2  | within 5  | (RMB 000) |
|  |   |           | years     | years     | (RMB 000) |
|  |   |           | (RMB 000) | (RMB 000) | (RMB 000) |
| <b>Contractual obligations</b>             |   |           |           |           |           |
| Short term borrowings                      | 606,157                                       | 606,157   |           |           |           |
| Long term borrowings                       |   |           |           |           |           |
| Operating lease                            | 68,310  | 63,505    | 1,583     | 1,221     | 2,001     |
| Total contractual obligations              | 674,467                                       | 669,662   | 1,583     | 1,221     | 2,001     |
| <b>Estimated future interest payments</b>  |   |           |           |           |           |
| Fixed rate                                 |   |           |           |           |           |
| Variable rate                              | 17,407  |           |           |           |           |
| Total estimated future interest payments   | 17,407  |           |           |           |           |
| <b>Investment commitments</b>              |   |           |           |           |           |
| Capital contribution to SECCO (Note 30(i)) | 111,263                                       |           |           |           |           |
| <b>Other commercial commitments</b>        |   |           |           |           |           |
| Capital commitments (Note 33)              | 9,537,564                                     |           |           |           |           |

Note: Capital commitments refer to commitments for purchase of property, plant and equipment.

*G. Other Information***Employees**

Our employment costs for 2017 were RMB2,753.0 million.

As of December 31, 2017, we had 10,361 employees in total, among whom there were 6,197 production staff, 86 sales representatives, 111 financial personnel, 1,148 administrative staff and 2,819 other personnel. 52.49% of our employees had tertiary qualifications or above. The Company has 17,854 retired employees who are under retirement insurance plans, details of which are provided under [Item 6. D. Employees](#). During 2017, we terminated employment with 727 persons (including the retired and voluntary leave), accounting for 6.56% of 11,088 employees we had as of January 1, 2017.

**Inflation**

Inflation or deflation did not have a significant impact on our results of operations for the year ended December 31, 2017.

**Purchase, Sale and Investment**

Except as disclosed in this report, during the year ended December 31, 2017, we engaged in no material purchase or sale of our subsidiaries or associated companies or any other material investments.

**Pledge of Assets**

As of December 31, 2017, we did not pledge any of our property or equipment.



**Table of Contents****ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES.****A. Directors and Senior Management.**

The following table sets forth certain information concerning our directors, executive officers and members of our supervisory committee (Supervisory Committee). The current term for our directors, executive officers and members of our Supervisory Committee is three years, which term will end in June 2020.

| <b>Name</b>                            | <b>Age</b> | <b>Position</b>   |
|--|------------|---|
| <b><u>Directors</u></b>                |            |   |
| Wu Haijun <sup>(1)</sup>               | 55         | Chairman of the Board of Directors, Chairman of Strategy Committee, Director of Nomination Committee and President                      |
| Gao Jinping                            | 51         | Vice Chairman of the Board of Directors and Vice President  |
| Jin Qiang                              | 52         | Executive Director and Vice President   |
| Guo Xiaojun <sup>(2)</sup>             | 48         | Executive Director, Director of Strategy Committee, Vice President and Secretary to the Board   |
| Zhou meiyun <sup>(3)</sup>             | 48         | Executive Director, Director of Strategy Committee and Remuneration and Appraisal Committee, Vice President and Chief Financial Officer |
| Lei Dianwu                             | 55         | Non-executive Director and  |
| Mo Zhenglin                            | 53         | Non-executive Director and Director of Strategy Committee   |
| Zhang Yimin                            | 63         | Independent Director and Chairman of the Remuneration and Appraisal Committee and Nomination Committee                                  |
| Liu Yunhong                            | 41         | Independent Director and Director of Audit Committee  |
| Du Weifeng                             | 41         | Independent Director and Director of Audit Committee, Remuneration and Appraisal Committee and Nomination Committee                     |
| Li Yuanqin <sup>(4)</sup>              | 44         | Independent Director, Chairman of Audit Committee and Director of Strategy Committee  |
| <b><u>Supervisory Committee</u></b>    |            |   |
| Ma Yanhui <sup>(5)</sup>               | 46         | Chairman of the Supervisory Committee   |
| Zuo Qiang                              | 55         | Employee Supervisor   |
| Li Xiaoxia                             | 48         | Employee Supervisor   |
| Fan Qingyong                           | 53         | Supervisor  |
| Zhai Yalin                             | 53         | Supervisor  |
| Zheng Yunrui                           | 52         | Independent Supervisor  |
| Choi Tingki                            | 63         | Independent Supervisor  |
| <b><u>Other Executive Officers</u></b> |            |   |
| Jin Wenmin <sup>(6)</sup>              | 52         | Vice President  |

(1) Mr. Wu Haijun was appointed as the Chairman of the Board and the President of the Company on the fifth meeting of the Ninth Session of the Board on December 21, 2017.

(2) Mr. Guo Xiaojun was appointed as a joint company secretary and the secretary to the Board with effect from June 15, 2017.

(3) Mr. Zhou Meiyun was appointed as a Vice President and Chief Financial Officer on the seventeenth meeting of the Eighth Session of the Board of Directors on February 8, 2017 and was appointed as an Executive Director of the Company on the 2016 Annual General Meeting on June 15, 2017.

(4) Ms. Li Yuanqin was appointed as an Independent Director of the Company on the First Extraordinary General Meeting of 2017 of the Company on August 2, 2017.

(5) Mr. Ma Yanhui was elected as an employee representative supervisor of the Company by the staff association of the Company through democratic election procedure on October 20, 2017 and was elected as the chairman of the Supervisory Committee on the third meeting of the

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Ninth Session of the Supervisory Committee of the Company on October 25, 2017.

(6) Mr. Jin Wenmin has been nominated as an candidate for Executive Director by the Board of Directors on March 20, 2018, whose appointment is subject to the approval of the shareholders of the Company at the 2017 Annual General Meeting.



**Table of Contents***Directors*

**Wu Haijun**, aged 55, is an Executive Director, the Chairman, President, Deputy Secretary of the Communist Party Committee, Chairman of the Strategy Committee, member of the Nomination Committee of the Company, Secretary of the Communist Party Committee and Chairman of Shanghai SECCO. Mr. Wu joined the Complex in 1984 and has held various positions, including the Deputy Director and Director of the Company's No.2 Chemical Plant, as well as the manager of the Chemical Division. He was a Vice President of the Company from May 1999 to March 2006 and a Director of the Company from June 2004 to June 2006. Mr. Wu was the manager and the Secretary of the Communist Party Committee of the Chemical Sales Branch of Sinopec Corp from December 2005 to March 2008. From December 2005 to April 2010, he was a Director of the Chemical Business Department of Sinopec Corp. In April 2010, he was appointed as a Director of Shanghai SECCO. From April 2010 to February 2011, Mr. Wu was the President of Shanghai SECCO. In April 2010, he was appointed as the Secretary of the Communist Party Committee of Shanghai SECCO and in June 2010 he was appointed as a Director of the Company. From June 2010 to December 2017, he served as a Vice President of the Company. From February 2011 to March 2015, he acted as a Vice President of Shanghai SECCO, and was the President of Shanghai SECCO from March 2015 to December 2017. Mr. Wu was appointed as the Chairman of Shanghai SECCO in October 2017. He has served as the Chairman, President and Secretary of the Communist Party Committee of the Company since December 2017. Mr. Wu graduated from East China Institute of Chemical Technology in 1984, majoring in chemical engineering, and obtained a bachelor's degree in engineering. In 1997, he obtained a master's degree in business administration from China Europe International Business School. He is a professor-grade senior engineer by professional title.

**Gao Jinping**, aged 51, is an Executive Director, the Vice Chairman, Secretary of the Communist Party Committee and Vice President of the Company. Mr. Gao joined Complex in 1990 and has held various positions, including the Deputy Secretary of the Communist Youth League of the Company, Deputy Secretary of the Communist Party Committee of the Experimental Plant and Chemical Division of the Company, and a Director of the Propaganda Department of the Company. Mr. Gao was the Deputy Secretary of the Communist Party Committee from May 2003 to March 2013, the Chairman of the Labor Union of the Company from May 2003 to November 2013, and was a Director of the Company from June 2004 to June 2006. Mr. Gao was the Secretary of the Communist Party Discipline Supervisory Committee of the Company from April 2006 to March 2013, and was a Supervisor and the Chairman of the Supervisory Committee of the Company from June 2006 to April 2013. He has been the Secretary of the Communist Party Committee of the Company since March 2013, as well as a Vice President of the Company since April 2013. In June 2013, Mr. Gao was appointed as an Executive Director of the Company. In June 2014, Mr. Gao was appointed as the Vice Chairman of the Company. Mr. Gao graduated from Food Processing Faculty of Shanghai Aquatic Products University with a major in cooling and cold storage technology and obtained a bachelor's degree in engineering in 1990. In 2001, he completed his post-graduate studies

in business administration in the aspect of industrial economics at Shanghai Academy of Social Sciences. He holds professor-grade senior professional technical qualification.

**Jin Qiang**, aged 52, is an Executive Director and a Vice President of the Company. Mr. Jin joined Zhenhai General Petrochemical Works in 1986 and has held various positions, including the Deputy Chief of the Utilities Department, Deputy Director and Director of the Machinery and Power Division of SINOPEC Zhenhai Refining & Chemical Co., Ltd., and a Director of the Machinery and Power Division of SINOPEC Zhenhai Refining & Chemical Company. Mr. Jin was the Deputy Chief Engineer of SINOPEC Zhenhai Refining & Chemical Company from March 2007 to October 2011, and was appointed as a Vice President of the Company in October 2011. In June 2014, Mr. Jin was appointed as an Executive Director of the Company. Mr. Jin graduated from East China Institute of Chemical Technology in 1986 majoring in chemical machinery, and graduated from the Graduate School of Central Party School in 2007 majoring in economic management. He is a professor-grade senior engineer by professional title.

**Guo Xiaojun**, aged 48, is an Executive Director, a Vice President, the Secretary to the Board, a joint company secretary and a member of the Strategy Committee of the Company. Mr. Guo joined the Complex in 1991. He has held various positions, including a Director of the Polyolefin Integrated Plant in the Plastics Division, the Deputy Chief Engineer in the Plastics Division, Deputy to the Manager, Deputy Manager and Manager cum Deputy Secretary of the Communist Party Committee of the Company. He was the Deputy Chief Engineer and Director of the Production Department of the Company from March 2011 to April 2013 and has served as a Vice President of the Company since April 2013. In June 2014, Mr. Guo was appointed as an Executive Director of the Company and was appointed as the Secretary to the Board and joint company secretary of the Company in June 2017. He graduated from East China University of Science and Technology in 1991 with a bachelor's degree in engineering, majoring in basic organic chemical engineering and obtained a master's degree majoring in chemical engineering from East China University of Science and Technology in April 2008. He is a professor-grade senior engineer by professional title.

**Zhou Meiyun**, aged 48, is an Executive Director a Vice President, the Chief Financial Officer, a member of the Remuneration and Appraisal Committee and the Strategy Committee of the Company. Mr. Zhou joined Complex in 1991 and has held various positions, including an Officer, Assistant to Manager, Deputy Manager and Manager of the Finance Department of the Company. He served as Manager of the Finance Department of Shanghai SECCO from May 2011 to March 2017, and was appointed as a Vice President and the Chief Financial Officer of the Company in February 2017. He has served as an Executive Director of the Company since June 2017 and Chairman of China Jinshan

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Associated Trading Corporation ( Jinshan Associated Trading ) since July 2017. Mr. Zhou graduated from Shanghai University of Finance and Economics in 1991 majoring in accounting, and obtained a master's degree in economics from Huazhong University of Science and Technology majoring in western economics in 1997. He is a senior accountant by professional title.

**Table of Contents***External Directors*

**Lei Dianwu**, aged 55, is a Non-executive Director and a member of the Strategy Committee of the Company the Secretary to the board of directors, Chief Economist, Assistant to the President of Sinopec Group, Vice President of Sinopec Corp., the controlling shareholder of the Company. From June 2005, Mr. Lei has served as an Non-executive Director of the Company. Mr. Lei has held various positions, including the Deputy Director of Planning Division and Director of the Preparation Office of the Joint Venture of Yangzi Petrochemical Company, and a vice president and manager of the Production Division of Yangzi BASF Styrene Company Limited. He acted as the Deputy Manager of Yangzi Petrochemical Company and Deputy Director of its Joint Venture Office, Director of the Development and Planning Division of China Dong Lian Petrochemical Limited Liabilities Company, Deputy General Manager of Yangzi Petrochemical Limited Liabilities Company and Deputy Director of the Development and Planning Division of Sinopec Corp. From March 2001 to August 2013, he was the Director of Development and Planning Division of Sinopec Corp. Mr. Lei was appointed as the Assistant to the President of Sinopec Group in March 2009, and a vice president of Sinopec Corp. in May 2009, and the Chief Economist of Sinopec Group in August 2013. From October 2015, Mr. Lei has acted as the Secretary to the board of directors of Sinopec Group. Mr. Lei has rich experience in enterprise planning and investment development management. In 1984, Mr. Lei graduated from East China Petroleum Institute majoring in basic organic chemicals and obtained a bachelor's degree in engineering. He is a professor-grade senior engineer by professional title.

**Mo Zhenglin**, aged 53, is a Non-executive Director and a member of the Strategy Committee of the Company, Deputy Director of the Finance Division of Sinopec Corp., controlling shareholder of the Company. In June 2014, Mr. Mo was appointed as Non-executive Director of the Company. Mr. Mo began his career in August 1986 and has held various positions, including Deputy Director of the Finance Department and Head of the Accounting Department of Beijing Yanshan Petrochemical Corporation and Chief Accountant and Director of the Finance Department of its Refinery Division, and Deputy Chief Accountant of SINOPEC Beijing Yanshan Company and Chief Accountant of its Refinery Division. He served as Director of Beijing Yanshan Petrochemical Company Limited and Chief Accountant of SINOPEC Beijing Yanshan Company from April 2002 to August 2008. Mr. Mo has been Chief Accountant of the Chemical Division of Sinopec Corp. from August 2008 to August 2017, and Director of Shanghai SECCO from November 2008 to October 2017. From March 2015 to August 2017, he was Deputy Director of the Chemical Division of Sinopec Corp. In August 2017, Mr. Mo was appointed as Deputy Director of the Finance Division of Sinopec Corp. Mr. Mo obtained a bachelor's degree in management from Zhongnan University of Economics in 1986, majoring in finance and accounting. He is a senior accountant by professional title.

*Independent Directors*

**Zhang Yimin**, aged 63, is an Independent Non-executive Director, the Chairman of the Remuneration and Appraisal Committee and the Nomination Committee of the Company and a professor of economics and finance at China Europe International Business School. He has been an Independent Non-executive Director of the Company since October 2013. Mr. Zhang has been an independent director of Shanghai Huayi Group Corporation Ltd. (listed on the Shanghai Stock Exchange, stock code: 600623) since April 2015. Mr. Zhang obtained a doctorate's degree majoring in finance and political studies at the Business School of University of British Columbia, Canada, and has held various positions, including a post-doctoral fellow at the Business School of University of British Columbia, Canada, an assistant professor at the Business School of University of New Brunswick, Canada, and an associate professor of the Economics and Finance Department at City University of Hong Kong. He was appointed as a professor of China Europe International Business School in September 2004. His major area of research is in operations, financing and industrial economic studies. He possesses a wealth of professional expertise and experience.

**Liu Yunhong**, aged 41, is an Independent Non-executive Director and a member of Audit Committee of the Company the Assistant to general manager of Hwabao Securities Co. Ltd. and general manager of Investment Banking Department of Hwabao Securities Co. Ltd. He is also the Deputy Head of the Institute of International M&A and Investment, Renmin University of China. He has been an Independent Non-executive Director of the Company since June 2015. Mr. Liu is an independent director of Guangdong HEC Technology Holding Co., Ltd. (listed on the Shanghai Stock Exchange, stock code: 600673), Shanghai Aerospace Automobile Electromechanical Co., Ltd. (listed on the Shanghai Stock Exchange, stock code: 600151), Shenergy Company Limited (listed on the Shanghai Stock Exchange, stock code: 600642) and Bank of Guiyang Co., Ltd. (listed on the Shanghai Stock Exchange, stock code: 601997). From June 2008 to August 2010, Mr. Liu has been the head of legal and compliance division of Guotai Asset Management Co., Ltd. From October 2008 to August 2010, Mr. Liu conducted post-doctoral research in economics at Guanghua School of Management, Peking University and was conferred as an assistant professor and master postgraduate instructor. From October 2010 to July 2012, he worked for fund product development and supervision of listed companies at the Shanghai Stock Exchange. From August 2012 to September 2013, Mr. Liu was the General Manager of Investment Banking Department of Aerospace Securities Co., Ltd. Since October 2013, Mr. Liu has been the General Manager of the Institutional Business Department of Hwabao Securities Co. Ltd. Since May and September 2015, Mr. Liu has been the General Manager of the Investment Banking Department and Assistant to General Manager of Hwabao Securities Co. Ltd., respectively. Since May 2014, Mr. Liu has been the Deputy Head of the Institute of International M&A and Investment, Renmin University of China. Mr. Liu obtained a doctorate's degree in law from Renmin University of China, majoring in civil and commercial law in 2008. Mr. Liu is a research fellow by professional title.



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**Du Weifeng**, aged 41, is an Independent Non-executive Director, a member of the Audit Committee, the Remuneration and Appraisal Committee and the Nomination Committee of the Company, and a partner of Beijing JunZeJun (Shanghai) Law Offices. He has served as an Independent Non-executive Director of the Company since June 2015. Mr. Du began his career in July 1998. He has held various positions, including the Clerk and Assistant Judge of Shanghai Pudong New Area People's Court and worked as a lawyer at Watson & Band Law Offices in Shanghai and at Wintell & Co Law Firm in Shanghai. He has been a partner of the Shanghai branch of Beijing JunZeJun Law Offices since February 2009. With extensive experience as a lawyer, Mr. Du is a designated lawyer of some banks' headquarters, Shanghai branches, Shanghai branch of the state-owned asset management companies and private asset management companies. Mr. Du obtained a bachelor's degree in commercial law from Shanghai University in July 1998, and a master's degree in commercial law from Bristol University in September 2005. He also obtained a master's degree in business administration from China Europe International Business School in 2013.

**Li Yuanqin**, aged 44, is an Independent Non-executive Director, the Chairman of the Audit Committee and a member of the Strategy Committee of the Company, an associate professor of the School of Management and the associate head of the Department of Accountancy at Shanghai University. She is currently an independent director of Shanghai New World Co., Ltd. (listed on Shanghai Stock Exchange, stock code: 600628). From April 2000 to March 2003, she served at the Settlement Department at the headquarters of ICBC. From June 2006 to September 2009, she was the lecturer at the School of Management at Shanghai University. She has been an associate professor of the School of Management at Shanghai University since September 2009 and the associate head of the Department of Accountancy of Shanghai University since May 2011. During that period, she was also a visiting scholar at Foster School of Business, University of Washington in the United States between February 2012 and February 2013. She also serves as a member of the eighth session of the Shanghai Baoshan Committee of the Chinese People's Political Consultative Conference and a non-executive member of the Chinese Institute of Certified Public Accountants. She received a PhD in Management from Antai College of Economics and Management (ACEM) at Shanghai Jiao Tong University.

*Supervisory Committee*

The Company has a Supervisory Committee whose primary duty is to supervise senior management of the Company that includes the Board of Directors, managers and senior officers. The function of the Supervisory Committee is to ensure that senior management of the Company act in the interests of the Company, its shareholders and employees and in compliance with PRC law. The Supervisory Committee reports to the shareholders in the general meeting. The Articles of Association provide the Supervisory Committee with the right to investigate the business and the financial affairs of the Company and to convene shareholders' meetings from time to time. The Supervisory Committee currently comprises of seven members, three of whom are employee representatives and four of whom are external supervisors, including one independent supervisor.

**Ma Yanhui**, aged 47, is a Supervisor, Chairman of Supervisory Committee, the Deputy Secretary of the Communist Party Committee, Secretary of the Communist Party Discipline Supervisory Committee and Chairman of the Labor Union of the Company. Mr. Ma started his career in 1996. He served as the Secretary of Office of Yanhua Refinery, Secretary and Deputy Director of Yanhua Office of Great Wall Lubricant Oil, Supervisor and Acting Director of Integrated Corporate Reform Department of China Petrochemical Corporation, etc. Mr. Ma was the Deputy Director of Integrated Corporate Reform Department of China Petrochemical Corporation from July 2004 to March 2006, and he was the Deputy Director of Structure Reform Sector, Corporate Reform Department of Sinopec Assets Management Co., Ltd. from March 2006 to October 2006. He was the Director of Structure Reform Sector, Corporate Reform Department of Sinopec Assets Management Co., Ltd. from October 2006 to June 2008. From June 2008 to August 2017, Mr. Ma was the Director of Integrated Corporate Reform Department of China Petrochemical Corporation. In August 2017, Mr. Ma was appointed as the Deputy Secretary of the Communist Party Committee and Secretary of the Communist Party Discipline Supervisory Committee of the Company. He was appointed as a Supervisor, the Chairman of Supervisory Committee and Chairman of the Labour Union of the Company in October 2017. Mr. Ma graduated from East China University of Science and Technology in July 1996, majoring in petroleum processing, and obtained a bachelor's degree in engineering. In June 2006, he obtained a master's degree in corporate management from Renmin University of China. Mr. Ma is a senior economist by professional title.

**Zuo Qiang**, aged 55, is a Supervisor, Deputy Chief of Political Work, the Deputy Secretary of Discipline Inspection Commission, Director of the Supervisory Office, Director of Supervisory Committee Office and Chief Legal Counsel of the Company. Mr. Zuo joined Complex in 1981 and has held various positions, including an archivist of the Command Division for the construction of Phase II of No. 1 Chemical Plant of the Complex, the Head of Archives at the ethylene plant, Secretary of the Youth League Committee of the ethylene plant, Secretary of the Youth League Committee of the Refining and Chemical Division of the Complex, Secretary of the Youth League Committee of the Refining and Chemical Division of the Company, Secretary of the General Branch of the Communist Party Committee of Ethylene Plant No. 1 of the Refining and Chemical Division of the Company, and the Deputy Director of the Supervisory Office of the Company and the Secretary of the Corporate Discipline Supervisory Committee of the Company. In April 2011, he was appointed as a Director of the Supervisory Office of the Company, and has been serving as a Supervisor and a Director of Supervisory Committee Office of the Company since June 2011, and the Deputy Secretary of the Discipline Inspection Commission of the Company since October 2011. In February 2016, he was appointed as the Deputy Chief of Political Work of the Company. He has served as the Chief Legal Counsel of the Company since February 2017. Mr. Zuo graduated from the Correspondence College of the Communist Party Committee School of the Central Committee in 1993 majoring in party &

administrative management. He has senior professional technical qualification.

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**Li Xiaoxia**, aged 48, is a Supervisor and Secretary of the Communist Party Committee and the Deputy Director of the Plastics Division of the Company. Ms. Li joined Complex in 1991 and has held various positions, including the Controller of the operation zone of the marine terminal of the Company, Assistant to the Workshop Director, Deputy Workshop Director and Deputy Section Chief of Storage and Transportation Area No. 2 of the Refining and Chemical Division, Deputy Secretary of the Youth League Committee of the Company, Secretary of Party General Branch for Staff Exchange and Relocation Centre, Secretary of the Communist Party Committee and Deputy Manager of the Refining Division of the Company. She was appointed as a Supervisor of the Company in June 2011 and served as the Vice Chairman of the Labor Union of the Company from December 2011 to August 2017. She was appointed as the Secretary of the Communist Party Committee and Deputy Director of the Plastics Division of the Company in July 2017. Ms. Li graduated from Liaoning University of Petroleum and Chemical Technology in 1991 majoring in petroleum and natural gas transportation. She has senior professional technical qualification.

**Zhai Yalin**, aged 53, is an External Supervisor of the Company, the Deputy Director of the Auditing Bureau of Sinopec Group, and Deputy Director of Auditing Department of Sinopec Corp. Mr. Zhai has been an External Supervisor of the Company since June 2008. Mr. Zhai started his career in 1986 and successively served as the Deputy Head of the Head Office and Director of the Auditing Department of Qianguo Refinery, Deputy Director of the General Office of Sinopec Huaxia Auditing Company, the Deputy Director of the General Administrative Office of the Auditing Bureau of China Petrochemical Corporation, a Director of the General Administrative Office of the Auditing Bureau of Sinopec Group, and Director of the General Administrative Office of the Auditing Bureau of Sinopec Group (Auditing Department of Sinopec Corp.). Since December 2001, Mr. Zhai concurrently holds the posts of the Deputy Director of the Auditing Bureau of Sinopec Group and the Deputy Director of Auditing Department of Sinopec Corp. Mr. Zhai graduated from Jilin Siping Normal College in 1986 and is a senior economist by professional title.

**Fan Qingyong**, aged 53, is an External Supervisor of the Company, the Deputy Chief of the Supervisory Bureau and a member of the Discipline Inspection Group of Sinopec Group, a deputy director of the Supervisory Department of Sinopec Corp., the controlling shareholder of the Company, and a supervisor of Sinopec Refinery & Marketing Limited. Mr. Fan has been an External Supervisor of the Company since June 2017. Mr. Fan started his career in 1987, and has held various positions, including the Deputy Director of the Communist Party Office of No. 2 Oil Plant and a director of the Corporate Management Department of Fushun Petrochemical Company, the Discipline Inspector (Deputy level) and deputy director of the Second Discipline Inspection and Supervision Group of the Supervisory Bureau of Sinopec Group (Supervisory Department of Sinopec Corp.), and a director of the First Discipline Inspection and Supervision Group of the Supervisory Bureau of Sinopec Group (Supervisory Department of Sinopec Corp.). He has been the Deputy Director of the Supervisory Bureau of Sinopec Group and Deputy Director of the Supervisory Department of Sinopec Corp. since April 2010. He served as a supervisor of Sinopec Star Petroleum Co., Ltd. from July 2010 to April 2015. He has served as a member of the Discipline Inspection Group of the Communist Party Committee of Sinopec Group and a supervisor of Sinopec Refinery & Marketing Limited since May 2012. Mr. Fan graduated from Fushun Normal College (now known as Fushun Teachers College) majoring in Chinese in 1987, from Liaoning Normal University majoring in Chinese in July 1991, and from Renmin University of China, majoring in law in January 2003 and obtained a master's degree in law. He is a professor-grade senior professional by professional title and is qualified to practice law.

*Independent Supervisor*

**Zheng Yunrui**, aged 52, is an Independent Supervisor of the Company and a professor in civil and commercial law at the Faculty of Law of the East China University of Political Science and Law in the PRC and a member of Expert Consultation Committee of Shanghai Yangpu District People's Procuratorate and Mediator of Shanghai Second Intermediate People's Court. He has served as an Independent Supervisor to the Company since December 2014. Mr. Zheng is an independent director of Hangzhou Innover Technology Co., Ltd. (listed on the Shenzhen Stock Exchange, stock code: 002767) and Jiangxi Xinyu Guoke Technology Co., Ltd. (listed on the Shenzhen Stock Exchange, stock code: 300722). Mr. Zheng graduated from Shangrao Normal University in Jiangxi Province, majoring in English Language. Mr. Zheng obtained a master's degree in law and a doctorate's degree in law from the Faculty of Law of Peking University in July 1993 and July 1998, respectively. Mr. Zheng previously worked at the Education Bureau of Shangrao County, Jiangxi Province, Hainan Airport Limited, China Township Enterprise Investment and Development Company Limited and the Legal Affairs Office of the Shanghai Municipal People's Government. He has been teaching at East China University of Political Science and Law since August 2001. He was a visiting scholar at the Faculty of Law of National University of Singapore between July 2002 and December 2002. Mr. Zheng has been engaged in trials, teaching and research relating to civil law, property law, contract law, company law, insurance law, social insurance law and government procurement law. He is experienced in the legal affairs on corporate governance and has great academic achievements. He is also an arbitrator at the Arbitration Commission of Shenzhen, Shenyang, Xuzhou and Wuxi. Mr. Zheng was appointed as a member of Expert Advisory Committee of the People's Procuratorate of Shanghai Yangpu District and mediator of Shanghai No. 2 intermediate People's Court in March 2017 and June 2017, respectively.

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**Choi Tingki**, aged 63, is an Independent Supervisor of the Company and a Fellow of the Hong Kong Institute of Certified Public Accountants. He joined the Company in June 2011. Mr. Choi served as an Independent Non-executive Director of the Company from June 2011 to June 2017, and has been an Independent Supervisor since June 2017. Mr. Choi has been an independent non-executive director of YangtzeKiang Garment Limited (listed on the Main Board of the Hong Kong Stock Exchange, stock code: 00294) and YGM Trading Limited (listed on the Main Board of the Hong Kong Stock Exchange, stock code: 00375) since December 2012. Mr. Choi graduated from the Department of Accounting, Hong Kong Polytechnic in 1978. He joined KPMG in the same year and has held various positions, including a Partner of the audit department of KPMG Hong Kong Office, an Executive Partner of KPMG Shanghai Office, a Senior Partner of KPMG Huazhen Shanghai Office as well as a Senior Partner of KPMG Huazhen in Eastern and Western China. Mr. Choi retired from KPMG Huazhen in April 2010.

### *Senior Management*

**Jin Wenmin**, aged 53, is a Vice President of the Company. Mr. Jin Wenmin has been nominated as a candidate for Executive Director by the Board of Directors on March 20, 2018, whose appointment is subject to the approval of the shareholders of the Company at the 2017 Annual General Meeting. Mr. Jin joined Complex in 1985 and served as the Secretary of the Communist Party Committee of the Company's No.1 Oil Refining Device of Refining Unit, Head of Butadiene Device, Manager of the storage and transportation, branch company, manager and Deputy Secretary of the Communist Party Committee of Storage and Transportation Department, manager and Deputy Secretary of the Communist Party Committee of Oil Refining Department etc. From April 2013 to February 2017, Mr. Jin was appointed as the Head of Production Department of the Company. From May 2013 to August 2016, Mr. Jin was appointed as the Assistant to the President of the Company and was appointed as a Vice President of the Company in September 2016. Mr. Jin graduated from Shanghai Second Polytechnic University in July 2003, majoring in business administration. He is a senior engineer by professional title.

### ***B. Compensation.***

The aggregate amount of cash compensation we paid to our directors, supervisors and executive officers during the year ended December 31, 2017 was approximately RMB6.07 million. In addition, directors and supervisors who are also officers or employees receive certain other benefits-in-kind, such as subsidized or free health care services, housing and transportation, which large Chinese enterprises customarily provide to their employees. No benefits are payable to members of the board or the Supervisory Committee or the executive officers upon termination of their relationship with us.



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The following tables set forth the compensation on an individual basis for our directors, supervisors and executive officers who received compensation from us in 2017.

| Name                        | Position with the Company   | Salaries and other benefits | Retirement scheme contributions <sup>(1)</sup> | Discretionary bonus | Share Option expences | Total Remuneration in 2017 |
|-----------------------------|---|-----------------------------|--|---------------------|-----------------------|----------------------------|
|                             |   | (RMB 000)                   | (RMB 000)                                      | (RMB 000)           | (RMB 000)             | (excluding share options)  |
|                             |   | (before tax)                | (before tax)                                   | (before tax)        | (before tax)          | (before tax)               |
| Wu Haijun <sup>(1)</sup>    | Chairman, President & Executive Director                            |                             |  |                     |                       |                            |
| Wang Zhiqing <sup>(2)</sup> | Former Chairman, President & Executive Director                     | 184                         | 16   | 525                 |                       | 725                        |
| Gao Jinping                 | Vice Chairman, Vice President & Executive Director                  |                             |  |                     |                       |                            |
| Zhou Meiyun                 | Director  | 201                         | 18   | 540                 | 157                   | 916                        |
|                             | Executive Director, Vice President and Chief Financial Officer      | 148                         | 15   | 125                 |                       | 288                        |
| Jin Qiang                   | Executive Director & Vice President                                 | 241                         | 18   | 470                 | 135                   | 864                        |
| Guo Xiaojun                 | Executive Director, Vice President & Secretary to the Board         | 177                         | 18   | 465                 | 135                   | 795                        |
| Mo Zhenglin                 | External Director   |                             |  |                     |                       |                            |
| Lei Dianwu                  | External Director   |                             |  |                     |                       |                            |
| Zhang Yimin                 | Independent Director  | 150                         |  |                     |                       | 150                        |
| Liu Yunhong                 | Independent Director  | 150                         |  |                     |                       | 150                        |
| Du Weifeng                  | Independent Director  | 150                         |  |                     |                       | 150                        |
| Li Yuanqin                  | Independent Director  | 63                          |  |                     |                       | 63                         |
| Zuo Qiang                   | Supervisor  | 128                         | 15   | 348                 |                       | 491                        |
| Li Xiaoxia                  | Supervisor  | 127                         | 14   | 313                 |                       | 454                        |
| Zhai Yalin                  | Supervisor  |                             |  |                     |                       |                            |
| Ma Yanhui                   | Chairman of Supervisory Committee                                   | 63                          | 3  | 43                  |                       | 109                        |
| Zheng Yunrui                | Independent Supervisor  | 100                         |  |                     |                       | 100                        |
| Choi Tingki <sup>(3)</sup>  | Supervisor and Former Independent Director                          | 125                         |  |                     |                       | 125                        |
| Fan Qingyong                | Supervisor  |                             |  |                     |                       |                            |
| Jin Wenmin                  | Vice President  | 268                         | 17   | 255                 | 125                   | 665                        |
| Ye Guohua <sup>(4)</sup>    | Former Director and Chief Financial Officer                         | 15                          | 2  | 13                  |                       | 30                         |
| Zhang Jianbo <sup>(5)</sup> | Former Chairman of Supervisory Committee and secretary to the Board | 97                          | 7  | 373                 |                       | 477                        |
| Pan Fei <sup>(6)</sup>      | Former Independent Supervisor and Independent Director              | 69                          |  |                     |                       | 69                         |

(1) Retirement scheme contributions refer to the relevant payments we made in relation to the defined contribution government pension scheme in compliance with Shanghai regulations as well as the enterprise annuity plan set up by the Company. All of our employees are required to participate in the defined contribution government pension scheme whereas our employees who have been with the Company for one year or more may opt to participate in the enterprise annuity plan. See Item 6. Directors, Senior Management and Employees D Employees for more information on the defined contribution government pension scheme and the Company's annuity plan.

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- (1) Mr. Wu Haijun was appointed as the Chairman of the Board and the President of the Company on the fifth meeting of the Ninth Session of the Board on December 21, 2017. Prior to the appointment, Mr. Wu was the general manager of SECCO and obtained compensation from SECCO in 2017.
- (2) Mr. Wang Zhiqing resigned from his positions of Chairman of the Board, Executive Director of the Company, Chairman of the Strategy Committee, member of the Nomination Committee and President of the Company on December 4, 2017.
- (3) Mr. Choi Tingki ceased to be an Independent Non-executive Director on June 15, 2017 upon expiry of his term of office and was appointed an Independent Supervisor on June 15, 2017.
- (4) Mr. Ye Guohua resigned from his positions of Director, Executive Director, member of the Remuneration and Appraisal Committee, Vice President and Chief Financial Officer on January 26, 2017.
- (5) Mr. Zhang Jianbo resigned from his positions of the joint company secretary and the secretary to the Board and ceased to act as an authorized representative of the Company with effect from April 26, 2017. Mr. Zhang Jianbo resigned from his positions of a supervisor and chairman of the Supervisory committee on July 11, 2017.
- (6) Mr. Pan Fei ceased to be an Independent Supervisor on June 15, 2017 upon expiry of his term of office and was appointed an Independent Non-executive Director on June 15, 2017. Mr. Pan Fei informed us that he has received an Advance Notice of Administrative Penalties and Prohibition to Access the Market issued by the CSRC. The CSRC intended to issue a warning and impose a fine of RMB50,000 on Mr. Pan Fei in relation to the suspected illegal acts of information disclosure of Jiangsu Yabaite Technology Co., Ltd. ( Yabaite ) during Mr. Pan's tenure as an independent director of Yabaite. On July 7, 2017, Mr. Pan Fei tendered his resignation as an Independent Non-executive Director and Chairman of the Audit Committee and member of the Strategy Committee of the Board due to personal work arrangement. His resignation took effect upon the election of a new Independent Non-executive Director at the first extraordinary general meeting of the Company of 2017 held on August 2, 2017.

### ***C. Board Practices.***

#### *Board of Directors*

Our Board of Directors consists of eleven members. Our Directors are elected at meetings of our shareholders, and, unless they resign at an earlier date, are deceased or removed, will serve three-year terms. The Directors shall be eligible for reelection upon expiry of their terms of office; however, the combined tenure of an Independent Non-executive Director may not exceed a total of six years. The term of our current Board of Directors will expire in June 2020. None of our Directors have entered into any service contracts with us or any of our subsidiaries providing for benefits upon termination of appointment or employment (with the exception of compensation required by Chinese labor law).

#### *Independent Board Committee*

We formed an Independent Board Committee on October 24, 2013, which consists of four Independent Non-executive Directors. The current members are Mr. Li Yuanqin, Mr. Zhang Yimin, Mr. Liu Yunhong and Mr. Du Weifeng. The Independent Board Committee advised our shareholders other than Sinopec Corp. and its associates in respect of the terms of the continuing connected transactions under the renewed Mutual Product Supply and Sale Services Framework Agreement with Sinopec Group and Sinopec Corp. and the renewed Comprehensive Services Framework Agreement with Sinopec Group and the proposed caps on annual transaction values thereof for the three years ending December 31, 2019.

#### *Supervisory Committee*

The Supervisory Committee is responsible for ensuring that our Directors and senior officers act in the interests of our company or those of our shareholders or employees and that they do not abuse their positions and powers. The Supervisory Committee has no power to overturn the decisions or actions of our Directors or officers and may only recommend that they correct any acts that are harmful to our interests or the interests of our shareholders or employees. The Supervisory Committee is currently composed of seven members appointed for a three year term. The term of the current members will expire in June 2020. Supervisory Committee members have the right to attend meetings of our Board of Directors, inspect our financial affairs and perform other supervisory functions.

#### *Remuneration and Appraisal Committee*

We formed a remuneration and appraisal committee on December 25, 2001 which consists of three Directors. As of December 31, 2017, the members of the remuneration committee are Mr. Zhang Yimin (Chairman of the Committee), Mr. Zhou Meiyuan and Mr. Du Weifeng. The key responsibility of the Remuneration Committee is to formulate and review the remuneration policy and plan for the Directors and executive officers, formulate the standards for evaluation of the Directors and executive officers and conduct such evaluations. The members of the remuneration and appraisal committee will hold office for the same term as their directorships which will expire in June 2020.

*Audit Committee*

We formed an audit committee on June 15, 1999 which consists of three Directors. As of December 31, 2017, the members are Li Yuanqin (Chairman of the Committee), Mr. Liu Yunhong and Mr. Du Weifeng. The key responsibility of the Audit Committee is to advise the Board on the appointment, dismissal, remuneration and terms of engagement of external auditors, review and supervise our financial reporting process, internal controls and risk management systems, and review our connected transactions. The members of the audit committee will hold office for the same term as their directorships which will expire in June 2020.

**Table of Contents***Nomination Committee*

We formed a nomination committee on June 27, 2012 which consists of three Directors. As of December 31, 2017, the members are Mr. Zhang Yimin (Chairman of the Committee), Mr. Du Weifeng and Mr. Wu Haijun. The key responsibility of the Nomination Committee is to review the Board composition, make recommendations to the Board on the procedures and criteria for the selection and appointment of Directors and senior management and assess the independence of Independent Non-executive Directors. The members of the audit committee will hold office for the same term as their directorships which will expire in June 2020.

*Strategy Committee*

We formed a strategy committee on June 15, 2017 which consists of three Executive Directors, two Non-executive Directors and one Independent Non-executive Director. As of December 31, 2017, the members are Mr. Wu Haijun (Chairman of the Committee), Mr. Guo Xiaojun, Mr. Zhou Meiyun, Mr. Lei Dianwu, Mr. Mo Zhenglin and Ms. Li Yuanqin. The key responsibility of the Strategy Committee is to conduct researches and give recommendations to the Board on major investment decisions, projects and major issues that affect our development, and monitor our long-term development strategic plan. The members of the audit committee will hold office for the same term as their directorships which will expire in June 2020.

*Summary Corporate Governance Differences*

There are significant differences between our corporate governance practices and those of U.S. issuers listed on the NYSE. Pursuant to Section 303A.11 of the NYSE listing Manual, we have disclosed certain of these differences on our website at <http://www.spc-ir.com.hk/eng/company.asp>.

**D. Employees.**

As of December 31, 2017, we had 10,361 employees.

The following table shows the approximate number of employees we had at the end of the last three years by the principal business function they performed:

|  | <b>December 31,</b> |               |               |
|--|---------------------|---------------|---------------|
|  | <b>2015</b>         | <b>2016</b>   | <b>2017</b>   |
| Management                                   | 1,603               | 1,134         | 1,148         |
| Engineers, technicians and factory personnel | 7,081               | 6,607         | 6,197         |
| Accounting, marketing and others             | 3,475               | 3,347         | 3,016         |
| <b>Total</b>                                 | <b>12,159</b>       | <b>11,088</b> | <b>10,361</b> |

Approximately 52.49% of our work force are graduates with a tertiary degree or higher. In addition, we offer our employees opportunities for education and training based upon our development plans and requirements and the individual performance of each employee.

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A system of labor contracts has been adopted in our Company. The contract system imposes discipline, provides incentives to adopt better work habits and gives us greater management control over our work force. We believe that by linking remuneration to productivity, the contract system has also improved employee morale. As of December 31, 2017, almost all of the work force was employed pursuant to labor contracts which specify the employee's position, responsibilities, remuneration and grounds for termination. The contracts generally have short terms of one to five years and may be renewed with the agreement of both parties. The remaining personnel are employed for an indefinite term.

We have a labor union that protects employees' rights, aims to assist in the fulfillment of our economic objectives, encourages employee participation in management decisions and assists in mediating disputes between us and union members. We have not been subject to any strikes or other labor disturbances which have interfered with our operations, and we believe that our relations with our employees are good.

Total remuneration of our employees includes salary and bonuses. Employees also receive certain benefits in terms of housing, education and health services that we subsidize, and other miscellaneous subsidies. In 2017, we incurred RMB2,462.2 million in employment costs.

In compliance with Shanghai regulations, we and our employees participate in a defined contribution government pension scheme under which all employees upon retirement are entitled to receive pensions. In order to safeguard and properly enhance the living level of retired employees and improve the medium and long term incentive system, the company established an enterprise annuity plan. According to the plan, to the extent that the employees volunteer for the related payments and have been with the Company for one year or more, such employees are entitled to participate in the enterprise annuity plan. We will make payments to match the payments made by the employees after giving considerations to our profitability, the employee's work responsibilities, contributions, and treatments post retirement based on the principle of universal benefits. We have 17,854 retired employees under the above retirement insurance plans.

In addition to the pension benefits, pursuant to the relevant laws and regulations of the PRC, we and our employees participate in defined social security contributions for employees, such as a housing fund, basic medical insurance, supplementary medical insurance, unemployment insurance, injury insurance and maternity insurance.

**Table of Contents*****E. Share Ownership.***

On January 6, 2015, our Board of Directors approved the proposal of the initial grant of the share option incentive scheme. A total of 2,540,000 share options were granted to Mr. Wang Zhiqing, Mr. Gao Jinping, Mr. Ye Guohua, Mr. Guo Xiaojun, Mr. Jin Qiang and Mr. Jin Wenmin. Mr. Tang Weizhong resigned from his position of Secretary of Board of our Company on October 23, 2015. Pursuant to relevant provisions of the share option incentive scheme, the 250,000 share options granted to him have been invalid. See Item 6. Directors, Senior Management and Employees E. Share Ownership Share Option Incentive Scheme for more information.

***Share Option Incentive Scheme***

We adopted a share option incentive scheme on December 23, 2014, pursuant to which our directors, senior management members and key business personnel may be granted options to purchase our A shares. Under the share option incentive scheme, the total number of underlying shares to be granted shall neither exceed 10% of the total share capital of the Company nor exceed 10% of the total A-share capital of the Company. Unless approved by the shareholders as a special resolution at a general meeting of the Company, the aggregate number of A shares to be acquired by each grantee through the share option scheme and other effective share option schemes of the Company (if any) at any time shall not exceed 1% of the total A-share capital of the Company. The exercisable period for the share options shall be three years, commencing from the expiry of the two-year period after the grant date, and the vesting period for each grant under the scheme shall be no less than two years. The exercise price of a share under initial grant will be determined by our Board of Directors at its discretion, which shall not be lower than the highest of: (1) the closing price of the A shares of the Company on the trading day immediately before the date of announcement on the summary of the draft scheme, which was RMB3.29 per share; (2) the average closing price of the A shares of the Company for the 30 trading days immediately before the date of announcement on the summary of the draft scheme, which was RMB3.27 per share; and (3) RMB4.20 per share. The exercise price for further grant shall be the higher of: (1) the closing price of the A shares of the Company on the trading day immediately before the date of announcement on the summary of the draft proposal for each grant; and (2) the average closing price of the A shares of the Company for the 30 trading days immediately before the date of announcement on the summary of the draft proposal for each grant. The expiration date of this scheme is December 22, 2024.

On January 6, 2015, our Board of Directors approved the proposal of the initial grant of the share option incentive scheme. A total of 38,760,000 share options were granted to 214 participants, among which 2,540,000 were granted to six of our directors and senior management. The total number of underlying stock accounted for 0.359% of the Company's total share capital when granted. The exercisable period for the share options shall be three years, commencing from the expiry of the two-year period after the grant date. There shall be three exercisable periods (one year for each exercisable period, same for the following) under the scheme. Upon the fulfilment of the exercise conditions, 40%, 30% and 30% of the total share options granted shall become exercisable within the first, second and third exercisable periods, respectively. According to the principle on the determination of exercise price, the exercise price of the initial grant was RMB4.20 per share (in the event of dividends payment, capitalization of capital reserves, bonus issue, subdivision or reduction of shares or allotment of shares during the validity period, the exercise price shall be adjusted according to the Share Option Incentive Scheme). On June 15, 2016, the 2015 annual profit distribution plan was considered and passed at the 2015 annual general meeting, whereby cash dividend of RMB1.00 was paid for each 10 shares, and the exercise price was adjusted to RMB4.10 per share accordingly. On June 15, 2017, the 2016 annual profit distribution plan was considered and passed at the 2016 annual general meeting, whereby cash dividend of RMB2.50 was paid for each 10 shares, and the exercise price was adjusted to RMB3.85 per share accordingly.

On August 22 and 23, 2017, our Board of Directors confirmed the fulfillment of the exercise conditions in the first exercisable period. The number of participants in the first exercisable period was 199. The number of exercisable A shares share options in the first exercisable period was 14,212,500. The first tranche of the share option incentive scheme was exercised on August 29, 2017, and the Company received cash payment of RMB54.6 million from 199 grantees. As a result, A shares of 14,176,600 were registered on September 27, 2017.

On January 8, 2018, our Board of Directors confirmed the fulfillment of the exercise conditions in the second exercisable period. The total number of A shares share options granted but not exercised was adjusted to 18,583,800. The number of participants in the second exercisable period was 185. The number of exercisable A shares share options in the second exercisable period was 9,636,900. The second tranche of the share option incentive scheme was exercised on January 12, 2018 and the Company received cash payment of RMB37.1 million from 185 grantees. We completed the registration of the newly issued A shares of 9,636,900 on February 14, 2018, after which the number of the Company's issued shares increased to 10,823,813,500 shares. After the second exercise of the A shares share options, the total number of A shares share options granted but not exercised is 8,946,900.

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The following table summarizes the outstanding options that the Company granted to our directors, executive officers and other employees as of March 31, 2018:

| <b>Name</b>     | <b>A Shares<br/>Underlying<br/>Outstanding<br/>Options</b> | <b>Exercise Price<br/>(RMB/Share)</b> | <b>Grant Date</b> | <b>Vesting Date</b>   | <b>Expiration Date</b> |
|-----------------|--|---------------------------------------|-------------------|---|------------------------|
| Gao Jinping     | 150,000  | 3.85                                  | January 6, 2015   | within a year after<br>January 6, 2019, subject<br>to additional conditions | January 5, 2020        |
| Jin Qiang       | 129,000  | 3.85                                  | January 6, 2015   | within a year after<br>January 6, 2019, subject<br>to additional conditions | January 5, 2020        |
| Guo Xiaojun     | 129,000  | 3.85                                  | January 6, 2015   | within a year after<br>January 6, 2019, subject<br>to additional conditions | January 5, 2020        |
| Jin Wenmin      | 75,000   | 3.85                                  | January 6, 2015   | within a year after<br>January 6, 2019, subject<br>to additional conditions | January 5, 2020        |
| Other Employees | 8,463,900  | 3.85                                  | January 6, 2015   | within a year after<br>January 6, 2019, subject<br>to additional conditions | January 5, 2020        |



**Table of Contents****ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS.****A. Major Shareholders.**

Sinopec Corp. owns 50.44% of our share capital and is able to exercise all the rights of a controlling shareholder, including the election of directors and voting on amendments to our Articles of Association.

The diagram below sets forth the information on the ownership and controlling relationship between our Company, Sinopec Corp., and Sinopec Group.

The table below sets forth information regarding ownership of our capital stock as of March 31, 2018 by (i) all persons who we know own more than five percent of our capital stock and (ii) our officers and directors as a group. Our major shareholders listed below do not have voting rights different from those of our other shareholders.

| Name of shareholders                        | Interests held (shares)  | Percentage of total issued shares of the Company (%) | Percentage of total issued shares for this category (%) |
|---|--|--|---|
| Sinopec Corp.                               | 5,460,000,000 A shares (L)   | 50.44  | 74.50   |
| BlackRock, Inc.                             | 246,767,377 H shares (L)<br>1,798,000 H shares (S)                           | 2.28<br>0.02   | 7.06<br>0.05  |
| Corn Capital Company Limited <sup>(1)</sup> | 211,008,000 H shares (L)<br>200,020,000 H shares (S)                         | 1.95<br>1.85   | 6.04<br>5.72  |
| Yardley Finance Limited <sup>(2)</sup>      | 200,020,000 H shares (L)   | 1.85   | 5.72  |
| Citigroup Inc.                              | 182,436,955 H shares (L)<br>477,455 H shares (S)<br>174,664,678 H shares (P) | 1.69<br>0.004<br>1.61                                | 5.22<br>0.01<br>5.00                                    |
| Directors and Officers <sup>(3)</sup>       | 1,127,000 A Shares (L)   | 0.01   | 0.02  |

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

## Notes:

- (1) These shares were held by Corn Capital Company Limited. Lin Xinxin held 90% interests in Corn Capital Company Limited, and was deemed to be interested in the shares held by Corn Capital Company Limited.
- (2) These shares were held by Yardley Finance Limited. Chen Jianxin held 100% interests in Yardley Finance Limited, and was deemed to be interested in the shares held by Yardley Finance Limited.
- (3) On January 6, 2015, our Board of Directors approved the proposal of the initial grant of the share option incentive scheme. As of March 31, 2018, a total of 483,000 share options were granted to, but not exercised by Mr. Gao Jinping, Mr. Guo Xiaojun, Mr. Jin Qiang and Mr. Jin Wenmin. See [Item 6. Directors, Senior Management and Employees E. Share Ownership Share Option Incentive Scheme](#) for more information.

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As of March 31, 2018, a total of 3,495,000,000 H Shares were outstanding. A total of 7,328,813,500 domestic shares were outstanding on March 31, 2018.

The Bank of New York Mellon has advised us that, as of March 31, 2017, 3,464,082 ADSs, representing the equivalent of 346,408,200 H Shares, were held of record by 86 other registered shareholders domiciles in and outside of the United States. We have no further information as to our shares held, or beneficially owned, by U.S. persons.

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To the best of our knowledge, except as disclosed above, we are not directly or indirectly controlled by another corporation, any foreign government, or any other natural or legal person, severally or jointly.

We are not aware of any arrangement that may at a subsequent date result in a change of control of our company.

### ***B. Related Party Transactions.***

#### *Intercompany service agreements and business-related dealings*

During 2016, pursuant to the Mutual Product Supply and Sales Service Framework Agreement entered into by the Company and Sinopec Corp., we purchased raw materials from, and sold petroleum products and petrochemicals as well as leased properties to, Sinopec Corp. and its associates, and Sinopec Corp. and its associates acted as sales agents for our petrochemical products. Under the Comprehensive Services Framework Agreement entered into by the Company and Sinopec Group, we accepted construction and installation, engineering design, insurance agency and financial services relating to the petrochemical industry provided by Sinopec Group and its associates. The relevant connected transactions were conducted in accordance with the terms of the Mutual Product Supply and Sales Services Framework Agreement and the Comprehensive Services Framework Agreement. The current Mutual Product Supply and Sales Service Framework Agreement and Comprehensive Services Framework Agreement were renewed with Sinopec Corp. and Sinopec Group respectively upon approval and authorization at our 2016 Extraordinary General Meeting held on October 18, 2016. At the 2016 Extraordinary General Meeting, our shareholders also approved certain caps on the annual transaction values of certain ongoing continuing connected transactions for the years ending December 31, 2017, 2018 and 2019. The transaction amounts of the relevant connected transactions in 2017 did not exceed such caps.

The purchases by us of crude oil and related materials from, and sales of petroleum products by us to, Sinopec Corp. and its associates were conducted in accordance with the State's relevant policy 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 occur. We sell petrochemicals to Sinopec Corp. and its associates and Sinopec Corp. and its associates act as agents for the sales of petrochemicals in order to reduce our inventories, expand their trading, distribution and sales networks and improve our bargaining power with our customers. We lease part of the properties to Sinopec Corp. and its associates in consideration of their good financial background and credit standing. We accept construction and installation, engineering design, insurance agency and financial services relating to the petrochemical industry from Sinopec Group and its associates in order to secure steady and reliable services at reasonable prices.

The prices of the continuing connected (*i.e.*, related-party) transactions conducted between the Company and Sinopec Group, Sinopec Corp. and its associates are determined by the parties involved after consultation pursuant to (1) the fixed price of the state; or (2) the guiding price of the state; or (3) market prices, and the conclusion of agreements for the connected transactions are in compliance with the needs of the Company's production and operation. Therefore the above continuing connected transactions do not cause a material impact on the Company's independence.

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The table below sets forth certain relevant information regarding our continuing connected transactions with Sinopec Corp. and Sinopec Group under the Mutual Product Supply and Sales Services Framework Agreement and the Comprehensive Services Framework Agreement in 2017.

| Type of major transactions  | Connected parties                | Annual cap for 2017 | Transaction Amount during the reporting Period | Unit: RMB 000<br>Percentage Of the total Amount of the same type of transaction (%) |
|---|----------------------------------|---------------------|--|---|
| <b>Mutual Product Supply and Sales Services Framework Agreement</b> |                                  |                     |  |   |
| Purchases of raw materials  | Sinopec Corp. and its associates | 63,257,000          | 43,414,163                                     | 66.24   |
| Sales of petroleum and petrochemical products                       | Sinopec Corp. and its associates | 82,507,000          | 48,947,814                                     | 53.20   |
| Property leasing  | Sinopec Corp. and its associates | 36,000              | 28,368   | 60.75   |
| Agency sales of petrochemical                                       | Sinopec Corp. and its associates | 195,000             | 116,616  | 100.00  |
| <b>Comprehensive Services Framework Agreement</b>                   |                                  |                     |  |   |
| Construction, installation and engineering design services          | Sinopec Group and its associates | 1,788,000           | 172,666  | 11.89   |
| Petrochemical industry insurance services                           | Sinopec Group and its associates | 140,000             | 126,405  | 97.18   |
| Financial services  | Sinopec Group                    | 200,000             | 5,147  | 1.92  |

On December 5, 2016, the Company entered into an asset leasing agreement (the Lease Agreement) with Baishawan branch of Sinopec Petroleum Reserve Company Limited (the Baishawan Branch), a wholly-owned subsidiary of Sinopec Group. Pursuant to the Lease Agreement, the Company rents the oil tanks and ancillary facilities from the Baishawan Branch at an annual rent up to RMB53,960,000 (exclusive of VAT), with the leasing period from 1 January 2016 to 31 December 2018. The Lease Agreement was considered and approved at the 16th meeting of the eighth session of the Board on 24 November 2016. In 2017, the Company incurred leasing cost of RMB53,960,000.

On April 27, 2017, the Company considered and approved at the 19th meeting of the Eighth Session of the Board to give up its pre-emptive rights in acquiring the 50% equity interests in SECCO held by BP. Sinopec Corp. intended to acquire the above equity interests through its subsidiary, Sinopec Shanghai Gaoqiao Petrochemical Co., Ltd..

*Equity joint venture*

Late in 2001, we established SECCO, a Sino-foreign equity joint venture, together with BP and Sinopec Corp. We own 20% interest in SECCO, while BP and Sinopec Corp. own 50% and 30% interests in SECCO, respectively. SECCO was established to build and operate a 900,000 ton Rated Capacity ethylene petrochemical manufacturing facility to manufacture and market ethylene, polyethylene, styrene, polystyrene, propylene, acrylonitrile, polypropylene, butadiene, aromatics and by-products; provide related after-sales services and technical advice with respect to such petrochemical products and by products; and engage in polymers application development. SECCO completed construction in 2005. SECCO's total initial registered capital was U.S.\$901,440,964, of which we provided the Renminbi equivalent of U.S.\$180,287,952.

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To fund SECCO's new acrylonitrile plant project with a capacity of 260,000 tons/year, its new ethylene plant with a new supercharger, its new butadiene plant with a capacity of 90,000 tons/year, and its utility facilities upgrading project, in 2013, the shareholders of SECCO agreed to increase the registered capital of SECCO by U.S.\$150,085,618 according to their respective shares in the equity interests in SECCO.

In October 2017, BP transferred its 50% equity interests in SECCO to a subsidiary of Sinopec Corp., Sinopec Shanghai Gaoqiao Petrochemical Co., Ltd.. As a result of equity transfer, we, Sinopec Corp. and Sinopec Shanghai Gaoqiao Petrochemical Co., Ltd. own 20%, 30% and 50% interests in SECCO, respectively, and SECCO was converted into a PRC domestic company. The registered capital of SECCO is RMB7,800,811,272.00, all of which had been fully contributed by the shareholders in accordance with their equity percentages in SECCO as of October 18, 2017..

*HKSE connected transactions rules*

We are required by HKSE listing rules to obtain advance shareholder approval for certain transactions with related parties such as Sinopec Group, Sinopec Corp., or its associates. We comply with such HKSE listing rules by obtaining advance shareholder approval at least every three years for the renewal of our framework agreements (*e.g.*, the Mutual Product Supply and Sales Services Framework Agreement and the Comprehensive Services Framework Agreement) with Sinopec Corp. and Sinopec Group for setting maximum aggregated annual values spent on the supply of products and services under these agreements. The independent non-executive directors will need to confirm each year, upon reviewing our continuing connected transaction, that these transactions are conducted in the ordinary and usual course of our business, on normal commercial terms and in accordance with the terms of these agreements.

*C. Interests of Experts and Counsel.*

Not applicable.

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Please see [Item 18. Financial Statements](#) for our audited consolidated financial statements filed as part of this annual report.

*Litigation*

Neither we nor any of our subsidiaries is a party to, nor is any of our or their property the subject of any legal or arbitration proceedings which may have significant effects on our financial position or profitability. We are not aware of any litigation or arbitration proceedings in which any of our directors, any member of our senior management or any of our affiliates is an adverse party or has a material adverse interest.

*Dividend Policy*

Our Board of Directors may propose dividend distributions subject to the approval of the shareholders. The Articles of Association also provide that, the aggregate profits distributed in cash in the recent three years shall not be less than 30% of the average annual distributable profits within such three-year period. Shareholders receive dividends in proportion to their shareholdings.

The Articles of Association require that cash dividends and other distributions in respect of H shares be declared in Renminbi and paid by us in Hong Kong dollars while cash dividends and other distributions in respect of our domestic shares be paid in Renminbi. If we record no profit for the year, we may not distribute dividends in such year.

We expect to continue to pay dividends, although there can be no assurance as to the particular amounts that might be paid from year to year. Payment of future dividends will depend upon our revenue, financial condition, future earnings and other factors. See [Item 5. Operating and Financial Review and Prospects](#) and [Item 3. Key Information A. Selected Financial Data Dividends](#).

**B. Significant Changes.**

No significant change has occurred since the date of the financial statements included in this annual report.

**ITEM 9. THE OFFER AND LISTING.****A. Offer and Listing Details**

Set forth below is certain market information relating to our H Shares, ADSs and domestic shares for the periods indicated.

|                | The Stock Exchange of Hong Kong (HK\$) |      | The New York Stock Exchange (US\$) |       | The Shanghai Stock Exchange (RMB) |      |
|----------------|--|------|------------------------------------|-------|-----------------------------------|------|
|                | High                                   | Low  | High                               | Low   | High                              | Low  |
| 2013           | 2.50                                   | 1.44 | 48.24                              | 26.98 | 5.47                              | 2.67 |
| 2014           | 2.85                                   | 1.86 | 35.30                              | 22.73 | 4.69                              | 2.81 |
| 2015           | 5.33                                   | 2.21 | 65.21                              | 28.48 | 11.91                             | 3.88 |
| 2016           | 4.28                                   | 2.86 | 54.86                              | 35.86 | 7.95                              | 5.07 |
| 2017           | 5.03                                   | 3.96 | 64.66                              | 50.92 | 7.09                              | 6.17 |
| 2016           |  |      |                                    |       |                                   |      |
| First Quarter  | 3.93                                   | 2.86 | 50.42                              | 35.86 | 6.96                              | 5.07 |
| Second Quarter | 4.00                                   | 3.37 | 51.90                              | 42.87 | 7.95                              | 5.63 |
| Third Quarter  | 4.11                                   | 3.52 | 53.69                              | 45.37 | 6.44                              | 5.74 |
| Fourth Quarter | 4.28                                   | 3.82 | 54.86                              | 48.89 | 6.68                              | 5.81 |



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|                        | The Stock Exchange of Hong Kong (HK\$) |      | The New York Stock Exchange (US\$) |       | The Shanghai Stock Exchange (RMB) |      |
|------------------------|--|------|------------------------------------|-------|-----------------------------------|------|
|                        | High                                   | Low  | High                               | Low   | High                              | Low  |
| 2017                   |  |      |                                    |       |                                   |      |
| First Quarter          | 5.03                                   | 4.18 | 64.66                              | 54.06 | 6.87                              | 6.39 |
| Second Quarter         | 4.69                                   | 3.96 | 60.16                              | 50.92 | 6.74                              | 6.28 |
| Third Quarter          | 4.89                                   | 4.10 | 62.70                              | 53.29 | 7.09                              | 6.29 |
| Fourth Quarter         | 4.93                                   | 4.29 | 63.47                              | 55.67 | 6.59                              | 6.17 |
| 2018                   |  |      |                                    |       |                                   |      |
| First Quarter          | 4.97                                   | 4.33 | 64.43                              | 56.07 | 7.09                              | 5.79 |
| Most Recent Six Months |  |      |                                    |       |                                   |      |
| October 2017           | 4.93                                   | 4.63 | 63.47                              | 60.08 | 6.34                              | 6.17 |
| November 2017          | 4.71                                   | 4.48 | 61.11                              | 57.88 | 6.59                              | 6.34 |
| December 2017          | 4.57                                   | 4.29 | 58.21                              | 55.67 | 6.51                              | 6.26 |
| January 2018           | 4.97                                   | 4.55 | 64.43                              | 58.08 | 7.09                              | 6.55 |
| February 2018          | 4.79                                   | 4.33 | 60.72                              | 56.07 | 6.74                              | 5.79 |
| March 2018             | 4.87                                   | 4.60 | 62.25                              | 59.11 | 6.09                              | 5.82 |

In connection with the domestic share reform, the trading of domestic shares of the Company on the Shanghai Stock Exchange was suspended twice from May 31, 2013 to June 20, 2013 and from June 28, 2013 to August 19, 2013. For more information regarding the domestic share reform, see [Item 4. Information on the Company – A. History and Development of the Company – Domestic Share Reform](#).

**B. Plan of Distribution**

Not applicable.

**C. Markets**

The principal trading market for our H Shares is the HKSE. The ADSs, each representing 100 H Shares, have been issued by The Bank of New York Mellon as a depository under a Deposit Agreement with us and are listed on the NYSE under the symbol SHI. We have also listed our domestic shares on the Shanghai Stock Exchange. Prior to our initial public offering on July 26, 1993 and subsequent listings on the HKSE and NYSE, there was no market for our H Shares or the ADSs. Public trading in our domestic shares commenced on November 8, 1993.

**D. Selling Shareholders**

Not applicable.

**E. Dilution**

Not applicable.

**F. Expenses of the Issuer**

Not applicable.

**ITEM 10. ADDITIONAL INFORMATION.****A. Share Capital**

Not applicable.





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### ***B. Memorandum and Articles of Association.***

We are a joint stock limited company established in accordance with the PRC Company Law and certain other laws and regulations of the PRC. We are registered with the Shanghai Administration of Industry and Commerce with business license number 91310000132212291W.

The following is a summary based upon provisions of our Articles of Association as currently in effect, the PRC Company Law (1993) (as amended) and other selected laws and regulations applicable to us. You should refer to the text of the Articles of Association and to the texts of applicable laws and regulations for further information.

Our Articles of Association provide, at article 12, that our purpose is:

to build and operate a diversified industrial company which will be one of the world's leading petrochemical companies;

to promote the development of the petrochemical industry in China through the production of a broad variety of outstanding products; and

to practice advanced, scientific management and apply flexible business principles, and to develop overseas markets for our products so that we and our shareholders receive reasonable economic benefits.

Our scope of business is limited to matters approved by Chinese authorities. Article 13 provides that our primary business scope includes:

Refining crude oil, petroleum products, petrochemical products, synthetic fibers and monomers, plastic products, raw materials for knitting and textile products, preparation of catalysts and recover waste catalysts, power, heat, water and gas supply, water treatment, railway cargo loading and unloading, inland water transport, wharf operation, warehousing, design, research and development, technology development, transfer, consultancy and other services, property management, lease of self-owned premises, internal staff training, design and fabrication of various advertisements, release of advertisements on self-owned media and quality technology services (administrative license should be obtained when required). We may adjust these subject to approval by governmental authorities.

The following discussion primarily concerns our shares and the rights of our shareholders. Holders of our ADSs will not be treated as our shareholders and will be required to surrender their ADSs for cancellation and withdrawal from the depository facility in which the H shares are held in order to exercise shareholder rights in respect of H shares.

Domestic shares and overseas-listed foreign invested H shares are both ordinary shares in our share capital. Domestic shares are shares we issue to domestic Chinese investors for subscription in Renminbi, while H shares are shares we issue for subscription in other currencies to investors from Hong Kong, Macau, Taiwan and outside of China.

### *Sources of Shareholders' Rights*

China's legal system is based on written statutes and is a system in which decided legal cases have little precedent value. China's legal system is similar to civil law systems in this regard. In 1979, China began the process of developing its legal system by undertaking to promulgate a comprehensive system of laws. In December 1993, the Standing Committee of the 8th National People's Congress adopted the PRC Company Law. Although the PRC Company Law is expected to serve as the core of a body of regulatory measures, which will impose a uniform standard of corporate behavior on companies and their directors and shareholders, only a limited portion of this body of regulatory measures has so far been promulgated.

Currently, the primary sources of shareholder rights are the Articles of Association, the PRC Company Law and the HKSE listing rules, which, among other things, impose standards of conduct, fairness and disclosure on us, our directors and our controlling shareholder. To facilitate the offering and listing of shares of Chinese companies overseas, and to regulate the behavior of companies whose shares are listed overseas, the former State Council Securities Committee and the former State Commission for Restructuring the Economic System issued the Mandatory Provisions for articles of association of Companies Listing Overseas on August 27, 1994. These provisions have been incorporated into our Articles of Association and any amendment to those provisions will only become effective after approval by the companies approval department authorized by the State.

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In addition, upon the listing of and for so long as the H shares are listed on the HKSE, we will be subject to those relevant ordinances, rules and regulations applicable to companies listed on the HKSE, the Securities and Futures Ordinance and the Codes on Takeovers and Mergers and Share Repurchases.

Unless otherwise specified, all rights, obligations and protections discussed below derive from our Articles of Association and/or the PRC Company Law.

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### *Enforceability of Shareholders' Rights*

There has not been any public disclosure in relation to the enforcement by holders of H shares of their rights under the charter documents of joint stock limited companies or the PRC Company Law or in the application or interpretation of the Chinese or Hong Kong regulatory provisions applicable to Chinese joint stock limited companies.

In most states of the United States, shareholders may sue a corporation derivatively. A derivative suit involves the commencement by a shareholder of a corporate cause of action against persons who have allegedly wronged the corporation, where the corporation itself has failed to enforce the claims directly. This would include suits against corporate officers, directors, or the controlling shareholder. This type of action is brought based upon a primary right of the corporation, but is asserted by a shareholder on behalf of the corporation. In accordance with the PRC Company Law, if a company incurs losses due to the violation of any provision of laws, administrative regulations or the company's articles of association by any of its directors, supervisors and officers during his/her discharge of duties entrusted by the company, or due to any other person's infringement of the company's legal rights or interests, the shareholders of the company may take legal action before a court under the PRC Company Law.

Our Articles of Association provide that all differences or claims

between a holder of H shares and us;

between a holder of H shares and any of our directors, supervisors, manager or other senior officers; or

between a holder of H shares and a holder of domestic shares, involving any right or obligation provided in the Articles of Association, the PRC Company Law or any other relevant law or administrative regulation which concerns our affairs must, with certain exceptions, be referred to arbitration at either the China International Economic and Trade Arbitration Commission in China or the Hong Kong International Arbitration Center. Our Articles of Association also provide that the arbitration will be final and conclusive. On June 21, 1999, an arrangement was made between Hong Kong and China for the summary mutual enforcement of each other's arbitration awards in a manner consistent with the United Nations Convention on the Recognition and Enforcement of Foreign Arbitral Awards and practices that occurred before the handover of Hong Kong to China. This arrangement was approved by the Supreme Court of China and the Hong Kong Legislative Council, and became effective on February 1, 2000.

All of our directors and officers reside outside the United States (principally in China) and substantially all of our assets and of those persons are located outside the United States. Therefore, you may not be able to effect service of process within the United States against any of those persons. In addition, China does not have treaties providing for the reciprocal recognition and enforcement of judgments of courts within the United States or most other countries that are members of the Organization for Economic Cooperation and Development. This means that administrative actions brought by regulatory authorities such as the Securities and Exchange Commission, and other actions which result in foreign court judgments could only be enforced in China if the judgments or rulings do not violate the basic principles of the law of China or the sovereignty, security and social public interest of the society of China, as determined by a People's Court of China which has jurisdiction for recognition and enforcement of judgments. We have been advised by our Chinese counsel, Haiwen & Partners, that there is doubt as to the enforceability in China of any actions to enforce judgments of United States courts arising out of or based on the ownership of our H shares or ADSs, including judgments arising out of or based on the civil liability provisions of United States federal or state securities laws.

### *Restrictions on Transferability and the Share Register*

All fully paid up H shares will be freely transferable in accordance with the Articles of Association unless otherwise prescribed by law and/or administrative regulations. Under current laws and regulations, H shares may be traded only among investors who are not Chinese persons, and may not be sold to Chinese investors. Consequences under Chinese law of a purported transfer of H shares to Chinese investors are unclear.

As provided in our Articles of Association, we may refuse to register a transfer of H shares without providing any reason unless:

all relevant transfer fees and stamp duties are paid;

the instrument of transfer is accompanied by the share certificates to which it relates and any other evidence reasonably required by our board to prove the transferor's right to make the transfer;

there are no more than four joint holders as transferees; and

the H shares are free from any lien of ours.

Additionally, no transfers of shares may be registered within the 30 days prior to a shareholders' general meeting or within five days before we decide on the distribution of dividends.

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We are required to keep a register of our shareholders which shall be comprised of various parts, including one part which is to be maintained in Hong Kong in relation to H shares listed on the HKSE. Shareholders have the right to inspect the share register. For a reasonable fee, shareholders may copy any part of the share register, obtain background information regarding our directors, supervisors, manager and other senior officers, minutes of shareholder general meetings and reports regarding our share capital and any share repurchases in the prior year.

### *Dividends*

Upon approval by ordinary resolution at a shareholders' meeting, our Board of Directors may propose dividend distribution at any time. The Articles of Association permits dividends issued in the form of cash or shares. Special resolution of the shareholders' general meeting is required for dividends issued in the form of shares.

Dividends may only be distributed, however, after allowance has been made for:

recovery of losses, if any;

allocations to the statutory common reserve fund; and

allocations to a discretionary common reserve fund.

The Articles of Association require us to appoint on behalf of the holders of H shares a receiving agent which is registered as a trust corporation under the Trustee Ordinance of Hong Kong to receive dividends we declare in respect of the H shares on behalf of the H shareholders. The Articles of Association require that cash dividends and other distributions in respect of H shares be declared in Renminbi and paid by us in Hong Kong dollars while cash dividends and other distributions of the domestic shares shall be paid in Renminbi.

If we record no profit for the year, we may not normally distribute dividends for the year.

Dividend payments may be subject to Chinese withholding tax. See [Item 10. Additional Information](#) [E. Taxation](#).

### *Voting Rights and Shareholders' Meetings*

Our Board of Directors must convene a shareholders' annual general meeting once every year within six months from the end of the preceding financial year. Our board must convene an extraordinary general meeting within two months of the occurrence of any one of the following events:

where the number of directors is less than five as required by the PRC Company Law or two-thirds of the number specified in our Articles of Association;

where our unrecovered losses reach one-third of the total amount of our share capital;

where shareholder(s) holding 10% or more of our issued and outstanding voting shares request(s) in writing; or

whenever our board deems necessary or our Supervisory Committee so requests.

Meetings of a special class of shareholders must be called in specified situations when the rights of the holders of that class of shares may be varied or abrogated, as discussed below. The Board of Directors, the Supervisory Committee, and shareholders individually or collectively holding 3% or more of our total voting shares are entitled to make written proposals to a shareholders' meeting. Shareholders individually or

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collectively holding more than 3% of our total shares may submit written interim proposals to the convener of a shareholders meeting ten days before the meeting.

All shareholders meetings must be convened by our board by notice given to shareholders by personal service, mail or announcement in the newspaper not less than 45 days before the meeting. Based on the written replies we receive 20 days before a shareholders meeting, we will calculate the number of voting shares represented by shareholders who have indicated that they intend to attend the meeting. We can convene the shareholders general meeting if the number of voting shares represented by those shareholders is more than one-half of our total voting shares. Otherwise, we shall, within five days, inform the shareholders again of the motions to be considered and the date and venue of the meeting by way of public announcement. After the announcement is made, the shareholders meeting may be convened. Our accidental omission to give notice of a meeting to, or the non-receipt of notice of a meeting by, a shareholder will not invalidate the proceedings at that shareholders meeting. However, an extraordinary shareholders meeting cannot conduct any business not contained in the notice of meeting.

Shareholders at meetings have the power, among other things, to decide on our operational policies and investment plans, to approve or reject our proposed annual budget, approve our profit distribution plans, an increase or decrease in share capital, the issuance of debentures, our merger or liquidation and any amendment to our Articles of Association. Shareholders also have the right to review any proposals by a shareholder owning 3% or more of our shares.

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In general, holders of H shares and domestic shares vote together as a single class at all meetings and on all matters. However, the rights of a class of shareholders may not be varied or abrogated, unless approved by both a special resolution of all shareholders at a general shareholders meeting and by a special resolution of shareholders of that class of shares at a separate meeting. Our Articles of Association specify, without limitation, that the following amendments would be deemed to be a variation or abrogation of the rights of a class of shareholders:

increasing or decreasing the number of shares of a class or of a class having voting or distribution rights or privileges equal or superior to that class;

removing or reducing rights to receive dividends in a particular currency;

creating shares with voting or distribution rights superior to shares of that class;

restricting or adding restrictions to the transfer of ownership of shares of that class;

allotting and issuing rights to subscribe for, or to convert into, shares of that class or another class;

increasing the rights or privileges of any other class; or

modifying the provision of our Articles of Association that specifies which amendments would be deemed a variation or abrogation of the rights of a class of shareholder.

For votes on any of these matters, or any other matter that would vary or abrogate the rights of the domestic shares or H shares, the holders of domestic shares and H shares are deemed to be separate classes and vote separately. However, Interested Shareholders are not entitled to vote at class meetings. The meaning of Interested Shareholder depends on the proposal to be voted on at the class meeting:

If the proposal is for us to repurchase our shares either from all shareholders proportionately or by purchasing share on a stock exchange, an Interested Shareholder is our controlling shareholder;

If the proposal is for us to repurchase our shares from a shareholder by a private contract, an Interested Shareholder is the shareholder whose shares would be repurchased;

If the proposal is for our restructuring, an Interested Shareholder is any shareholder that has an interest in the restructuring different from the other shareholders of the class or who bears a burden under the proposed restructuring that is less than proportionate to his shareholdings of the class.

Our Articles of Association specifically provide that an issue of up to 20% of domestic and H shares would not be a variation or abrogation of the rights of domestic shareholders or H shareholders, therefore, separate approval of the domestic shareholders or H Shareholders would not be required.

Each share is entitled to one vote on all matters submitted to a vote of our shareholders at all shareholders meetings, except for meetings of a special class of shareholders where only holders of shares of the affected class are entitled to vote on the basis of one vote per share of the affected class.



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Shareholders are entitled to attend and vote at meetings either in person or by proxy. Proxy authorization forms must be in writing and deposited at our company's principal offices, or at such other place specified in the notice of shareholders meeting not less than 24 hours before the time that such meeting will be held or the time appointed for passing upon the relevant resolutions. If a proxy authorization form is signed by a third party on behalf of the relevant shareholder, then such proxy authorization form must be accompanied by the signature authorization letter or other such document authorizing such third party to sign on behalf of the shareholder.

Except for those actions discussed below, which require supermajority votes, or special resolutions, resolutions of the shareholders are passed by a simple majority of the voting shares held by shareholders who are present in person or by proxy. Special resolutions must be passed by more than two-thirds of the voting rights represented by shareholders who are present in person or by proxy.

The following decisions must be adopted by special resolution:

an increase or reduction of our share capital or the issue of shares of any class, warrants and other similar securities;

the issue of our debentures;

our division, merger, dissolution and liquidation;

amendments to our Articles of Association;

significant acquisition or disposal of material assets or provision of guarantees conducted within the period of one year with a value exceeding 30% of our latest audited total assets;

share incentive schemes; and

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any other matters considered by the shareholders in a general meeting and which they have resolved by way of an ordinary resolution to be material and should be adopted by special resolution.

All other actions taken by the shareholders, including the appointment and removal of our directors and independent auditors and the declaration of normal dividend payments, will be decided by an ordinary resolution of the shareholders.

Our listing agreement with the HKSE provides that we may not permit amendments to certain sections of our Articles of Association that are subject to the Mandatory Provisions. These sections include provisions relating to (i) varying the rights of existing classes of shares, (ii) voting rights, (iii) our ability to purchase our own shares, (iv) rights of minority shareholders and (v) procedures on liquidation. In addition, certain amendments to the Articles of Association require the approval and assent of Chinese authorities.

### *Board of Directors*

Our Articles of Association authorize up to 12 directors. Directors are elected by shareholders at a general meeting for a three year term from among candidates nominated by the Board of Directors or by shareholders holding 3% or more of our shares (Independent Directors may be nominated by shareholders each holding 1% or more of our shares). Because our directors do not serve staggered terms, the entire Board of Directors will stand for election, and could be replaced, every three years. Our directors are not required to hold any shares in us, and there is no age limit requirement for the retirement or non- retirement of our directors.

In addition to obligations imposed by laws, administrative regulations or the listing rules of the stock exchanges on which our shares are listed, the Articles of Association place on each of our directors, supervisors, manager and any other senior officers a duty to each shareholder, in the exercise of our functions and powers entrusted to them:

not to cause us to exceed the scope of business stipulated in our business license;

to act honestly in what he considers our best interests;

not to expropriate our assets in any way, including (without limitation) usurpation of opportunities which may benefit us; and

not to expropriate the individual rights of shareholders, including (without limitation) rights to distributions and voting rights, except according to a restructuring which has been submitted to the shareholders for their approval in accordance with the Articles of Association.

Our Articles of Association further place on each of our directors, supervisors, manager and other senior officers:

a duty, in the exercise of their powers and discharge of their duties, to exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances;

a fiduciary obligation, in the discharge of his duties, not to place himself or herself in a position where his or her interests may conflict with his or her duty to us; and

a duty not to cause a person or an organization related or connected to him or her in specified relationships to do what they are prohibited from doing.

We pay all expenses that our directors incur for their services as directors. Directors also receive compensation for their services under service contracts that are negotiated by the Board of Directors and approved by the shareholders.

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Subject to the stipulations of relevant laws and regulations, the shareholders in a general meeting may by ordinary resolution remove any director before the expiration of his term of office. Except for the restrictions placed on the controlling shareholder, discussed below, our shareholders in general meeting have the power to relieve a director or supervisor from liability for specific breaches of duty.

Cumulative voting is required for a meeting of shareholders held for the election of two or more of our directors or supervisors as long as more than 30% of our outstanding shares are held by a single shareholder. Cumulative voting allows shareholders to cast a number of votes for a candidate equal to the number of shares held multiplied by the number of directors being elected at the shareholders' meeting. If a shareholder attempts to cast more votes than he is entitled to under this system, all of the shareholder's votes will be invalid and will be deemed an abstention.

More than one third of our directors of board must be independent from our shareholders and not hold any office with us (each, "Independent Director"). At least one Independent Director must be an accounting professional and all Independent Directors must possess a basic knowledge of the operations of a listed company and be familiar with relevant laws and rules and have at least five years working experience in law, economics or other area required for the fulfillment of responsibilities as an Independent Director. Independent Directors may not serve for terms exceeding six years. In addition, there are specific persons who are disqualified from acting as Independent Director. These include:

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immediate family members of persons who work for us or our associated entities;

persons or their immediate family who hold one percent or more of our shares or are among our ten largest shareholders;

any persons that satisfied the foregoing conditions within the past one year;

persons providing financial, legal, consultation or other services to us or our associated entities;

persons who already serve as Independent Director for five other listed companies; and

anyone identified by the CSRC as unsuitable for serving as an Independent Director.

If the resignation of an Independent Director would cause our Board of Directors to have less than one third Independent Directors, the resignation will only become effective after a new Independent Director has been appointed.

Our Board will be required to meet at least four times each year. Directors who miss two consecutive Board meetings without appointing an alternate director to attend on their behalf will be proposed for removal at the next shareholders' meeting, provided that Independent Directors may miss three consecutive meetings in person before being proposed for removal.

Directors may not vote on any matter in which he has a material interest, nor will he be counted for purposes of forming a quorum on such a matter.

Board resolutions are passed by a simple majority of the Directors except for the following matters which require the consent of more than two thirds of the Directors:

proposals for our financial policies;

the increase or reduction of our registered capital;

the issue of securities of any kind and their listing;

any repurchase of our shares;

significant acquisitions or disposals;

our merger, division or dissolution; and

any amendment to our Articles of Association.

Our Board of Directors or Supervisory Committee may nominate candidates for our Board of Directors and Supervisory Committee. In addition, shareholders holding one percent or more of our shares have the right to nominate candidates for Independent Director or Independent

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Supervisor and shareholders holding three percent or more of our shares have the right to nominate other candidates for Director or Supervisor. For candidates for Director, the nominator and candidates will be responsible for providing truthful and complete information about the candidate for disclosure. Candidates for Independent Director must publicly declare that there does not exist any relationship between himself and us that may influence his independent, objective judgment. The CSRC may veto any candidate for Independent Director.

Any material connected transactions are subject to prior approval by our Independent Directors. Connected transactions are those defined by the HKSE and by Chinese rules and regulations, but would generally include transactions with any of the following:

any company that, directly or indirectly, controls us or is under common control with us;

any shareholders owning 5% or more of our shares;

our directors, supervisors and other senior management;

any of our key technical personnel or key technology suppliers; and

any close relative or associate of any of the above.

Our Independent Directors can also propose to the Board of Directors the appointment or removal of our auditors, the convening of a Board meeting, independently appoint external auditors, solicit votes from shareholders and report circumstances directly to shareholders, Chinese securities regulatory authorities or other government departments. Two or more may request that the Board convene an extraordinary meeting of shareholders.

Our Independent Directors will have to express their opinion on specified matters to the Board or to the shareholders at a shareholders meeting, either by a single unanimous statement or individually. These matters are:

the nomination, removal and remuneration of directors or senior management;

any major loans or financial transactions with our shareholders or related enterprises and whether we have taken adequate steps to ensure repayment;

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matters that the Independent Director believes may harm the rights and interests of minority shareholders; and

any other matter that they are required to opine on by applicable law or rules.

These opinions must be expressed as either, agree, qualified agreement, opposition or unable to form an opinion. All but agreement must also be accompanied by a supporting explanation. If public disclosure of the matter is required, we must also disclose the opinions of our Independent Directors.

Any Independent Director may engage independent institutions to provide independent opinions as the basis of their decision. We must arrange the engagement and bear any costs.

### *Supervisory Committee*

The Supervisory Committee is responsible for supervising our directors and senior officers and preventing them from abusing their positions and powers or infringing upon the rights and interests of our company or those of our shareholders and employees. The Supervisory Committee has no power over the decisions or actions of our directors or officers except for requesting the directors or officers to correct any acts that are harmful to our interests. The Supervisory Committee is composed of seven members appointed for a three year term. It has the right to:

attend the meetings of our Board of Directors;

inspect our financial affairs;

supervise and evaluate the conduct of our directors, general manager and other senior officers in order to determine whether they violate any laws, regulations or the Articles of Association in performing their duties;

require our directors, general manager or other senior officers to correct any act harmful to our interests and those of our shareholders and employees;

verify financial reports, accounting reports, business reports, profit distribution plans and other financial information proposed to be tabled at the shareholders' general meeting, and entrust registered accountants and practicing accountants to re-review such documents upon its discovery of any problems;

require the Board of Directors to convene an extraordinary general meeting of shareholders;

represent us in negotiations with directors or in initiating legal proceedings against a director on our company's behalf;

conduct investigation into any identified irregularities in our operations, and where necessary, to engage accountants, legal advisers or other professionals to assist in the investigation; and

any other matters authorized by the Articles of Association.

One third of our Supervisory Committee members must be employee representatives appointed by our employees. The remaining members are appointed by the shareholders in a general meeting, provided that our directors, general manager and senior officers are not eligible to serve as supervisors. The Supervisory Committee must meet at least four times a year. Decisions of the Supervisory Committee can be passed by the

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consents of over two thirds of all the supervisors. We will pay all reasonable expenses incurred by the Supervisory Committee in appointing professional advisors, such as lawyers, accountants or auditors.

### *Liquidation Rights*

In the event of our liquidation, payment of borrowings out of our remaining assets will be made in the order of priority prescribed by applicable laws and regulations. After payment of borrowings, we will distribute the remaining property to shareholders according to the class and proportion of their shareholdings. For this purpose, the H shares will rank equally with the domestic shares.

### *Obligation of Shareholders*

Shareholders are not obligated to make any further contributions to our share capital other than as agreed by the subscriber of the relevant shares on subscription. This provision means that holders of ADSs will also not be obligated to make further contributions to our share capital.

### *Duration*

We are organized as a stock limited company of indefinite duration.

### *Increase in Share Capital*

The Articles of Association require that approval by a resolution of the shareholders be obtained prior to issuing new shares. New issues of shares must also be approved by the relevant Chinese authorities.

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### *Reduction of Share Capital and Purchase by Us of Our Shares*

We may reduce our registered share capital only upon obtaining the approval of the shareholders and, when applicable, relevant Chinese authorities. Repurchases may be made either by way of a general offer to all shareholders in proportion to their shareholdings, by purchasing our shares on a stock exchange or by an off-market contract with shareholders.

### *Restrictions on Large or Controlling Shareholders*

Our Articles of Association provide that, in addition to any obligation imposed by laws and administrative regulations or required by the listing rules of the stock exchanges on which our shares are listed, a controlling shareholder cannot exercise voting rights in a manner prejudicial to the interests of the shareholders generally or of some part of the shareholders:

to relieve a director or supervisor from his or her duty to act honestly in our best interest;

to approve the expropriation by a director or supervisor (for his or her own benefit or for the benefit of another person) of our assets in any way, including, without limitation, opportunities which may benefit us; or

to approve the expropriation by a director or supervisor (for his or her own benefit or for the benefit of another person) of the individual rights of other shareholders, including, without limitation, rights to distributions and voting rights (but not according to a restructuring of our company which has been submitted for approval by the shareholders in a general meeting in accordance with our Articles of Association).

A controlling shareholder, however, will not be precluded by our Articles of Association or any laws and administrative regulations or the listing rules of the stock exchanges on which our shares are listed from voting on these matters.

A controlling shareholder is defined by our Articles of Association as any person who, acting alone or together with others:

has the power to elect more than one-half of the Board of Directors;

has the power to exercise, or to control the exercise of, 30% or more of our voting rights;

holds 30% or more of our issued and outstanding shares; or

has *de facto* control of us in any other way.

### *Minutes, Accounts and Annual Report*

Our shareholders may inspect copies of the minutes of the shareholders' general meetings during our business hours free of charge. Shareholders are also entitled to receive copies of these minutes within seven days of receipt of the reasonable charges we may require.

Our fiscal year is the calendar year ending December 31. Each fiscal year, we must mail our financial report to shareholders not less than 21 days before the date of the shareholders' annual general meeting. These and any interim financial statements must be prepared in accordance with Chinese accounting standards and, for so long as H shares are listed on the HKSE, must also be prepared in accordance with or reconciled to either Hong Kong accounting standards or international accounting standards. The financial statements must be approved by an ordinary resolution of the shareholders at the annual general meeting.



Independent auditors are appointed each year by the shareholders at the annual meeting.

***C. Material Contracts.***

We have not entered into any material contracts in the last two years other than in the ordinary course of business and other than those described in Item 4. Information on the Company or elsewhere in this annual report on Form 20-F.

***D. Exchange Controls.***

Our Articles of Association require that cash dividends on our H Shares be declared in Renminbi and paid in HK dollars. The Articles of Association further stipulate that unless otherwise provided in law and administrative regulations, such dividends must be converted to HK dollars at a rate equal to the average of the closing exchange rates for HK dollars as announced by the Chinese Foreign Exchange Trading Center for the calendar week preceding the date on which the dividends are declared.

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The Renminbi currently is not a freely convertible currency. The SAFE, under supervision of the People's Bank of China ( PBOC ) controls the conversion of Renminbi into foreign currency. Chinese governmental policies were introduced in 1996 to reduce restrictions on the convertibility of Renminbi into foreign currency for current account items. In recent years, the Chinese government has gradually simplified and improved the foreign exchange administration policies in relation to capital items, such as the cancellation of foreign exchange registration and approval for domestic and overseas foreign direct investment. However, foreign exchange control over the capital items is not completely abolished. The limitations on foreign exchange could affect our ability to obtain foreign exchange through borrowings or equity financing, or to obtain foreign exchange for capital expenditures.

On July 21, 2005, the Chinese government changed its policy of pegging the Renminbi to the U.S. dollar. Under the new policy, the Renminbi is permitted to fluctuate within a narrow and managed band against a basket of certain foreign currencies. Since the adoption of this new policy, the value of the Renminbi has fluctuated daily within a narrow band, but overall has appreciated against the U.S. dollar. Nevertheless, the Chinese government continues to receive significant international pressure to further liberalize its currency policy which could result in a further and more significant appreciation in the value of the Renminbi against the U.S. dollar. The value of the Renminbi appreciated by 6.16% against the U.S. dollar in the year 2017.

While the impact of the foregoing developments is not entirely clear, it appears that the trend in the Chinese government's foreign exchange policy is toward easier convertibility of the Renminbi.

The holders of the ADSs will receive the HK dollar dividend payments in U.S. Dollars at conversion rates related to market rates and subject to fees as set forth in our Deposit Agreement with The Bank of New York Mellon, as Depositary. The HK dollar is currently linked to and trades within a narrow band against the U.S. dollar at a rate that does not deviate significantly from HK\$7.80 = U.S.\$1.00. The Hong Kong government has stated its intention to maintain such link, although there can be no guarantee that such link will be maintained.

### ***E. Taxation***

#### ***PRC Taxation***

The following is a summary of those taxes, including withholding provisions, to which United States security holders are subject under existing Chinese laws and regulations. The summary is subject to changes in Chinese law, including changes that could have retroactive effect. The summary does not take into account or discuss the tax laws of any country other than China, nor does it take into account the individual circumstances of a security holder. This summary does not purport to be a complete technical analysis or an examination of all potential tax effects under such laws and regulations.

#### ***Tax on Dividends***

##### ***For an Individual Investor***

According to the Individual Income Tax Law of the People's Republic of China, as amended on June 30, 2011 (the Individual Income Tax Law ) dividends paid by Chinese companies to individual investors are subject to Chinese withholding tax at a flat rate of 20%. As for a foreign individual investor that neither has a domicile nor resides in China, or that has no domicile and has resided in China for no more than one year, the dividends received by such an investor in China are generally subject to a withholding tax at a flat rate of 20% under the individual income tax law, subject to exemption or reduction by an applicable income tax treaty. According to the State Administration of Taxation's tax treatments with regard to the dividends of H shares paid by onshore non-foreign invested enterprises listed on HKEx, we will withhold and pay the individual income tax at the tax rate of 10% for individual shareholders who are residents of Hong Kong, Macau, or countries which have entered into tax treaties with mainland China, which provide for a 10% dividends tax rate, and we will temporarily withhold and pay the individual income tax at the tax rate of 10% for individual shareholders who are residents of countries which have entered into tax treaties with mainland China, which provide for a less than 10% dividends tax rate. Shareholders of H Shares may directly or through our Company apply to the in-charge tax authority for the preferential treatments provided by the relevant tax treaties. Upon the approval by the in-charge tax authority, the excessive amount being paid will be refunded. For individual shareholders who are residents of countries which have entered into tax treaties with mainland China providing for a more than 10% but less than 20% dividends tax rate, we will withhold and pay the individual income tax at the specific tax rate required therein. We will withhold and pay the individual income tax at the dividends tax rate of 20% for individual shareholders who are residents of countries which have not entered into any forms of tax treaties with mainland China or in circumstances other than above described.



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According to the Enterprise Income Tax Law of the People's Republic of China ( Enterprise Income Tax Law ) and its implementation rules, effective January 1, 2008, dividends by Chinese resident enterprises to non-resident enterprises are ordinarily subject to a Chinese withholding tax levied at a flat rate of 10%. For purposes of the Enterprise Income Tax Law, a Chinese resident enterprise is an enterprise which is either (i) set up in China in accordance with PRC laws or (ii) set up in accordance with the laws of a foreign country (region) but whose actual administrative headquarters is in China. For purposes of the Enterprise Income Tax Law, a non-resident enterprise is an enterprise which is set up in accordance with the laws of a foreign country (region) and whose actual administrative headquarters is located outside China but which has either (i) set up a legal presence in China or (ii) has income originating from China despite not having formally set up a legal presence in China. The State Administration of Taxation issued a *Circular on Issues Relating to the Withholding of Enterprise Income Tax for Dividends Distributed by Resident Enterprises in China to Non-resident Enterprises Holding H-shares of the Enterprises* (Guo Shui Han [2008] No. 897) on November 6, 2008, which further clarifies that Chinese resident enterprises should, in distributing dividends for 2008 or any year hereafter to non-resident enterprises holding H-shares of the Chinese resident enterprise, withhold enterprise income tax for such dividends at a tax rate of 10%. After receiving dividends, non-resident enterprises holding H-shares of any Chinese resident enterprise can, on their own or through an agent, file an application to the relevant taxation authorities for such dividends to be covered by any applicable tax treaty (or other arrangement). The relevant taxation authorities should, upon reviewing and verifying the application and supporting materials to be correct, refund the difference between the tax levied and the tax payable calculated at a tax rate specified by the applicable tax treaty (or other arrangement).

**Capital Gains Tax***For an Individual Investor*

So far as we are aware, in practice, capital gains derived by a foreign individual investor from the sale of overseas-listed shares are temporarily exempted from individual income tax.

*For a Corporation*

According to the Enterprise Income Tax Law and its implementation rules, a non-resident enterprise is subject to a 10% withholding tax for capital gains derived from the disposal of overseas-listed shares unless such payment is exempted or deducted pursuant to applicable double taxation treaties or otherwise. According to the Circular issued by the State Administration of Taxation on Issues regarding Income Tax Payable by Foreign Invested Enterprises, Foreign Enterprises and Individuals for Capital Gains Derived from the Disposal of Shares (Equity Interests) and Dividends (Guoshuifa [1993] No. 45), capital gains derived by a non-resident enterprise from the disposal of overseas-listed shares are temporarily exempted from withholding tax in China. However, this circular has been revoked in 2011. Therefore, technically, PRC withholding tax should be applied to non-resident enterprises on capital gains derived from the disposal of overseas-listed shares unless it is tax exempted under the applicable double tax treaty. So far as we are aware, practically, there is no consistent enforcement of the collection of such withholding tax in China at current stage. However, we are aware of cases where the PRC tax authorities try to levy PRC withholding tax when they became aware of the disposal of the overseas-listed shares that the profits from the disposal of shares are derived from China.

**Tax Treaties**

China has an income tax treaty with the United States that currently limits the rate of Chinese withholding tax to 10% for dividends paid to individuals and corporations that qualify for treaty benefits. However, this treaty does not offer reduced tax rates for capital gains.

However, if certain conditions under the double tax treaty are satisfied (*e.g.*, the shareholding in H-shares is less than 25% and the H-share company is not land rich ), the capital gains may be exempted from the 10% PRC withholding tax.

**Stamp Tax**

While no express exemption exists for the imposition of Chinese stamp tax on transfers of Overseas Shares pursuant to the Provisional Regulations of the People's Republic of China Concerning Stamp Tax effective on July 1, 1989, we are not aware of any circumstance under which Chinese stamp tax has actually been imposed on the transfer of Overseas Shares.

**Estate or Gift Tax**

China does not currently impose any estate or gift tax.

*U.S. Taxation*

The following is a summary of the material U.S. federal income tax consequences of the ownership and disposition of H Shares or ADSs to U.S. Holders (as defined below). The following discussion is not exhaustive of all possible tax considerations. This summary is based upon the Internal Revenue Code of 1986, as amended (the Code), regulations promulgated under the Code by the U.S. Treasury Department (including proposed and temporary regulations), rulings, current administrative interpretations and official pronouncements of the Internal Revenue Service (IRS), and judicial decisions, all as currently available and all of which are subject to differing interpretations or to change, possibly with retroactive effect. Such change could materially and adversely affect the tax consequences described below. No assurance can be given that the IRS will not assert, or that a court will not sustain, a position contrary to any of the tax consequences described below.

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This discussion does not address state, local, or foreign tax consequences, or the net investment income tax consequences, of the ownership and disposition of H Shares or ADSs. (See *PRC Taxation* above).

This summary is for general information only and does not address all aspects of U.S. federal income taxation that may be important to a particular holder in light of its investment or tax circumstances or to holders subject to special tax rules, such as: banks; financial institutions; insurance companies; dealers in stocks, securities, or currencies; entities treated as partnerships for U.S. federal income taxes or partners therein; traders in securities that elect to use a mark-to-market method of accounting for their securities holdings; tax-exempt organizations; real estate investment trusts; regulated investment companies; qualified retirement plans, individual retirement accounts, and other tax-deferred accounts; expatriates of the United States; individuals subject to the alternative minimum tax; persons holding H Shares or ADSs as part of a straddle, hedge, conversion transaction, or other integrated transaction; persons who acquired H Shares or ADSs pursuant to the exercise of any employee stock option or otherwise as compensation for services; persons actually or constructively holding 10% or more of the voting power or value of our stock; U.S. Holders (as defined below) whose functional currency is other than the U.S. dollar; and persons holding our H Shares or ADSs in connection with a trade or business conducted outside the United States.

**This discussion is not a comprehensive description of all of the U.S. federal tax consequences that may be relevant with respect to the ownership and disposition of H Shares or ADSs. We urge you to consult your own tax advisor regarding your particular circumstances and the U.S. federal income and estate tax consequences to you of owning and disposing of H Shares or ADSs, as well as any tax consequences arising under the laws of any state, local, or foreign or other tax jurisdiction and the possible effects of changes in U.S. federal or other tax laws.**

This summary is directed solely to U.S. Holders (defined below) who hold their H Shares or ADSs as capital assets within the meaning of Section 1221 of the Code, which generally means as property held for investment. For purposes of this discussion, the term *U.S. Holder* means a beneficial owner of H Shares or ADSs that is any of the following:

a citizen or resident of the United States or someone treated as a U.S. citizen or resident for U.S. federal income tax purposes;

a corporation (or other entity taxable as a corporation for U.S. federal income tax purposes) created or organized in or under the laws of the United States, any state thereof, or the District of Columbia; or

a trust or estate, the income of which is subject to U.S. federal income taxation regardless of its source.

### *ADSs*

As it relates to the ADSs, this discussion is based in part upon the representations of the depository and the assumption that each obligation in the Deposit Agreement and any related agreement will be performed in accordance with its terms.

Generally, a holder of ADSs will be treated as the owner of the underlying H Shares represented by those ADSs for U.S. federal income tax purposes. Accordingly, no gain or loss will be recognized if the holder exchanges ADSs for the underlying H Shares represented by those ADSs. The holder's adjusted tax basis in the H Shares will be the same as the adjusted tax basis of the ADSs surrendered in exchange therefor, and the holding period for the H Shares will include the holding period for the surrendered ADSs.

### *TAXATION OF U.S. HOLDERS*

The discussion in *Distributions on H Shares or ADSs* and *Dispositions of H Shares or ADSs* below assumes that we will not be treated as a PFIC for U.S. federal income tax purposes. For a discussion of the rules that apply if we are treated as a PFIC, see the discussion in *Passive Foreign Investment Company* below.

### *Distributions on H Shares or ADSs*

*General.* Subject to the discussion in *Passive Foreign Investment Company* below, if you actually or constructively receive a distribution on H Shares or ADSs, you must include the distribution in gross income as a taxable dividend on the date of your (or in the case of ADSs, the depository's) receipt of the distribution, but only to the extent of our current or accumulated earnings and profits, as calculated under U.S. federal

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income tax principles. Such amount must be included without reduction for any foreign taxes withheld. Dividends paid by us will not be eligible for the dividends received deduction allowed to corporations with respect to dividends received from certain domestic corporations. Dividends paid by us may or may not be eligible for preferential rates applicable to qualified dividend income, as described below.

To the extent a distribution exceeds our current and accumulated earnings and profits, it will be treated first as a non-taxable return of capital to the extent of your adjusted tax basis in the H Shares or ADSs, and thereafter as capital gain. Preferential tax rates for long term capital gain may be applicable to non-corporate U.S. Holders.

We do not intend to calculate our earnings and profits under U.S. federal income tax principles. Therefore, you should expect that a distribution generally will be reported as a dividend even if that distribution would otherwise be treated as a non-taxable return of capital or as capital gain under the rules described above.

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**Qualified Dividend Income.** With respect to non-corporate U.S. Holders (*i.e.*, individuals, trusts, and estates), dividends that are treated as qualified dividend income ( QDI ) are taxable at a maximum tax rate of 20%. Among other requirements, dividends generally will be treated as QDI if either (i) our H Shares or ADSs are readily tradable on an established securities market in the United States, or (ii) we are eligible for the benefits of a comprehensive income tax treaty with the United States which includes an information exchange program and which is determined to be satisfactory by the U.S. Treasury. It is expected that our ADSs will be readily tradable as a result of being listed on the NYSE.

In addition, for dividends to be treated as QDI, we must not be a PFIC (as discussed below) for either the taxable year in which the dividend was paid or the preceding taxable year. We do not believe that we were a PFIC for the preceding taxable year or will be a PFIC for the current taxable year. However, please see the discussion under **Passive Foreign Investment Company** below. Additionally, in order to qualify for QDI treatment, you generally must have held the H Shares or ADSs for more than 60 days during the 121-day period beginning 60 days prior to the ex-dividend date. However, your holding period will be reduced for any period during which the risk of loss is diminished.

Moreover, a dividend will not be treated as QDI to the extent you are under an obligation (whether pursuant to a short sale or otherwise) to make related payments with respect to positions in substantially similar or related property. Since the QDI rules are complex, you should consult your own tax advisor regarding the availability of the preferential tax rates for dividends paid on H Shares or ADSs.

**Foreign Currency Distributions.** A dividend paid in foreign currency (*e.g.*, Hong Kong dollars or Chinese Renminbi) must be included in your income as a U.S. dollar amount based on the exchange rate in effect on the date such dividend is received, regardless of whether the payment is in fact converted to U.S. Dollars. If the dividend is converted to U.S. Dollars on the date of receipt, you generally will not recognize a foreign currency gain or loss. However, if you convert the foreign currency to U.S. Dollars on a later date, you must include in income any gain or loss resulting from any exchange rate fluctuations. The gain or loss will be equal to the difference between (i) the U.S. dollar value of the amount you included in income when the dividend was received and (ii) the amount that you receive on the conversion of the foreign currency to U.S. Dollars. Such gain or loss generally will be ordinary income or loss and U.S. source for U.S. foreign tax credit purposes.

**Foreign Tax Credits.** Subject to certain conditions and limitations, any foreign taxes paid on or withheld from distributions from us and not refundable to you may be credited against your U.S. federal income tax liability or, alternatively, may be deducted from your taxable income. This election is made on a year-by-year basis and applies to all foreign taxes paid by you or withheld from you that year.

Distributions will constitute foreign source income for foreign tax credit limitation purposes. The foreign tax credit limitation is calculated separately with respect to specific classes of income. For this purpose, distributions characterized as dividends distributed by us generally will constitute passive category income or, in the case of certain U.S. Holders, general category income. Special limitations may apply if a dividend is treated as QDI (as defined above).

Since the rules governing foreign tax credits are complex, you should consult your own tax advisor regarding the availability of foreign tax credits in your particular circumstances.

**Dispositions of H Shares or ADSs**

Subject to the discussion in **Passive Foreign Investment Company** below, you generally will recognize taxable gain or loss realized on the sale or other taxable disposition of H Shares or ADSs equal to the difference between the U.S. dollar value of (i) the amount realized on the disposition (*i.e.*, the amount of cash plus the fair market value of any property received), and (ii) your adjusted tax basis in the H Shares or ADSs. Such gain or loss will be a capital gain or loss. Capital gain from the sale or other taxable disposition of H Shares or ADSs held by certain non-corporate U.S. Holders will be taxed at preferential rates if such H Shares or ADSs have been held for more than one year and certain other requirements are met. The deductibility of capital losses is subject to limitations. Any gain or loss recognized generally will be treated as gain or loss from sources within the United States for U.S. foreign tax credit limitation purposes.

You should consult your own tax advisor regarding the U.S. federal income tax consequences if you receive currency other than U.S. Dollars upon the disposition of H Shares or ADSs.

**Passive Foreign Investment Company**

We generally will be a PFIC under Section 1297 of the Code if, for a taxable year, either (a) 75% or more of our gross income for such taxable year is passive income (the income test) or (b) 50% or more of the average percentage, generally determined by fair market value, of our assets during such taxable year either produce passive income or are held for the production of passive income (the asset test). Passive income includes, for example, dividends, interest, certain rents and royalties, certain gains from the sale of stock and securities, and certain gains from commodities transactions.





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Certain look through rules apply for purposes of the income and asset tests described above. If we own, directly or indirectly, 25% or more of the total value of the outstanding shares of another corporation, we generally will be treated as if we (a) held directly a proportionate share of the other corporation's assets, and (b) received directly a proportionate share of the other corporation's income. In addition, passive income does not include any interest, dividends, rents, or royalties that are received or accrued by us from a related person (as defined in Section 954(d)(3) of the Code), to the extent such items are properly allocable to income of such related person that is not passive income.

Under the income and asset tests, whether or not we are a PFIC will be determined annually based upon the composition of our income and the composition and valuation of our assets, all of which are subject to change. In determining that we are not a PFIC, we are relying on a current valuation of our assets including goodwill, not reflected in our financial statements, and our projection of our income for the current year. We determine the value of our assets in large part by reference to the market value of our ordinary shares at the end of each quarter. We believe this valuation approach is reasonable. However, if the IRS successfully challenged our valuation of our assets, or if the market price of our ordinary shares were to fluctuate, it could result in our classification as a PFIC.

We do not believe that we are currently a PFIC. However, because the PFIC determination is highly fact intensive and made at the end of each taxable year, there can be no assurance that we will not be a PFIC for the current or any future taxable year or that the IRS will not challenge our determination concerning our PFIC status.

If we are a PFIC for any taxable year during which a U.S. Holder holds H Shares or ADSs, we generally will continue to be treated as a PFIC with respect to such holder for all succeeding years during which such holder holds H Shares or ADSs, regardless of whether we continue to meet the income or asset test. If we are classified as a PFIC, U.S. Holders could be subject to additional taxes and a special interest charge in respect of gain recognized on the sale or other disposition of such holder's H Shares or ADSs and upon the receipt of excess distributions (as defined in the Code). In addition, no distribution that U.S. Holders receive from us would qualify for taxation at the preferential rate discussed in

Distributions on H Shares or ADSs above, if we were a PFIC for the taxable year of such distribution or for the preceding taxable year. Moreover, U.S. Holders may be required to file annual tax returns (including on Form 8621) containing such information as the U.S. Treasury requires.

### ***Information reporting regarding specified foreign financial assets***

Certain U.S. Holders who are individuals (and under proposed regulations, certain entities) may be required to report information relating to an interest in our H Shares or ADSs, subject to certain exceptions (including an exception for shares held in accounts maintained by U.S. financial institutions). U.S. Holders are urged to consult their tax advisors regarding their information reporting obligations, if any, with respect to their ownership and disposition of our H Shares or ADSs. In the event a U.S. Holder does not file such required reports, the statute of limitations on the assessment and collection of U.S. federal income taxes of such U.S. holder for the related tax year will not close before such report is filed.

If you are a U.S. Holder, you are urged to consult with your own tax advisor regarding the application of the specified foreign financial assets information reporting requirements and related statute of limitations tolling provisions with respect to our H Shares and ADSs.

### ***Information Reporting and Backup Withholding***

Generally, information reporting requirements will apply to distributions on H Shares or ADSs or proceeds from the disposition of H Shares or ADSs paid within the United States (and, in certain cases, outside the United States) to a U.S. Holder unless such U.S. Holder is an exempt recipient, such as a corporation. Furthermore, backup withholding (currently at 24%) may apply to such amounts unless such U.S. Holder (i) is an exempt recipient that, if required, establishes its right to an exemption, or (ii) provides its taxpayer identification number, certifies that it is not currently subject to backup withholding, and complies with other applicable requirements.

A U.S. Holder may generally avoid backup withholding by furnishing a properly completed IRS Form W-9.

Backup withholding is not an additional tax. Rather, amounts withheld under the backup withholding rules may be credited against your U.S. federal income tax liability. Furthermore, you may obtain a refund of any excess amounts withheld by filing an appropriate claim for refund with the IRS and furnishing any required information in a timely manner.

### ***F. Dividends and Paying Agents.***

Not applicable.

### ***G. Statement by Experts.***

Not applicable.

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We are subject to the periodic reporting and other informational requirements of the Securities Exchange Act of 1934, as amended, or the Exchange Act. Under the Exchange Act, we are required to file reports and other information with the Securities and Exchange Commission. Specifically, we are required to file annually a Form 20-F no later than four months after the close of each fiscal year, which is December 31 of each year. Copies of reports and other information, when so filed, may be inspected without charge and may be obtained at prescribed rates at the public reference facilities maintained by the Securities and Exchange Commission at 100 F Street, N.E., Washington, D.C. 20549. You can request copies of these documents upon payment of a duplicating fee, by writing to the SEC. Please call the SEC at 1-800-SEC-0330 for further information on the operation of the public reference rooms. The SEC also maintains a Web site at [www.sec.gov](http://www.sec.gov) that contains reports, proxy and information statements, and other information regarding registrants that make electronic filings with the SEC using its EDGAR system. As a foreign private issuer, we are exempt from the rules under the Exchange Act prescribing the furnishing and content of quarterly reports and proxy statements, and officers, directors and principal shareholders are exempt from the reporting and short- swing profit recovery provisions contained in Section 16 of the Exchange Act.

**I. Subsidiary Information.**

Not applicable.

**ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.**

Our market risk exposures primarily consist of fluctuations in oil and gas prices, exchange rates and interest rates.

**Commodity Price Risk**

We are exposed to commodity price risk related to price volatility of crude oil and refined oil products. We had no program of commodity price hedging activities and did not engage in any such activities in 2016 or 2017. See Item 3. Key Information D. Risk Factors Our operations may be adversely affected by the cyclical nature of the petroleum and petrochemical market and by the volatility of prices of crude oil and petrochemical products.

**Interest Rate Risk**

We are subject to risk resulting from fluctuations in interest rates. Our borrowings are fixed and variable rate bank and other borrowings, with original maturities ranging from 1 to 5 years. Accordingly, fluctuations in interest rates can lead to significant fluctuations in the fair value of such debt instruments. We had no program of interest rate hedging activities and did not engage in any such activities in 2016 or 2017.

The following table provides information, by maturity date, regarding our interest rate sensitive financial instruments, which consist of fixed and variable rate short term and long term debt obligations, as of December 31, 2017 and 2016.

|   | As of December 31, 2017 |      |      |      |      | Total<br>Recorded<br>Amount | Fair Value |
|---|-------------------------|------|------|------|------|-----------------------------|------------|
|   | 2018                    | 2019 | 2020 | 2021 | 2022 |                             |            |
| <b>Fixed rate bank and other loans</b>    |                         |      |      |      |      |                             |            |
| In U.S. Dollars                           |                         |      |      |      |      |                             |            |
| Average interest rate                     |                         |      |      |      |      |                             |            |
| In RMB                                    |                         |      |      |      |      |                             |            |
| Average interest rate <sup>(1)</sup>      |                         |      |      |      |      |                             |            |
| <b>Variable rate bank and other loans</b> |                         |      |      |      |      |                             |            |
| In U.S. Dollars                           |                         |      |      |      |      |                             |            |
| Average interest rate <sup>(1)</sup>      |                         |      |      |      |      |                             |            |
| In RMB                                    | 606,157                 |      |      |      |      | 606,157                     | 606,157    |
| Average interest rate <sup>(1)</sup>      | 2.93%                   |      |      |      |      | 2.93%                       | 2.93%      |

- (1) The average interest rates for variable rate bank and other loans are calculated based on the year end indices.

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|   | As of December 31, 2016 |      |      |      |      | Total<br>Recorded<br>Amount | Fair Value |
|---|-------------------------|------|------|------|------|-----------------------------|------------|
|   | 2017                    | 2018 | 2019 | 2020 | 2021 |                             |            |
| <b>Fixed rate bank and other loans</b>    |                         |      |      |      |      |                             |            |
| In U.S. Dollars                           |                         |      |      |      |      |                             |            |
| Average interest rate                     |                         |      |      |      |      |                             |            |
| In RMB                                    | 500,000                 |      |      |      |      | 500,000                     | 500,000    |
| Average interest rate <sup>(1)</sup>      | 2.97%                   |      |      |      |      | 2.97%                       | 2.97%      |
| <b>Variable rate bank and other loans</b> |                         |      |      |      |      |                             |            |
| In U.S. Dollars                           |                         |      |      |      |      |                             |            |
| Average interest rate <sup>(1)</sup>      |                         |      |      |      |      |                             |            |
| In Euro                                   |                         |      |      |      |      |                             |            |
| Average interest rate <sup>(1)</sup>      |                         |      |      |      |      |                             |            |
| In RMB                                    | 46,432                  |      |      |      |      | 46,432                      | 46,432     |
| Average interest rate <sup>(1)</sup>      | 4.35%                   |      |      |      |      | 4.35%                       | 4.35%      |

(1) The average interest rates for variable rate bank and other loans are calculated based on the year end indices.

**Exchange Rate Risk**

We are also exposed to foreign currency exchange rate risk as a result of our foreign currency denominated short term borrowing and, to a limited extent, cash and cash equivalents denominated in foreign currencies. The following table provides information, by maturity date, regarding our foreign currency exchange rate sensitive financial instruments, which consist of cash and cash equivalents, short term debt obligations as of December 31, 2017 and 2016.

|  | As of December 31, 2017 |      |      |      |      |            | Total<br>Recorded<br>Amount | Fair Value |
|--|-------------------------|------|------|------|------|------------|-----------------------------|------------|
|  | 2018                    | 2019 | 2020 | 2021 | 2022 | Thereafter |                             |            |
| <b>On-balance sheet financial instruments</b>      |                         |      |      |      |      |            |                             |            |
| Cash and cash equivalents:                         |                         |      |      |      |      |            |                             |            |
| In Hong Kong Dollars                               |                         |      |      |      |      |            |                             |            |
| In U.S. Dollars                                    | 247,549                 |      |      |      |      |            | 247,549                     | 247,549    |
| In Euro  |                         |      |      |      |      |            |                             |            |
| In Japanese Yen                                    |                         |      |      |      |      |            |                             |            |
| In Swiss Frank                                     |                         |      |      |      |      |            |                             |            |
| Debt:  |                         |      |      |      |      |            |                             |            |
| Fixed rate bank and other loans in U.S. Dollars    |                         |      |      |      |      |            |                             |            |
| Average interest rate <sup>(1)</sup>               |                         |      |      |      |      |            |                             |            |
| Variable rate bank and other loans in U.S. Dollars |                         |      |      |      |      |            |                             |            |
| Average interest rate <sup>(1)</sup>               |                         |      |      |      |      |            |                             |            |

(1) The average interest rates for variable rate bank and other loans are calculated based on the year end indices.

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|  | As of December 31, 2016 |      |      |      |      | Total<br>Recorded<br>Amount | Fair<br>Value |
|--|-------------------------|------|------|------|------|-----------------------------|---------------|
|  | 2017                    | 2018 | 2019 | 2020 | 2021 |                             |               |
| (RMB equivalent in thousands, except interest rates) |                         |      |      |      |      |                             |               |
| On-balance sheet financial instruments               |                         |      |      |      |      |                             |               |
| Cash and cash equivalents:                           |                         |      |      |      |      |                             |               |
| In Hong Kong Dollars                                 |                         |      |      |      |      |                             |               |
| In U.S. Dollars                                      | 249,281                 |      |      |      |      | 249,281                     | 249,281       |
| In Euro  |                         |      |      |      |      |                             |               |
| In Japanese Yen                                      |                         |      |      |      |      |                             |               |
| In Swiss Frank                                       |                         |      |      |      |      |                             |               |
| Debt:  |                         |      |      |      |      |                             |               |
| Fixed rate bank and other loans in U.S. Dollars      |                         |      |      |      |      |                             |               |
| Average interest rate <sup>(1)</sup>                 |                         |      |      |      |      |                             |               |
| Variable rate bank and other loans in U.S. Dollars   |                         |      |      |      |      |                             |               |
| Average interest rate <sup>(1)</sup>                 |                         |      |      |      |      |                             |               |
| Variable rate bank and other loans in EURO           |                         |      |      |      |      |                             |               |
| Average interest rate <sup>(1)</sup>                 |                         |      |      |      |      |                             |               |

(1) The average interest rates for variable rate bank and other loans are calculated based on the year end indices.

**ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES.****A. Debt Securities.**

Not applicable.

**B. Warrants and Rights.**

Not applicable.

**C. Other Securities.**

Not applicable.

**D. American Depositary Shares.**

In connection with our ADR program, a holder of our ADSs may have to pay, either directly or indirectly, certain fees and charges, as described in Item 12.D.3. In addition, we receive fees and other direct and indirect payments from The Bank of New York Mellon that are related to our ADS as described in Item 12.D.4.

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***12.D.3 Fees and Charges that a holder of our ADSs May Have to Pay***

The Bank of New York Mellon collects its fees for delivery and surrender of ADSs directly from investors depositing shares or surrendering ADSs for the purpose of withdrawal or from intermediaries acting for them. The Bank of New York Mellon also collects fees for making distributions to investors by deducting those fees from the amounts distributed or by selling a portion of distributable property to pay the fees. The Bank of New York Mellon may collect its annual fee for depositary services by deductions from cash distributions.

**Persons depositing or withdrawing shares must pay:**

\$5.00 (or less) per 100 ADSs (or portion of 100 ADSs)

A fee equivalent to the fee that would be payable if securities distributed to you had been shares and the shares had been deposited for issuance of ADSs

A fee of \$.05 (or less) per ADS (or portion thereof)

Registration or transfer fees

Expenses of The Bank of New York Mellon

Taxes and other governmental charges The Bank of New York Mellon or the custodian have to pay on any ADS or share underlying an ADS, for example, stock transfer taxes, stamp duty or withholding taxes

Any charges incurred by The Bank of New York Mellon or its agents for servicing the deposited securities

***12.D.4 Fees and Other Payments Made by the Bank of New York Mellon***

From January 1, 2017 through March 31, 2018, a total of U.S.\$92,238.16 was paid by the Bank of New York Mellon on our behalf for our ADSs program. The standard out-of-pocket maintenance costs for our ADSs program were U.S.\$163,491.79, which have been waived by the Bank of New York Mellon.

**For:**

Issuance and withdrawal of ADSs, including issuances resulting from a distribution of shares or rights or other property

Distribution of securities distributed to holders of deposited securities which are distributed by The Bank of New York Mellon to ADS registered holders

Any cash distribution made pursuant to the Deposit Agreement

Transfer and registration of shares on our share register to or from the name of the depositary or its agent when you deposit or withdraw shares

Cable, telex and facsimile transmissions (when expressly provided in the Deposit Agreement);

Converting foreign currency to U.S. Dollars

As necessary

As necessary



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**PART II**

**ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES.**

None.

**ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS.**

On May 11, 2011, we entered into an Amended and Restated Deposit Agreement with The Bank of New York Mellon, as Depositary (the Restated Deposit Agreement ), and updated the form of American Depositary Receipt (the ADR ) evidencing the ADSs issued under the terms of the Restated Deposit Agreement. The Restated Deposit Agreement restates our original Deposit Agreement with The Bank of New York (the predecessor of The Bank of New York Mellon), dated as of July 23, 1993 (as amended, the 1993 Deposit Agreement ), in its entirety.

We and The Bank of New York Mellon entered into the Restated Deposit Agreement to modify the ADSs voting process and to bring our arrangements with The Bank of New York Mellon in line with the current customary market practice regarding depositary arrangements.

By the Restated Deposit Agreement, subject to the Depositary's obligation to notify the owner of ADSs of any meeting of holders of our shares or other deposited securities, and subject further to certain exceptions as provided therein, to the extent that no instructions are received by the Depositary from an owner of ADSs on or before the date established by the Depositary, the Depositary may deem instructions by the owner of the ADS have been given to give a discretionary proxy to a person designated by us to exercise voting rights in the meeting of holders of our shares or other deposited securities.

In addition, the Restated Deposit Agreement amends the 1993 Deposit Agreement, among other things, to (i) provide the American Depositary Shares may be uncertificated securities or certificated securities evidenced by ADRs, and (ii) change the fees and charges of the Depositary, see Item 12D.3 Fees and Charges that a holder of our ADSs May Have to Pay.

The foregoing descriptions of the Restated Deposit Agreement and the ADR do not purport to be complete and are qualified in their entirety by reference to the complete Restated Deposit Agreement and ADR which are incorporated herein by reference to Exhibit 2 and the forms filed on Form F-6 (File number 033-65616) on May 4, 2011.

**ITEM 15. CONTROLS AND PROCEDURES.**

***(a). Disclosure Controls And Procedures.***

The term disclosure controls and procedures is defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act. These rules refer to the controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files under the Exchange Act is recorded, processed, summarized and reported within required time periods. This includes controls and procedures designed to ensure that information required to be disclosed is accumulated and communicated to our management, including our principal executive officer or officers and principal financial officer or officers, to allow timely decisions regarding required disclosure.

We maintain a written policy adopted by our Board of Directors that governs the collection, coordination and disclosure of information to our shareholders, the public and to governmental and other regulatory bodies. All such disclosures are coordinated by the Secretary to our Board of Directors and subject to execution by either the Chairman of our Board of Directors or, for disclosures by our Supervisory Committee, the Chairman of the Supervisory Committee. Under the policy, all material issues must be disclosed and our disclosures must be true, accurate, complete and timely without any false or misleading statements. Each of our departments and subsidiaries has their own supplemental policies which may be both written and unwritten.

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Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934) as of the end of the fiscal year covered by this annual report. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of the fiscal year covered by this annual report, our disclosure controls and procedures were effective to ensure that information required to be disclosed in the reports we file under the Exchange Act is accumulated and communicated to the management to allow timely decisions to be made regarding required disclosures, and is recorded, processed, summarized and reported as and when required.

### ***(b). Management's Report on Internal Control over Financial Reporting.***

Our management is accountable for establishing and maintaining effective internal control over financial reporting (as defined in Rules 13a-15(f) of the Securities Exchange Act of 1934). The Company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

Because of its inherent limitations, internal control over financial reporting cannot provide absolute assurance of achieving financial reporting objectives and may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become ineffective because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Our management assessed the effectiveness of our internal control over financial reporting based upon the criteria established in *Internal Control-Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) as of December 31, 2017. Based on that evaluation, our management has concluded that our internal control over financial reporting was effective as of December 31, 2017 based on these criteria.

PricewaterhouseCoopers Zhong Tian LLP ( PwC ), an independent registered public accounting firm, has audited the consolidated financial statements included in this annual report on Form 20-F and, as part of the audit, has issued a report, included herein, on the effectiveness of our internal control over financial reporting.

### ***(c). Report of Independent Registered Public Accounting Firm.***

Our independent auditors have issued an audit report on the effectiveness of our internal control over financial reporting. This report appears on page F-2.

### ***(d). Changes in Internal Control over Financial Reporting.***

For the year ended December 31, 2017, there have been no changes to our internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect our internal control over financial reporting.

## **ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT.**

Our Board of Directors has determined that Ms. Li Yuanqin who is currently serving on our audit committee, is an audit committee financial expert and is an Independent Director (under the standards set forth in the NYSE rules and Rule 10A-3 of the Exchange Act).

## **ITEM 16B. CODE OF ETHICS.**

Sinopec Group Company, the controlling shareholder of Sinopec Corp., adopted a Staff Code in 2014 to provide disciplines and requirements for its staff's conducts, including legal and ethical matters as well as the sensitivities involved in reporting illegal and unethical matters. The Staff Code covers such areas as health, safety and environment, conflict of interests, anti-corruption, protection and proper use of our assets and properties, as well as reporting requirements. The Staff Code also applies to all directors, officers and employees of each subsidiary of Sinopec Group Company, including us. We have provided all our directors and senior officers with a copy of the Staff Code and required them to comply with it in order to ensure our operations are proper and lawful. We have posted the Staff Code on the following website:  
<http://www.sinopec.com/listco/en/Resource/Pdf/ygsz2014b.pdf>.



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The following table summarizes the fees charged by PwC, our principal accountant, for certain services rendered to us during 2016 and 2017.

|                        | For the year ended<br>December 31,<br>(in thousands of RMB) |       |
|------------------------|---|-------|
|                        | 2016  | 2017  |
| Audit fees (1)         | 7,800   | 7,800 |
| Audit-related fees (2) |   |       |
| Tax fees (3)           |   |       |
| All other fees (4)     |   | 150   |
| Total                  | 7,800   | 7,950 |

- (1) Audit fees means the aggregate fees billed in each of the fiscal years listed for professional services rendered by our principal auditors for the audit of our annual financial statements.
- (2) Audit-related fees means the aggregate fees billed in each of the fiscal years listed for assurance and related services rendered by our principal auditors for the audit of our financial information.
- (3) Tax fees means the aggregate fees billed in each of the fiscal years listed for professional services rendered by our principal auditors for tax compliance, tax advice and tax planning.
- (4) All other fees means the aggregate fees billed in each of the fiscal years listed for products and services provided by the our principal accountant, other than the services reported under audit fees, audit-related fees and tax fees.

***Audit Committee Pre-approval Policies and Procedures***

Our audit committee has adopted procedures which set forth the manner in which the committee will review and approve all audit and non-audit services to be provided by PwC. The pre-approval procedures are as follows:

Any audit or non-audit service to be provided to us by the independent accountant must be (i) pre-approved by the audit committee; or (ii) pre-approved by one or several committee members designated by the committee and rectified by the audit committee.

**ITEM 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES.**

Not applicable.

**ITEM 16E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS.**

None.

**ITEM 16F. CHANGE IN REGISTRANT S CERTIFYING ACCOUNTANT.**

Not applicable.

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**ITEM 16G. CORPORATE GOVERNANCE.**

Set forth below is a summary of the significant differences between the corporate governance rules of the NYSE and those of the People's Republic of China for listed companies:

|   | NYSE Corporate Governance Rules   | The Company's Corporate Governance Practices   |
|---|---|--|
| Director Independence                     | A listed company must have a majority of independent directors on its board of directors. The board of directors needs to affirmatively determine that the director has no material relationship with the listed company (either directly or as a partner, shareholder or officer of an organization that has a relationship with the company). In addition, a director must meet certain standards to be deemed independent. | <p>(which conform with the corporate governance rules for companies organized and listed in the People's Republic of China)</p> <p>It is required in China that no less than 1/3rd of the board members of any listed company must be independent directors, and the listed company must set forth specific requirements for the qualification and election of independent directors in compliance with PRC laws. For example, an independent director shall not hold any other position in the listed company other than being a director and shall not be influenced by the main shareholders or the controlling persons of the listed company, or by any other entities or persons with whom the listed company has a significant relationship.</p>                                 |
| Nominating/Corporate Governance Committee | <p>The non-management directors of each listed company must meet at regularly scheduled executive sessions without management.</p> <p>Listed companies must have a nominating/corporate governance committee composed entirely of independent directors.</p>  | <p>The Company has complied with the relevant Chinese corporate governance rules and has implemented internal rules governing the independence and responsibilities of independent directors. The Company determines the independence of independent directors every year.</p> <p>No similar requirements.</p> <p>The board of directors can establish a nominating committee if the shareholders pass resolutions to establish such a committee. A majority of the directors on the committee shall be independent directors, who shall act as the convener. The board of directors, which formulates relevant written guidelines with respect to the nomination of directors, has established a nominating committee with a majority of the members being independent directors.</p> |



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|                               |  |   |
|-------------------------------|--|---|
|                               | <p>The nominating/corporate governance committee must have a written charter that addresses:</p> <p>(i) the committee's purpose and responsibilities - which, at minimum, must be to: identify individuals qualified to become board members, consistent with criteria approved by the board, and to select, or to recommend that the board select, the director nominees for the next annual meeting of shareholders; develop and recommend to the board a set of corporate governance guidelines applicable to the corporation; and oversee the evaluation of the board and management; and</p> <p>(ii) an annual performance evaluation of the committee.</p>   | <p>Relevant responsibilities of the nominating committee are similar to those stipulated by the NYSE rules, but the main responsibilities do not include the research and recommendation of corporate governance guidelines, the supervision of the evaluation of the board of directors and management, or the annual evaluation of the committee.</p>   |
| <p>Compensation Committee</p> | <p>Listed companies must have a compensation committee composed entirely of independent directors.</p> <p>The purposes and responsibilities of the compensation committee stated in its charter must include:</p> <p>(1) reviewing and approving the corporate goals and objectives associated with the CEO's compensation, evaluate the performance of the CEO in fulfilling these goals and objectives, and, either as a committee or together with the other independent directors (as directed by the board), determine and approve the CEO's compensation level based on such evaluation;</p> <p>(2) making recommendations to the board with respect to non-CEO executive officer compensation, and incentive-compensation and equity-based plans that are subject to board approval; and</p> <p>(3) producing a committee report on executive compensation as required by the SEC to be included in the annual proxy statement or annual report filed with the SEC.</p> | <p>The board of directors can establish a compensation and assessment committee if the shareholders pass resolutions to establish such a committee. A majority of the directors on the committee shall be independent directors, who shall act as the convener.</p> <p>The responsibilities of the compensation and assessment committee include:</p> <p>(1) reviewing the standards for the evaluation of directors and management, evaluate directors and management and report the results of such evaluation to the board of directors; and</p> <p>(2) reviewing compensation policies and benefit plans for directors and executive officers.</p> <p>Unlike the NYSE rules, the PRC rules do not require the committee to produce a report on the executive compensation or make an annual performance evaluation of the committee. In addition, the compensation committee evaluates and reviews the compensation of directors as well as executive officers.</p> <p>The board of directors of the Company has established a compensation evaluation committee with a majority of the members</p> |

The charter must also include the requirement for an annual performance evaluation of the compensation committee. being independent directors who act as the convener, and the committee has established a written charter complying with the domestic corporate governance rules.



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|                    |  |   |
|--------------------|--|---|
| Audit Committee    | <p>Listed companies must have an audit committee that satisfies the requirements of Rule 10A-3 of the Securities Exchange Act of 1934, as amended (the Exchange Act ). It must have a minimum of three members, and all audit committee members must satisfy the requirements for independence set forth in Section 303A.02 of the NYSE Corporate Governance Rules and , in the absence of an applicable exemption, Rule 10A-3b(1) of the Exchange Act.</p> <p>The written charter of the audit committee must specify that the purpose of the audit committee is to assist the board oversight of the integrity of financial statements, the company s compliance with legal and regulatory requirements, the qualifications and independence of the independent auditors, the performance of the listed company s internal audit function and independent auditors.</p> <p>The written charter must also require the audit committee to prepare an audit committee report as required by the SEC to be included in the listed company s annual proxy statement as well as an annual performance evaluation of the audit committee.</p> <p>The written charter must also address the duties and responsibilities of the audit committee as required under Section 303A.07 of the NYSE Corporate Governance Rules.</p> | <p>The board of directors of a listed company can, through the resolution of the shareholders meeting, establish an audit committee composed entirely of directors, of which the independent directors are the majority and act as the convener, and, at minimum, one independent director is an accounting professional.</p> <p>The purpose, authority and responsibilities of the audit committee are similar to those stipulated by the NYSE rules, but according to customary practices in China, the Company is not required to make an annual performance evaluation of the audit committee, and the audit committee is not required to prepare an audit report to be included in the Company s annual proxy statement. The board of directors of the Company has established an audit committee that satisfies Rule 10A-3 under the Securities Exchange Act of 1934, as amended and relevant domestic requirements. The audit committee has a written charter.</p> |
| Strategy Committee | N/A  | <p>The board of directors of a listed company can, through the resolution of the shareholders meeting, establish a strategy committee composed entirely of directors.</p> <p>We formed a strategy committee on June 15, 2017. The key responsibility of the Strategy Committee is to conduct researches and give recommendations to the Board on major investment decisions, projects and major issues that affect our development, and monitor our long-term development strategic plan.</p>   |
|                    | <p>Each listed company must maintain an internal audit function to provide management and the audit committee with ongoing assessments of the listed company s risk management processes and system of internal</p>  | <p>China has a similar regulatory provision, and the Company has an internal audit department.</p>  |

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|  |  |   |
|--|--|---|
| Equity Compensation                                  | Shareholders must be given the opportunity to vote on all equity compensation plans and material revisions thereto, except for employment inducement awards, certain grants, plans and amendments in the context of mergers and acquisitions, and certain specific types of plans as described under Section 303A.08 of the NYSE Corporate Governance Rules.   | The relevant regulations of China require the board of directors propose plans on the amount and types of director compensation for the shareholders meeting to approve. The compensation plan of executive officers shall be approved by the board and announced at the shareholders meeting and disclosed to the public upon the approval of the board of directors.  |
| Corporate Governance Guidelines                      | Listed companies must adopt and disclose corporate governance guidelines involving director qualification standards, director responsibilities, director compensation, director access to management and, as necessary and appropriate, independent advisors, director orientation and continuing education and management succession. The board should conduct a self-evaluation at least annually to determine whether it and its committees are functioning effectively.  | The CSRC has issued the Corporate Governance Rules, prescribing detailed guidelines on directors of the listed companies, including director selection, the structure of the board of directors and director performance evaluation.<br><br>The Company has complied with the above mentioned rules.  |
| Code of Ethics for Directors, Officers and Employees | A listed company must make its corporate governance guidelines available on or through its website.<br><br>Listed companies must adopt and disclose a code of business conduct and ethics for directors, officers and employees, and promptly disclose any waivers of the code for directors or executive officers. Each listed company may determine its own policies, but all listed companies should address the most important topics, including, among others, conflicts of interest, corporate opportunities, confidentiality, fair dealing, protection and proper use of listed company assets, compliance with laws, rules and regulations (including insider trading laws), and encouraging the reporting of any illegal or unethical behavior.<br><br>Each listed company CEO must certify to the NYSE each year that he or she is not aware of any violation by the company of NYSE corporate governance listing standards and he or she must promptly notify the NYSE in writing of any non-compliance with any applicable provisions of Section 303A. | There is no such requirement for a code for ethics in China. As the directors and officers of the Company have all signed a Director Service Agreement, however, they are bound by their fiduciary duties to the Company. In addition, the directors and officers must perform their legal duties in accordance with the PRC Company Law, relevant requirements of CSRC and Mandatory Provisions to the Charter of Companies Listed Overseas.<br><br>No similar requirements. |

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**ITEM 16H. MINE SAFETY DISCLOSURE.**

Not applicable.

**PART III**

**ITEM 17. FINANCIAL STATEMENTS.**

Not applicable.

**ITEM 18. FINANCIAL STATEMENTS.**

See pages F-1 to F-78

**Table of Contents****ITEM 19. EXHIBITS.**

| No.      | Exhibit   |
|----------|---|
| 1.1      | <u>Translation of the amended and restated Articles of Association of Sinopec Shanghai Petrochemical Company Limited as approved in the First Extraordinary General Meeting of Sinopec Shanghai Petrochemical Company Limited for 2017 on August 2, 2017 (incorporated by reference to our Form 6-K (File No.001-12158) filed with the Commission on August 3, 2017).</u>   |
| 2.       | <u>Amended and Restated Deposit Agreement between Sinopec Shanghai Petrochemical Company Limited and The Bank of New York Mellon dated May 11, 2011(incorporated by reference to Exhibit 2 of our annual report on Form 20-F (File No. 001-12158) filed with the Commission on April 30, 2012).</u>   |
| 4.1      | <u>Translation of the renewed Product Supply and Sales Services Framework Agreement among Sinopec Shanghai Petrochemical Company Limited, China Petroleum &amp; Chemical Corporation and China Petrochemical Corporation as approved in the First Extraordinary General Meeting of Sinopec Shanghai Petrochemical Company Limited for 2016 on October 18, 2016 (incorporated by reference to Exhibit 4.1 of our annual report on Form 20-F Amendment No.1 (File No.001-12158) filed with the Commission on September 14, 2017).</u> |
| 4.2      | <u>Translation of the renewed Comprehensive Services Framework Agreement between Sinopec Shanghai Petrochemical Company Limited and China Petrochemical Corporation as approved in the First Extraordinary General Meeting of Sinopec Shanghai Petrochemical Company Limited for 2016 on October 18, 2016 (incorporated by reference to Exhibit 4.2 of our annual report on Form 20-F Amendment No.1 (File No.001-12158) filed with the Commission on September 14, 2017).</u>  |
| 4.3      | <u>Translation of the Property Right Transaction Agreement with Sinopec Sales Company Limited as approved in the eighteenth meeting of the seventh session of the board of directors of Sinopec Shanghai Petrochemical Company Limited on December 5, 2013 (incorporated by reference to Exhibit 4.3 of our annual report on Form 20-F (File No.001-12158) filed with the Commission on April 30, 2014).</u>  |
| 4.4      | <u>English summary of principal terms of the Share Option Scheme as adopted at the second meeting of the eighth session of the board of directors of Sinopec Shanghai Petrochemical Company Limited on August 15, 2014 (incorporated by reference to Appendix I of our Form 6-K (File No.001-12158) filed with the Commission on November 6, 2014).</u>   |
| 8*       | <u>A list of subsidiaries of Sinopec Shanghai Petrochemical Company Limited.</u>  |
| 12.1*    | <u>Certification of President Required by Rule 13a-14(a).</u>   |
| 12.2*    | <u>Certification of Chief Financial Officer Required by Rule 13a-14(a).</u>   |
| 13.1*    | <u>Certification of President Required by Rule 13a-14(b) and Section 1350 of Chapter 63 of Title 18 of the United States Code.</u>  |
| 13.2*    | <u>Certification of Chief Financial Officer Required by Rule 13a-14(b) and Section 1350 of Chapter 63 of Title 18 of the United States Code.</u>  |
| 101.INS* | XBRL Instance Document  |
| 101.SCH* | XBRL Taxonomy Extension Schema Document   |
| 101.CAL* | XBRL Taxonomy Extension Calculation Linkbase Document   |
| 101.DEF* | XBRL Taxonomy Extension Definition Linkbase Document  |
| 101.LAB* | XBRL Taxonomy Extension Label Linkbase Document   |
| 101.PRE* | XBRL Taxonomy Extension Presentation Linkbase Document  |

\* Filed with this annual report on Form 20-F

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**SIGNATURES**

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on Form 20-F on its behalf.

**SINOPEC SHANGHAI PETROCHEMICAL**

**COMPANY LIMITED**

Date: April 27, 2018

/s/ WU HAIJUN  
**Wu Haijun, President**

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**Report of Independent Registered Public Accounting Firm**

To the Board of Directors and Shareholders of

Sinopec Shanghai Petrochemical Company Limited

***Opinions on the Financial Statements and Internal Control over Financial Reporting***

We have audited the accompanying consolidated balance sheets of Sinopec Shanghai Petrochemical Company Limited and its subsidiaries (the Company) as of December 31, 2017 and 2016, and the related consolidated statements of income, comprehensive income, changes in equity and cash flows for each of the three years in the period ended December 31, 2017, including the related notes (collectively referred to as the consolidated financial statements). We also have audited the Company's internal control over financial reporting as of December 31, 2017, based on criteria established in *Internal Control Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2017 and 2016, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2017 in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2017, based on criteria established in *Internal Control Integrated Framework* (2013) issued by the COSO.

***Basis for Opinions***

The Company's management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in Management's Report on Internal Control over Financial Reporting appearing under Item 15. Our responsibility is to express opinions on the consolidated financial statements and on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.



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***Basis for Opinions (continued)***

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

***Definition and Limitations of Internal Control over Financial Reporting***

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers Zhong Tian LLP

Shanghai, the People's Republic of China

April 27, 2018

We have served as the Company's auditor since 2013.

**Table of Contents****Sinopec Shanghai Petrochemical Company Limited****Consolidated Income Statement****For the year ended 31 December 2017**

|  | Note | Year ended 31 December |                 |                 |
|--|------|------------------------|-----------------|-----------------|
|  |      | 2015<br>RMB 000        | 2016<br>RMB 000 | 2017<br>RMB 000 |
| Revenue  | 5    | 80,748,138             | 77,842,906      | 91,962,415      |
| Sales taxes and surcharges   |      | (13,710,933)           | (11,906,438)    | (12,744,088)    |
| Net Sales  |      | 67,037,205             | 65,936,468      | 79,218,327      |
| Cost of sales  | 10   | (62,757,106)           | (58,731,674)    | (72,398,288)    |
| <b>Gross profit</b>  |      | 4,280,099              | 7,204,794       | 6,820,039       |
| Selling and administrative expenses                                  | 10   | (600,859)              | (546,087)       | (535,259)       |
| Other operating income   | 6    | 234,924                | 197,306         | 119,010         |
| Other operating expenses   | 7    | (33,871)               | (24,275)        | (21,379)        |
| Other gains/(losses)-net   | 8    | 28,639                 | (53,882)        | 19,462          |
| <b>Operating profit</b>  |      | 3,908,932              | 6,777,856       | 6,401,873       |
| Finance income   | 9    | 49,302                 | 137,302         | 268,379         |
| Finance expenses   | 9    | (293,081)              | (53,617)        | (61,047)        |
| <b>Finance (expenses)/income net</b>                                 |      | (243,779)              | 83,685          | 207,332         |
| Share of profit of investments accounted for using the equity method | 19   | 572,035                | 916,754         | 1,243,693       |
| <b>Profit before income tax</b>                                      |      | 4,237,188              | 7,778,295       | 7,852,898       |
| Income tax expense   | 12   | (926,777)              | (1,796,822)     | (1,698,739)     |
| <b>Profit for the year</b>   |      | 3,310,411              | 5,981,473       | 6,154,159       |
| <b>Profit attributable to:</b>                                       |      |                        |                 |                 |
| -Owners of the Company   |      | 3,274,308              | 5,968,466       | 6,143,222       |
| -Non-controlling interests   |      | 36,103                 | 13,007          | 10,937          |
|  |      | 3,310,411              | 5,981,473       | 6,154,159       |

**Earnings per share attributable to owners of the Company for the year (expressed in RMB per share)**

|                            |    |     |       |     |       |     |       |
|----------------------------|----|-----|-------|-----|-------|-----|-------|
| Basic earnings per share   | 13 | RMB | 0.303 | RMB | 0.553 | RMB | 0.569 |
| Diluted earnings per share | 13 | RMB | 0.303 | RMB | 0.552 | RMB | 0.568 |

**Earnings per ADS attributable to owners of the Company for the year (expressed in RMB per ADS)**

|                          |  |     |        |     |        |     |        |
|--------------------------|--|-----|--------|-----|--------|-----|--------|
| Basic earnings per ADS   |  | RMB | 30.318 | RMB | 55.264 | RMB | 56.862 |
| Diluted earnings per ADS |  | RMB | 30.292 | RMB | 55.219 | RMB | 56.830 |

The notes on pages F-11 to F-78 are an integral part of these consolidated financial statements.

**Wu Haijun**  
Chairman and General  
Manager

**Zhou Meiyun**  
Director and Chief Financial Officer

**Table of Contents****Sinopec Shanghai Petrochemical Company Limited****Consolidated Statement of Comprehensive Income****For the year ended 31 December 2017**

|  | <b>Year ended 31 December</b> |                         |                         |                         |
|--|-------------------------------|-------------------------|-------------------------|-------------------------|
|  | <b>Note</b>                   | <b>2015<br/>RMB 000</b> | <b>2016<br/>RMB 000</b> | <b>2017<br/>RMB 000</b> |
| <b>Profit for the year</b>   |                               | 3,310,411               | 5,981,473               | 6,154,159               |
| <b>Other comprehensive income/(loss):</b>  |                               |                         |                         |                         |
| Share of other comprehensive income/(loss) of investments<br>accounted for using the equity method |                               |                         | 18,213                  | (810)                   |
| <b>Other comprehensive income/(loss) for the year, net of tax</b>                                  |                               |                         | 18,213                  | (810)                   |
| <b>Total comprehensive income for the year</b>   |                               | 3,310,411               | 5,999,686               | 6,153,349               |
| <b>Attributable to:</b>  |                               |                         |                         |                         |
| Owners of the Company  |                               | 3,274,308               | 5,986,679               | 6,142,412               |
| Non-controlling interests  |                               | 36,103                  | 13,007                  | 10,937                  |
| <b>Total comprehensive income for the year</b>   |                               | 3,310,411               | 5,999,686               | 6,153,349               |

The notes on pages F-11 to F-78 are an integral part of these consolidated financial statements.

**Wu Haijun**  
Chairman and General  
Manager

**Zhou Meiyun**  
Director and Chief Financial Officer

**Table of Contents****Sinopec Shanghai Petrochemical Company Limited****Consolidated Balance Sheet****For the year ended 31 December 2017**

|   |             | <b>As at 31 December</b> |                   |
|---|-------------|--------------------------|-------------------|
|   | <b>Note</b> | <b>2016</b>              | <b>2017</b>       |
|   |             | <b>RMB 000</b>           | <b>RMB 000</b>    |
| <b>Assets</b>                                       |             |                          |                   |
| <b>Non-current assets</b>                           |             |                          |                   |
| Lease prepayments and other assets                  | 14          | 705,456                  | 747,249           |
| Property, plant and equipment                       | 15          | 13,474,287               | 12,866,428        |
| Investment properties                               | 16          | 380,429                  | 391,266           |
| Construction in progress                            | 17          | 717,672                  | 1,001,118         |
| Investments accounted for using the equity method   | 19          | 3,688,794                | 4,452,044         |
| Deferred income tax assets                          | 12          | 103,091                  | 119,307           |
|   |             | 19,069,729               | 19,577,412        |
| <b>Current assets</b>                               |             |                          |                   |
| Inventories   | 20          | 6,159,473                | 6,597,598         |
| Trade receivables                                   | 21          | 414,944                  | 386,480           |
| Bills receivable                                    | 21          | 1,238,620                | 1,090,479         |
| Other receivables                                   | 21          | 165,798                  | 83,551            |
| Prepayments   | 21          | 165,804                  | 228,269           |
| Amounts due from related parties                    | 21,30(c)    | 1,290,619                | 1,975,408         |
| Cash and cash equivalents                           | 22          | 5,440,623                | 7,504,266         |
| Time deposits with financial institutions           | 23          |                          | 2,000,000         |
|   |             | 14,875,881               | 19,866,051        |
| <b>Total assets</b>                                 |             | <b>33,945,610</b>        | <b>39,443,463</b> |
| <b>Equity and liabilities</b>                       |             |                          |                   |
| <b>Equity attributable to owners of the Company</b> |             |                          |                   |
| Share capital                                       | 24          | 10,800,000               | 10,814,177        |
| Reserves  | 25          | 13,921,965               | 17,416,056        |
|   |             | 24,721,965               | 28,230,233        |
| <b>Non-controlling interests</b>                    |             | <b>281,270</b>           | <b>285,307</b>    |
| <b>Total equity</b>                                 |             | <b>25,003,235</b>        | <b>28,515,540</b> |



**Table of Contents****Sinopec Shanghai Petrochemical Company Limited****Consolidated Balance Sheet (Continued)****For the year ended 31 December 2017**

|  | Note     | As at 31 December<br>2016<br>RMB 000 | 2017<br>RMB 000   |
|--|----------|--------------------------------------|-------------------|
| <b>Liabilities</b>   |          |                                      |                   |
| <b>Non-current liabilities</b>                             |          |                                      |                   |
| Deferred income  | 28       |                                      | 5,679             |
|  |          |                                      | 5,679             |
| <b>Current liabilities</b>                                 |          |                                      |                   |
| Borrowings   | 27       | 546,432                              | 606,157           |
| Financial liabilities at fair value through profit or loss | 3        |                                      | 1,516             |
| Advance from customers                                     |          | 462,992                              | 470,865           |
| Trade payables   | 29       | 2,123,904                            | 1,908,457         |
| Bills payable  | 29       | 5,000                                |                   |
| Other payables   | 29       | 2,139,378                            | 3,568,817         |
| Amounts due to related parties                             | 29,30(c) | 3,044,304                            | 3,731,687         |
| Income tax payable   |          | 620,365                              | 634,745           |
|  |          | 8,942,375                            | 10,922,244        |
| <b>Total liabilities</b>                                   |          | <b>8,942,375</b>                     | <b>10,927,923</b> |
| <b>Total equity and liabilities</b>                        |          | <b>33,945,610</b>                    | <b>39,443,463</b> |

The notes on pages F-11 to F-78 are an integral part of these consolidated financial statements.

The consolidated financial statements on pages F-4 to F-10 were approved by the Board of Directors on 27 April 2018 and were signed on its behalf.

**Wu Haijun**  
Chairman and General  
Manager

**Zhou Meiyun**  
Director and Chief Financial Officer

**Table of Contents****Sinopec Shanghai Petrochemical Company Limited****Consolidated Statement of Changes in Equity****For the year ended 31 December 2017**

|   | Note | Attributable to owners of the Company |                |                   | Non-controlling interests | Total equity |
|---|------|---------------------------------------|----------------|-------------------|---------------------------|--------------|
|   |      | Share capital                         | Other reserves | Retained earnings |                           |              |
|   |      | RMB 000                               | RMB 000        | RMB 000           | RMB 000                   | RMB 000      |
| <b>Balance at 1 January 2015</b>                            |      | 10,800,000                            | 4,179,276      | 1,520,996         | 271,395                   | 16,771,667   |
| Total comprehensive income for the year                     |      |                                       |                | 3,274,308         | 36,103                    | 3,310,411    |
| Employees share option scheme                               | 26   |                                       | 22,702         |                   |                           | 22,702       |
| Dividends paid by subsidiaries to non-controlling interests |      |                                       |                |                   | (10,460)                  | (10,460)     |
| Utilisation of safety production fund                       | 25   |                                       | (312)          | 312               |                           |              |
| <b>Balance at 31 December 2015</b>                          |      | 10,800,000                            | 4,201,666      | 4,795,616         | 297,038                   | 20,094,320   |

|   | Note | Attributable to owners of the Company |                |                   | Non-controlling interests | Total equity |
|---|------|---------------------------------------|----------------|-------------------|---------------------------|--------------|
|   |      | Share capital                         | Other reserves | Retained earnings |                           |              |
|   |      | RMB 000                               | RMB 000        | RMB 000           | RMB 000                   | RMB 000      |
| <b>Balance at 1 January 2016</b>        |      | 10,800,000                            | 4,201,666      | 4,795,616         | 297,038                   | 20,094,320   |
| Profit for the year                     |      |                                       |                | 5,968,466         | 13,007                    | 5,981,473    |
| Other comprehensive income              |      |                                       | 18,213         |                   |                           | 18,213       |
| Total comprehensive income for the year |      |                                       | 18,213         | 5,968,466         | 13,007                    | 5,999,686    |
| Dividends proposed and approved         | 26   |                                       | 18,004         | (1,080,000)       |                           | (1,080,000)  |
|   |      |                                       |                | 18,004            |                           | 18,004       |



|   |            |           |           |            |          |            |
|---|------------|-----------|-----------|------------|----------|------------|
| Employees share option scheme                               |            |           |           |            |          |            |
| Dividends paid by subsidiaries to non-controlling interests |            |           |           |            | (28,775) | (28,775)   |
| Utilisation of safety production fund                       | 25         | (607)     | 607       |            |          |            |
| <b>Balance at 31 December 2016</b>                          | 10,800,000 | 4,237,276 | 9,684,689 | 24,721,965 | 281,270  | 25,003,235 |

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**Table of Contents****Sinopec Shanghai Petrochemical Company Limited****Consolidated Statement of Changes in Equity (Continued)****For the year ended 31 December 2017**

|   | Note  | Attributable to owners of the Company |                              |                                 | Total<br>RMB 000 | Non-controlling<br>interests<br>RMB 000 | Total<br>equity<br>RMB 000 |
|---|-------|---------------------------------------|------------------------------|---------------------------------|------------------|---|----------------------------|
|   |       | Share<br>capital<br>RMB 000           | Other<br>reserves<br>RMB 000 | Retained<br>earnings<br>RMB 000 |                  |   |                            |
| <b>Balance at 1 January 2017</b>                            |       | 10,800,000                            | 4,237,276                    | 9,684,689                       | 24,721,965       | 281,270                                 | 25,003,235                 |
| Profit for the year   |       |                                       |                              | 6,143,222                       | 6,143,222        | 10,937                                  | 6,154,159                  |
| Other comprehensive loss                                    |       |                                       | (810)                        |                                 | (810)            |   | (810)                      |
| Total comprehensive income for the year                     |       |                                       | (810)                        | 6,143,222                       | 6,142,412        | 10,937                                  | 6,153,349                  |
| Dividends proposed and approved                             | 31    |                                       |                              | (2,700,000)                     | (2,700,000)      |   | (2,700,000)                |
| Employees share option scheme                               | 25,26 |                                       | (10,640)                     |                                 | (10,640)         |   | (10,640)                   |
| Exercise of share option                                    | 25,26 | 14,177                                | 62,319                       |                                 | 76,496           |   | 76,496                     |
| Dividends paid by subsidiaries to non-controlling interests |       |                                       |                              |                                 |                  | (6,900)                                 | (6,900)                    |
| Utilisation of safety production fund                       | 25    |                                       | (346)                        | 346                             |                  |   |                            |
| <b>Balance at 31 December 2017</b>                          |       | 10,814,177                            | 4,287,799                    | 13,128,257                      | 28,230,233       | 285,307                                 | 28,515,540                 |

The notes on pages F-11 to F-78 are an integral part of these consolidated financial statements.

**Wu Haijun**  
Chairman and General  
Manager

**Zhou Meiyun**  
Director and Chief Financial Officer



**Table of Contents****Sinopec Shanghai Petrochemical Company Limited****Consolidated Statement of Cash Flows****For the year ended 31 December 2017**

|  | Note | Year ended 31 December |                    |                    |
|--|------|------------------------|--------------------|--------------------|
|  |      | 2015<br>RMB 000        | 2016<br>RMB 000    | 2017<br>RMB 000    |
| <b>Cash flows from operating activities</b>  |      |                        |                    |                    |
| Cash generated from operations   | 32   | 5,176,515              | 8,479,057          | 8,784,496          |
| Interest paid to related parties   |      | (32,400)               | (3,570)            |                    |
| Interest paid to third parties   |      | (178,173)              | (25,617)           | (17,664)           |
| Income tax paid  |      | (33,118)               | (1,268,100)        | (1,706,014)        |
| <b>Net cash generated from operating activities</b>                                      |      | <b>4,932,824</b>       | <b>7,181,770</b>   | <b>7,060,818</b>   |
| <b>Cash flows from investing activities</b>  |      |                        |                    |                    |
| Dividends received from joint ventures and associates                                    |      | 216,530                | 557,312            | 479,633            |
| Interest received from related parties   |      | 624                    | 232                | 5,147              |
| Interest received from third parties   |      | 46,263                 | 124,148            | 221,835            |
| Net proceeds from disposal of property, plant and equipment                              | 32   | 16,875                 | 11,889             | 3,407              |
| Net proceeds from disposal of joint ventures   |      |                        |                    | 10,339             |
| Cash received from entrusted lending   |      | 82,000                 | 106,000            | 88,000             |
| Cash received from six-month time deposits   |      |                        |                    | 500,000            |
| Cash payment of six-month time deposits  |      |                        |                    | (2,500,000)        |
| Cash payment of entrusted lending  |      | (106,000)              | (88,000)           | (12,000)           |
| Purchases of property, plant and equipment from related parties                          |      | (74,702)               | (205,775)          | (172,154)          |
| Purchases of property, plant and equipment and other long-term assets from third parties |      | (620,575)              | (695,701)          | (1,024,909)        |
| <b>Net cash used in investing activities</b>   |      | <b>(438,985)</b>       | <b>(189,895)</b>   | <b>(2,400,702)</b> |
| <b>Cash flows from financing activities</b>  |      |                        |                    |                    |
| Proceeds from borrowings from third parties  |      | 26,279,758             | 2,589,432          | 2,119,147          |
| Proceeds from exercising share option incentive scheme                                   |      |                        |                    | 54,580             |
| Proceeds from borrowings from related parties  |      | 5,720,000              |                    |                    |
| Repayments of borrowings to related parties  |      | (6,420,000)            | (370,000)          |                    |
| Repayments of borrowings to third parties  |      | (29,264,713)           | (3,743,000)        | (2,059,422)        |
| Dividends paid to the Company's shareholders   |      | (287)                  | (1,084,814)        | (2,697,188)        |
| Dividends paid by subsidiaries to non-controlling interests                              |      | (10,460)               | (28,775)           | (6,900)            |
| <b>Net cash used in financing activities</b>   |      | <b>(3,695,702)</b>     | <b>(2,637,157)</b> | <b>(2,589,783)</b> |

|   |    |           |           |           |
|---|----|-----------|-----------|-----------|
| <b>Net increase in cash and cash equivalents</b>    |    | 798,137   | 4,354,718 | 2,070,333 |
| Cash and cash equivalents at beginning of the year  | 22 | 279,198   | 1,077,430 | 5,440,623 |
| Exchange gain/(loss) on cash and cash equivalents   |    | 95        | 8,475     | (6,690)   |
| <b>Cash and cash equivalents at end of the year</b> | 22 | 1,077,430 | 5,440,623 | 7,504,266 |

The notes on pages F-11 to F-78 are an integral part of these consolidated financial statements.

**Wu Haijun**  
Chairman and General  
Manager

**Zhou Meiyun**  
Director and Chief Financial Officer

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**Sinopec Shanghai Petrochemical Company Limited**

**Notes to the Consolidated Financial Statements**

**For the year ended 31 December 2017**

**1 General information**

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

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

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

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

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

According to the Share Segregation Reform Resolution, the controlling shareholder of the Company, Sinopec Corp., offered shareholders of circulating A shares 5 shares for every 10 circulating A shares they held on 16 August 2013, aggregating 360,000,000 A shares, for the purpose of obtaining the listing rights of its non-circulating shares in the A Shares market. From 20 August 2013 ( the circulation date ), all the Company's non-circulating A shares have been granted circulating rights on Shanghai Stock Exchange ( SSE ). As part of the restricted conditions, Sinopec Corp. committed that all the 3,640,000,000 A shares held were not allowed to be traded on SSE or transferred within 12 months from the circulation date ( the restriction period ). After the restriction period, Sinopec Corp. can only sell no more than 5 and 10 percent of its total shares within 12 and 24 months, respectively. The former 150,000,000 non-circulating A shares held by social legal persons were also prohibited to be traded on SSE or transferred within 12 months from the circulation date. Meanwhile, Sinopec Corp. also committed in the Share Segregation Reform Resolution that a scheme of converting surplus to share capital (no less than 4 shares for every 10 shares) will be proposed on the board of directors and shareholders meetings within 6 months after the circulation date.

The 15th meeting of the 7th term of Board of Directors was held on 28 August 2013 and the Company proposed and passed a resolution regarding interim cash dividend for the first half of 2013 and the conversion of share premium and surplus reserve to share capital. The resolution included a distribution of 5 shares and a cash dividend distribution of RMB 0.5 (tax included) for every 10 shares based on the 7,200,000 thousands ordinary shares as at 30 June 2013. Among the 5 shares distributed, 3.36 shares were converted from share premium of RMB 2,420,841 thousands and 1.64 shares were converted from surplus reserves of RMB 1,179,159 thousands. The resolution were approved by the extraordinary general meeting of shareholders, A share class shareholders meeting and H share class shareholders meeting on 22 October 2013, respectively.

The first tranche of the Share Option Incentive Scheme was exercised on 29 August 2017, and the Company received cash payment of RMB 54,580 thousands from 199 grantees. As a result, ordinary A shares of 14,177 thousands were registered on 27 September 2017.

As at 31 December 2017, total shares of the Company were 10,814,177 thousands (31 December 2016: 10,800,000 thousands).

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**Sinopec Shanghai Petrochemical Company Limited**

**Notes to the Consolidated Financial Statements**

**For the year ended 31 December 2017**

**1 General information (continued)**

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

These consolidated financial statements are presented in thousands of Renminbi Yuan (RMB), unless otherwise stated. These financial statements have been approved for issue by the Board of Directors on 27 April 2018.

**2 Summary of significant accounting policies**

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

**2.1 Basis of preparation**

The consolidated financial statements of the Group have been prepared in accordance with all applicable International Financial Reporting Standards ( IFRS ) as issued by International Accounting Standards Board ( IASB ). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and financial liabilities at fair value through profit or loss, which are carried at fair value.

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

**2.1.1 Changes in accounting policy and disclosures**

(a) New and amended standards adopted by the Group

The following new and amended standards and interpretations are effective for the financial year beginning on 1 January 2017. None of them has a material impact on the Group.

Amendments to IAS 7, Statement of cash flows

Amendments to IAS 12, Income taxes



Amendment to IFRS 12, Disclosure of interest in other entities

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

(b) New standards and interpretations not yet adopted

Certain new accounting standards and interpretations have been published that are not mandatory for 31 December 2017 reporting periods and have not been early adopted by the Group. The Group's assessment of the impact of these new standards and interpretations is set out below.

IFRS 9, Financial instruments, addresses the classification, measurement and derecognition of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2014. It replaces the whole of IAS 39. IFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses (ECL) model, which constitutes a change from the incurred losses model in IAS 39. IFRS 9 applies to all hedging relationships, with the exception of portfolio fair value hedges of interest rate risk. The new guidance better aligns hedge accounting with the risk management activities of an entity and provides relief from the more rule-based approach of IAS 39. IFRS 9 is effective for annual periods beginning on or after 1 January 2018 and the Group will apply the new rules retrospectively from 1 January 2018, with the practical expedients permitted under the standard. It is not expected to have any significant impact on the consolidated financial statement of the Group.

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**Sinopec Shanghai Petrochemical Company Limited**

**Notes to the Consolidated Financial Statements**

**For the year ended 31 December 2017**

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

**2.1 Basis of preparation (continued)**

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

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

IFRS 15, Revenue from contracts with customers, establishes a comprehensive framework for determining when to recognize revenue and how much revenue to recognise through a 5-step approach. IFRS 15 provides specific guidance on capitalisation of contract cost and licence arrangements. It also includes a cohesive set of disclosure requirements about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts with customers. The core principle is that a company should recognise revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. IFRS 15 replaces the previous revenue standards: IAS 18 Revenue and IAS 11

Construction Contracts and the related Interpretations on revenue recognition: IFRIC 13 Customer Loyalty Programmes, IFRIC 15 Agreements for the Construction of Real Estate, IFRIC 18 Transfers of Assets from Customers and SIC-31 Revenue Barter Transactions Involving Advertising Services. IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018.

The application of HKFRS 15 may further result in the identification of separate performance obligations in relation to shipping service derived from overseas trading sales of the Group which could affect the timing of the recognition of revenue, from point in time to overtime going forward. The standard permits either a full retrospective or a modified retrospective approach for the adoption. Mandatory for financial years commencing on or after 1 January 2018. The Group intends to adopt the standard using the modified retrospective approach which means that the cumulative impact of the adoption will be recognised in retained earnings as of 1 January 2018 and that comparatives will not be restated.

IFRS 16, Leases, provides updated guidance on the definition of leases, and the guidance on the combination and separation of contracts. Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. IFRS 16 requires lessees to recognise lease liability reflecting future lease payments and a right-of-use-asset for almost all lease contracts, with an exemption for certain short-term leases and leases of low value assets. The lessors accounting stays almost the same as under IAS 17 Leases. IFRS 16 is effective for annual reporting periods beginning on or after 1 January 2019.

The standard will affect primarily the accounting for the Group's operating leases when the Group is as the lessee in those leases. As at the reporting date, the Group has non-cancellable operating lease commitments, as disclosed in Note 33(b). The Group is still evaluating the effects of the new standard on the other lease commitments with the lease term greater than one year and intends to apply the simplified transition approach and will not restate comparative amounts for the year prior to first adoption. At this stage, the Group does not intend to adopt the standard before its effective date.

There are no other standards that are not yet effective and that would be expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

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**Sinopec Shanghai Petrochemical Company Limited**

**Notes to the Consolidated Financial Statements**

**For the year ended 31 December 2017**

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

**2.2 Subsidiaries**

**2.2.1 Consolidation**

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

**(a) Business combinations**

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis. Non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation are measured at either fair value or the present ownership interests' proportionate share in the recognised amounts of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by IFRS.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognized in profit or loss.

Any contingent consideration to be transferred by the Group is recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognized in accordance with IAS 39 in profit or loss. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired, is recorded as goodwill. If the total consideration transferred, non-controlling interest recognized and previously held interest measured is less than the fair value of the identifiable net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognized directly in the income statement.

Intra-Group transactions, balances and unrealized gains on transactions between group companies are eliminated. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

(b) Changes in ownership interests in subsidiaries without change of control

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions that is, as transactions with the owners of the subsidiary in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying amount of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

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**Sinopec Shanghai Petrochemical Company Limited**

**Notes to the Consolidated Financial Statements**

**For the year ended 31 December 2017**

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

**2.2 Subsidiaries (continued)**

**2.2.1 Consolidation (continued)**

(c) Disposal of subsidiaries

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognized in profit or loss. The fair value is the initial carrying amount for the purposes of subsequent accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognized in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. It means the amounts previously recognized in other comprehensive income are reclassified to profit or loss or transferred to another category of equity as specified by applicable IFRSs.

**2.2.2 Separate financial statements**

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

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

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

**2.3 Associates**

An associate is an entity over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognized at cost, and the carrying amount is increased or decreased to recognize the investor's share of the profit or loss of the investee after the date of acquisition. The Group's investments in associates include goodwill identified on acquisition. Upon the acquisition of

the ownership interest in an associate, any difference between the cost of the associate and the Group's share of the net fair value of the associate's identifiable assets and liabilities is accounted for as goodwill.

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

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

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

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**Sinopec Shanghai Petrochemical Company Limited**

**Notes to the Consolidated Financial Statements**

**For the year ended 31 December 2017**

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

**2.3 Associates (continued)**

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

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

**2.4 Joint arrangements**

The Group has applied IFRS 11 to all joint arrangements. Under IFRS 11, investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor. The Group has assessed the nature of its joint arrangements and determined them to be joint ventures. Joint ventures are accounted for using the equity method.

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

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

**2.5 Segment reporting**

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



## **2.6 Foreign currency translation**

### **(a) Functional and presentation currency**

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The consolidated financial statements are presented in RMB, which is the Company's functional and the Group's presentation currency.

**Table of Contents****Sinopec Shanghai Petrochemical Company Limited****Notes to the Consolidated Financial Statements****For the year ended 31 December 2017****2 Summary of significant accounting policies (continued)****2.6 Foreign currency translation (continued)****(b) Transactions and balances**

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement, except when deferred in other comprehensive income as qualifying cash flow hedges and qualifying net investment hedges.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the income statement within *finance income or expenses*. All other foreign exchange gains and losses are presented in the income statement within *Other gains/(losses) net*.

**2.7 Property, plant and equipment**

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

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

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

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

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

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

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

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

**2.9 Investment properties**

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

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

**2.10 Lease prepayments and other assets**

Lease prepayments and other assets mainly represent prepayments for land use rights and catalysts used in production. These assets are carried at cost less accumulated amortisation and impairment losses. Lease prepayments and other assets are amortised on a straight-line basis over the respective periods of the rights and the estimated useful lives of the catalysts, as follows:

|                 |             |
|-----------------|-------------|
| Land use rights | 30-50 years |
| Patents         | 10-28 years |
| Catalyst        | 2-5 years   |

**2.11 Impairment of non-financial assets**

Intangible assets that have an indefinite useful life or intangible assets not ready to use are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is

recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

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**Sinopec Shanghai Petrochemical Company Limited**

**Notes to the Consolidated Financial Statements**

**For the year ended 31 December 2017**

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

**2.12 Financial assets**

**2.12.1 Classification**

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables and available for sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

(a) Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if expected to be settled within 12 months; otherwise, they are classified as non-current.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for the amounts that are settled or expected to be settled more than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise trade receivables, bills receivable and other receivables and cash and cash equivalents in the balance sheet (Note 2.17 and 2.18).

(c) Available-for-sale financial assets

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months of the end of the reporting period.

**2.12.2 Recognition and measurement**

Regular way purchases and sales of financial assets are recognized on the trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognized at fair value plus transaction costs for all

financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognized at fair value, and transaction costs are expensed in the income statement. Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of the financial liabilities at fair value through profit or loss category are presented in the income statement within Other gains/(losses) net in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the income statement as part of other income when the Group's right to receive payments is established.

Changes in the fair value of monetary and non-monetary securities classified as available for sale are recognised in other comprehensive income .

When securities classified as available for sale are sold or impaired, the accumulated fair value adjustments recognized in equity are included in the income statement as gains and losses from investment securities .

Interest on available-for-sale securities calculated using the effective interest method is recognized in the income statement as part of other income . Dividends on available-for-sale equity instruments are recognized in the income statement as part of other income when the Group's right to receive payments is established.

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**Sinopec Shanghai Petrochemical Company Limited**

**Notes to the Consolidated Financial Statements**

**For the year ended 31 December 2017**

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

**2.13 Offsetting financial instruments**

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

**2.14 Impairment of financial assets**

(a) Assets carried at amortised cost

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a loss event) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the receivables or a group of receivables is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognized in the consolidated income statement. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the reversal of the previously recognized impairment loss is recognized in the consolidated income statement.



(b) Financial assets classified as available for sale

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired.

For debt securities, if any such evidence exists, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss is reclassified from equity and recognised in profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the consolidated income statement.

For equity investments, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss is reclassified from equity and recognised in profit or loss. Impairment losses recognised in the consolidated income statement on equity instruments are not reversed through the consolidated income statement.

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**Sinopec Shanghai Petrochemical Company Limited**

**Notes to the Consolidated Financial Statements**

**For the year ended 31 December 2017**

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

**2.15 Derivative financial instruments**

Derivative financial instruments of the Group are foreign exchange forward contracts, which are not designated as hedges.

Derivative financial instruments are initially recognized at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value.

Fair values are obtained from quoted market prices in active markets, including recent market transactions, and through the use of valuation techniques, including discounted cash flow models and options pricing models, as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

The best evidence of the fair value of a derivative at initial recognition is the transaction price (i.e., the fair value of the consideration given or received) unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable markets. When such evidence exists, the Group recognizes profits (losses) on that day.

**2.16 Inventories**

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

**2.17 Trade receivables, bills receivable and other receivables**

Trade receivables and bills receivable are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection of trade receivables, bills receivable and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade receivables, bills receivable and other receivables are recognized initially at fair value plus transaction costs and subsequently measured at amortised cost using the effective interest method, less allowance for impairment. See Note 2.12.2 for further information about the Group's accounting for receivables and Note 2.14 for a description of the

Group's impairment policies.

**2.18 Cash and cash equivalents**

In the consolidated statement of cash flows, cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. In the Group's balance sheet, bank overdrafts are shown within borrowings in current liabilities.

**2.19 Share capital**

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

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

**2.20 Safety production fund**

Under China's law and regulation, the Group is required to accrue safety production fund at a certain percentage of the sales of dangerous goods. The fund is earmarked for improving the safety of production. The fund is accrued from retained earnings to other reserves and converted back to retained earnings when used.

**2.21 Trade payables and other payables**

Trade payables and other payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables and other payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables and other payables are recognized initially at fair value plus transaction costs and subsequently measured at amortised cost using the effective interest method.

**2.22 Borrowings**

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the income statement over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognized as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

**2.23 Borrowing costs**

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

Borrowing costs include interest expense, finance charges in respect of exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs. The exchange gains and losses that are an adjustment to interest costs include the interest rate differential between borrowing costs that would be incurred if the entity had borrowed funds in its functional currency, and the borrowing costs actually incurred on foreign currency borrowings.

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**For the year ended 31 December 2017**

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

**2.24 Current and deferred income tax**

The tax expense for the period comprises current and deferred tax. Tax is recognized in the income statement, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

(a) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company's subsidiaries, associates and joint ventures operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

(b) Deferred income tax

Inside basis differences

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognized if they arise from the initial recognition of goodwill, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilised.

Outside basis differences

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries, associates and joint arrangements, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Generally the Group is unable to control the reversal of the temporary difference for associates.

Only when there is an agreement in place that gives the Group the ability to control the reversal of the temporary difference in the foreseeable future, deferred tax liability in relation to taxable temporary differences arising from the associate's undistributed profits is not recognised.

Deferred income tax assets are recognized on deductible temporary differences arising from investments in subsidiaries, associates and joint arrangements only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.

(c) Offsetting

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

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**Notes to the Consolidated Financial Statements**

**For the year ended 31 December 2017**

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

**2.25 Employee benefits**

(a) Pension obligations

The PRC employees of the Group are covered by various PRC government-sponsored defined-contribution pension plans under which the employees are entitled to a monthly pension based on certain formulas. The relevant government agencies are responsible for the pension liability to these employees when they retire. The Group contributes on a monthly basis to these pension plans for the employees which are determined at a certain percentage of their salaries. Under these plans, the Group has no obligation for post-retirement benefits beyond the contribution made. Contributions to these plans are expensed as incurred and contributions paid to the defined contribution pension plans for a staff are not available to reduce the Group's future obligations to such defined-contribution pension plans even if the staff leaves the Group.

(b) Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognizes termination benefits at the earlier of the following dates: when Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal. Benefits falling due more than 12 months after the end of the reporting period are discounted to their present value.

**2.26 Share-based payment**

(a) Equity-settled share-based payment transactions

The Group operates a number of equity-settled, share-based compensation plans, under which the entity receives services from employees as consideration for equity instruments (options) of the Group. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted

including any market performance conditions such as an entity's share price;



excluding the impact of any service and non-market performance vesting conditions such as profitability, sales growth targets and remaining an employee of the entity over a specified time period; and

including the impact of any non-vesting conditions such as the requirement for employees to save or holding shares for a specified period of time.

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

In addition, in some circumstances employees may provide services in advance of the grant date and therefore the grant date fair value is estimated for the purposes of recognising the expense during the period between service commencement period and grant date.

When the options are exercised, the Company issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital.

(b) Share-based payment transactions among Group entities

The grant by the Company of options over its equity instruments to the employees of subsidiary undertakings in the Group is treated as a capital contribution. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity in the parent entity accounts.

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**For the year ended 31 December 2017**

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

**2.27 Provisions**

Provisions for environmental restoration, restructuring costs and legal claims are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

**2.28 Revenue recognition**

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods supplied, stated net of discounts, returns and value added taxes. The Group recognizes revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Group's activities, as described below. The Group bases its estimates of return on historical results, taking into consideration the type of customers, the type of transactions and the specifics of each arrangement.

**(a) Sales of petroleum and chemical products**

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

**(b) Pipeline transportation services**

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

(c) Rental income

Rental income from investment property is recognized in the income statement on a straight-line basis over the term of the lease.

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**For the year ended 31 December 2017**

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

**2.29 Interest income**

Interest income is recognized using the effective interest method. When a loan and receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans and receivables is recognized using the original effective interest rate.

**2.30 Dividend income**

Dividend income is recognized when the right to receive payment is established.

**2.31 Government grants**

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the income statement over the period necessary to match them with the costs that they are intended to compensate.

Grants that compensate the Group for the cost of an asset are deducted from the carrying amount of the asset and consequently are effectively recognized in the income statement over the useful life of the asset by way of reduced depreciation expense.

**2.32 Leases**

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

**2.33 Dividend distribution**

Dividend distribution to the Company's shareholders is recognized as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

### **2.34 Research and development costs**

Research and development costs comprise all costs that are directly attributable to research and development activities or that can be allocated on a reasonable basis to such activities. Research and development costs are recognized as intangible assets when the following criteria are met:

it is technically feasible to complete the research and development project so that it will be available for use or sale;

management intends to complete the research and development project, and use or sell it;

it can be demonstrated how the research and development project will generate economic benefits;

there are adequate technical, financial and other resources to complete the development and the ability to use or sell the research and development project; and

the expenditure attributable to the research and development project during its development phase can be reliably measured.

Other research and development expenditure that do not meet these criteria are recognized as an expense as incurred. Research and development costs previously recognized as an expense are not recognized as an asset in a subsequent period.

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**Notes to the Consolidated Financial Statements**

**For the year ended 31 December 2017**

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

**2.35 Related parties**

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

(7) A person identified in (i)(1) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

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

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**For the year ended 31 December 2017**

**3 Financial risk management**

**3.1 Financial risk factors**

The Group's activities exposed it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and commodity price risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

(a) Market risk

(i) Foreign exchange risk

The Group's major operational activities are carried out in Mainland China and a majority of the transactions are denominated in RMB. Nevertheless the Group is exposed to foreign exchange risk arising from the recognised assets and liabilities (mainly trade payables), and future transactions denominated in foreign currencies, primarily with respect to USD. The Group's finance department at its headquarter is responsible for monitoring the amount of assets and liabilities, and transactions denominated in foreign currencies to minimise the foreign exchange risk. During the year ended 31 December 2017, the Group did not enter into any forward foreign exchange contracts apart from a subsidiary, China Jinshan Associated Trading Corporation, which uses forward foreign exchange contracts to mitigate its exposure to foreign exchange risk. The forward contracts China Jinshan Associated Trading Corporation used are not designed as hedging instrument (2016: the Group did not enter into any forward foreign exchange contracts).

As at 31 December 2017, if the foreign currencies had weakened/strengthened by 5% against RMB with all other variables held constant, the Group's net profit for the year would have been RMB 25,101 thousands increased/decreased as a result of foreign exchange gains/losses on translation of foreign currencies denominated trade payables (31 December 2016: RMB 23,139 thousands, 31 December 2015: RMB 3,605 thousands).

(ii) Cash flow and fair value interest rate risk

The Group's interest rate risk arises from short-term interest bearing borrowings. Borrowings obtained at variable rates expose the Group to cash flow interest rate risk. Borrowings obtained at fixed rates expose the Group to fair value interest rate risk. The Group determines the relative proportions of its fixed rate and floating rate contracts depending on the prevailing market conditions. As at 31 December 2017, the Group's short-term interest bearing borrowings denominated with floating rates amounted to RMB 606,157 thousands, which represented 100% of total borrowing balance (31 December 2016: RMB 46,432 thousands, representing 7% of total borrowing balance).



The Group's finance department at its headquarter continuously monitors the interest rate position of the Group. Increases in interest rates will increase the cost of new borrowing and the interest expenses with respect to the Group's outstanding floating rate borrowings, and therefore could have a material adverse effect on the Group's financial position. The Group makes adjustments timely with reference to the latest market conditions and may enter into interest rate swap agreements to mitigate its exposure to interest rate risk. During the year ended 31 December 2017 and 2016, the Group did not enter into any interest rate swap agreements.

As at 31 December 2017, if interest rates on the floating rate borrowings had risen/fallen by 50 basis points while all other variables had been held constant, the Group's net profit would have decreased/increased by approximately RMB 2,273 thousands (31 December 2016: RMB 174 thousands), mainly as a result of higher/lower interest expense on floating rate borrowings.

(iii) Commodity price risk

The Group principally engages in processing crude oil into synthetic fibres, resins and plastics, intermediate petrochemicals and petroleum products. The selling price of petroleum products is periodically adjusted by government department based on the market price adjustment mechanism, and generally in connection with the crude oil price. The selling prices of synthetic fibres, resins and plastics and intermediate petrochemicals are market prices. The Group didn't have any derivative financial instrument such as commodity futures and swaps, therefore the fluctuation of crude oil price could have significant impact on the Group.

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**For the year ended 31 December 2017**

**3 Financial risk management (continued)**

**3.1 Financial risk factors (continued)**

(b) Credit risk

Credit risk is managed on group basis. It mainly arises from cash at bank, time deposit, trade receivables, other receivables, bills receivable, etc.

The Group expects that there is no significant credit risk associated with cash at bank since they are deposited at state-owned banks and other medium or large size listed banks. Management does not expect that there will be any significant losses from non-performance by these counterparties.

In addition, the Group has policies to limit the credit exposure on trade receivables, other receivables, bills receivable and time deposits. The Group assesses the credit quality of and sets credit limits on its customers by taking into account their financial position, the availability of guarantee from third parties, their credit history and other factors such as current market conditions. The credit history of the customers is regularly monitored by the Group. In respect of customers with a poor credit history, the Group will use written payment reminders, or shorten or cancel credit periods, to ensure the overall credit risk of the Group is limited to a controllable extent.

(c) Liquidity risk

Cash flow forecast is performed by the operating entities of the Group and aggregated by Group finance. Group finance monitors rolling forecasts of the Group's liquidity requirements to ensure it has sufficient cash to meet operational needs while maintaining sufficient headroom on its undrawn committed borrowing facilities from major financial institution so that the Group does not breach borrowing limits or covenants on any of its borrowing facilities to meet the short-term and long-term liquidity requirements.

The liquidity of the Group is primarily dependent on its ability to maintain adequate cash inflow from operations, the renewal of its short-term bank loans and its ability to obtain adequate external financing to support its working capital and meet its debt obligation when they become due. As at 31 December 2017, the Group had credit facilities with several PRC financial institutions which provided the Group to borrow up or to guarantee the issuance of the bills of lading to RMB 21,296,000 thousands, within which amounted to RMB 20,273,466 thousands were unused. The maturity dates of the unused facility amounted to RMB 6,710,000 thousands will be after 31 December 2018 as disclosed in Note 27. Management assessed that all the facilities could be renewed upon the expiration dates.

Surplus cash held by the operating entities over and above balance required for working capital management are transferred to the Group treasury. As at 31 December 2017, the Group held cash and cash equivalents of RMB

7,504,266 thousands (31 December 2016: RMB 5,440,623 thousands) (Note 22) and trade receivables of RMB 386,480 thousands (31 December 2016: RMB 414,944 thousands) (Note 21), that are expected to readily generate cash inflows for managing liquidity risk.

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

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|                                  | Less than<br>1<br>year<br>RMB 000 | Between<br>1<br>and 2<br>years<br>RMB 000 | Between 2<br>and 5 years<br>RMB 000 | Over<br>5<br>years<br>RMB 000 | Total<br>RMB 000 |
|----------------------------------|-----------------------------------|---|-------------------------------------|-------------------------------|------------------|
| <b>As at 31 December 2017</b>    |                                   |   |                                     |                               |                  |
| Borrowings                       | 606,157                           |   |                                     |                               | 606,157          |
| Trade payables                   | 1,908,457                         |   |                                     |                               | 1,908,457        |
| Other payables                   | 789,567                           |   |                                     |                               | 789,567          |
| Amounts due to related parties   | 3,725,278                         |   |                                     |                               | 3,725,278        |
| Derivative financial instruments | 1,516                             |   |                                     |                               | 1,516            |
|                                  | 7,030,975                         |   |                                     |                               | 7,030,975        |

|                                | Less than<br>1<br>year<br>RMB 000 | Between<br>1<br>and 2 years<br>RMB 000 | Between<br>2<br>and 5<br>years<br>RMB 000 | Over<br>5<br>years<br>RMB 000 | Total<br>RMB 000 |
|--------------------------------|-----------------------------------|--|---|-------------------------------|------------------|
| <b>As at 31 December 2016</b>  |                                   |  |   |                               |                  |
| Borrowings                     | 546,432                           |  |   |                               | 546,432          |
| Bill payables                  | 5,000                             |  |   |                               | 5,000            |
| Trade payables                 | 2,123,904                         |  |   |                               | 2,123,904        |
| Other payables                 | 563,682                           |  |   |                               | 563,682          |
| Amounts due to related parties | 3,030,490                         |  |   |                               | 3,030,490        |

6,269,508

6,269,508

### 3.2 Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including current and non-current borrowings as shown in the consolidated balance sheet) less cash and cash equivalents. Total capital is calculated as equity as shown in the consolidated balance sheet plus net debt.

As cash and cash equivalents exceed total borrowings, which was resulted primarily from the significantly improved profitability and the early repayment of some bank loans before its maturity, there was no net debt as at 31 December 2017 and 2016.

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The table below analyses the Group's financial instruments carried at fair value as at 31 December 2017 by level of the inputs to valuation techniques used to measure fair value. Such inputs are categorised into three levels within a fair value hierarchy as follows:

The fair value of financial instruments traded in active markets (such as publicly traded derivatives, and trading and available-for-sale securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the group is the current bid price. These instruments are included in level 1.

The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques which maximise the use of observable market data and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.

If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. This is the case for unlisted equity securities.

| Recurring fair value measurements         | Level<br>1    | Level 2   | Level<br>3 | Total     |
|---|---------------|-----------|------------|-----------|
| As at 31 December 2017                    | Notes RMB 000 | RMB 000   | RMB 000    | RMB 000   |
| <b>Financial assets</b>                   |               |           |            |           |
| Time deposits with financial institutions |               | 2,000,000 |            | 2,000,000 |
| <b>Total financial assets</b>             |               | 2,000,000 |            | 2,000,000 |
| <b>Financial liabilities</b>              |               |           |            |           |
| Foreign exchange contracts                |               | 1,516     |            | 1,516     |
| <b>Total financial liabilities</b>        |               | 1,516     |            | 1,516     |

There were no transfers among level 3 during the year ended 31 December 2017.

Financial assets and financial liabilities not measured at fair value mainly represent bills receivable, trade receivables and other receivables, trade and other payables (except for the staff salaries and welfare payables and taxes payables) and borrowings. As at 31 December 2017, these financial assets are expected to be collected in one year or less and these financial liabilities are due within one year or less. As a result, the carrying amounts of these financial assets and liabilities not measured at fair value are a reasonable approximation of their fair value.

**Table of Contents****Sinopec Shanghai Petrochemical Company Limited****Notes to the Consolidated Financial Statements****For the year ended 31 December 2017****3 Financial risk management (continued)****3.4 Offsetting financial assets and financial liabilities****(a) Financial assets**

|  | <b>As at 31 December<br/>2016<br/>RMB 000</b> |
|--|---|
| Gross amount of recognised amounts due from related parties                            | 1,403,442                                     |
| Gross amount of recognised amounts due to related parties set off in the balance sheet | (112,823)                                     |
| Net amounts of amounts due from related parties presented in the balance sheet         | 1,290,619                                     |

**(b) Financial liabilities**

|  | <b>As at 31 December<br/>2016<br/>RMB 000</b> |
|--|---|
| Gross amount of recognised amounts due to related parties                                | 3,157,127                                     |
| Gross amount of recognised amounts due from related parties set off in the balance sheet | (112,823)                                     |
| Net amounts of amounts due to related parties presented in the balance sheet             | 3,044,304                                     |

According to the offsetting master arrangements entered into in October 2014 between the Company and its related party, Shanghai Secco Petrochemical Company Limited ( Shanghai Secco ) and in December 2016 between the Company and its related party, BOC-SPC Gases Company Limited ( BOC ), the relevant financial assets and liabilities of each operating agreement between the Company and Shanghai Secco and those between the Company and BOC,



are settled on a net basis as at 31 December 2016. No such agreement or offset settlement was identified as at 31 December 2017.

#### **4 Critical accounting estimates and assumptions**

Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

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**Notes to the Consolidated Financial Statements**

**For the year ended 31 December 2017**

**4 Critical accounting estimates and assumptions (continued)**

(a) Net realisable value ( NRV ) of inventories

The NRV is determined based on the estimated selling prices less the estimated costs to completion, if relevant, other costs necessary to make the sale, and the related taxes. Determination of estimated selling prices requires significant management judgement, taking into consideration of historical selling prices and future market trend. If the actual selling prices were to be lower or the costs of completion were to be higher than estimated, the actual allowance for diminution in value of inventories could be higher than the estimate.

(b) Impairments for non-financial assets

In determining the value in use, expected cash flows generated by the non-financial assets or the cash-generating unit are discounted to their present value. Management uses all readily available information in determining an amount that is a reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of sale volume, selling price and amount of operating costs.

(c) Useful life and residual value of property, plant and equipment

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

(d) Recognition of deferred tax assets

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

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 recognized. The Group recognises a

previously unrecognised deferred tax asset to the extent that it is probable that future taxable profit will allow the deferred tax asset to be utilised. In addition, management assesses the carrying amount of deferred tax assets that are recognised at the end of each reporting period. The Group reduces the carrying amount of a deferred tax asset to the extent that it is no longer probable that sufficient taxable profit will be available for the deferred tax asset to be utilised.

In making the assessment of whether it is probable the Group will realize 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 utilize the deferred tax assets recognized at 31 December 2017, the Group would need to generate future taxable income of at least RMB 477 million. Based on estimated forecast and historical experience, management believes that it is probable that the Group will generate sufficient taxable income to utilize the deferred tax assets.

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**For the year ended 31 December 2017**

**5 Segment information**

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

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

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items mainly comprise investments accounted for using the equity method, deferred income tax assets, cash and cash equivalents, time deposits, entrusted lending and incomes relating to these assets (such as share of profit of investments accounted for using equity method and interest income) and borrowings and interest expenses.

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

- (i) The synthetic fibres segment produces primarily polyester, acrylic fibres and carbon fibres, which are mainly used in the textile and apparel industries.
- (ii) The resins and plastics segment produces primarily polyester chips, polyethylene resins, polypropylene resins and PVA granules. The polyester chips are used to produce polyester fibres, coating and containers. Polyethylene resins and plastics are used to produce insulated cable, mulching films and moulded products such as housewares and toys. Polypropylene resins are used for films, sheets and moulded products such as housewares, toys, consumer electronics and automobile parts.
- (iii) The intermediate petrochemicals segment primarily produces p-xylene, benzene and ethylene oxide. The intermediate petrochemicals produced by the Group are both served as raw materials in the production of other petrochemicals, resins, plastics and synthetic fibres, and sold to external customers.
- (iv) The petroleum products segment is equipped with crude oil refinery facilities used to produce qualified refined gasoline, fuel, diesel oil, heavy oil and liquefied petroleum gas, and provide raw materials for the

Group's downstream petrochemical processing facilities.

- (v) The trading of petrochemical products segment is primarily engaged in importing and exporting of petrochemical products. The products are sourced from international and domestic suppliers.
- (vi) Other operating segments represent the operating segments which do not meet the quantitative threshold for determining reportable segments. These include investment property leasing, service provision and a variety of other commercial activities.

**Table of Contents****Sinopec Shanghai Petrochemical Company Limited****Notes to the Consolidated Financial Statements****For the year ended 31 December 2017****5 Segment information (continued)**

|                                   | 2015                             |                                  |  | 2016                             |                                  |  | 2017                             |                                  |  |
|-----------------------------------|----------------------------------|----------------------------------|--|----------------------------------|----------------------------------|--|----------------------------------|----------------------------------|--|
|                                   | Total segment revenue<br>RMB 000 | Inter-segment revenue<br>RMB 000 | Revenue from external customers<br>RMB 000 | Total segment revenue<br>RMB 000 | Inter-segment revenue<br>RMB 000 | Revenue from external customers<br>RMB 000 | Total segment revenue<br>RMB 000 | Inter-segment revenue<br>RMB 000 | Revenue from external customers<br>RMB 000 |
| Synthetic fibres                  | 2,397,015                        |                                  | 2,397,015                                  | 1,915,242                        |                                  | 1,915,242                                  | 2,061,765                        |                                  | 2,061,765                                  |
| Resins and plastics               | 10,348,002                       | 106,042                          | 10,241,960                                 | 10,164,433                       | 91,673                           | 10,072,760                                 | 10,596,844                       | 123,824                          | 10,473,020                                 |
| Intermediate petrochemicals       | 23,305,685                       | 13,697,886                       | 9,607,799                                  | 20,360,722                       | 11,248,718                       | 9,112,004                                  | 23,302,939                       | 12,949,321                       | 10,353,618                                 |
| Petroleum products                | 47,473,490                       | 3,579,131                        | 43,894,359                                 | 38,776,209                       | 3,514,487                        | 35,261,722                                 | 53,259,378                       | 8,737,935                        | 44,521,443                                 |
| Trading of petrochemical products | 16,940,621                       | 3,220,905                        | 13,719,716                                 | 22,148,401                       | 1,551,453                        | 20,596,948                                 | 24,953,285                       | 1,240,250                        | 23,713,035                                 |
| Others                            | 1,429,317                        | 542,028                          | 887,289                                    | 1,369,671                        | 485,441                          | 884,230                                    | 1,364,977                        | 525,443                          | 839,534                                    |
|                                   | 101,894,130                      | 21,145,992                       | 80,748,138                                 | 94,734,678                       | 16,891,772                       | 77,842,906                                 | 115,539,188                      | 23,576,773                       | 91,962,411                                 |

|  | 2015<br>RMB 000 | 2016<br>RMB 000 | 2017<br>RMB 000 |
|--|-----------------|-----------------|-----------------|
| Segment result - Profit/(loss) from operations                       |                 |                 |                 |
| Petroleum products   | 1,862,304       | 3,812,973       | 3,120,024       |
| Resins and plastics  | 1,218,598       | 1,637,578       | 1,355,908       |
| Intermediate petrochemicals  | 956,820         | 1,810,011       | 2,206,128       |
| Trading of petrochemical products                                    | 15,165          | 51,168          | 60,583          |
| Synthetic fibres   | (356,399)       | (608,891)       | (475,266)       |
| Others   | 212,444         | 75,017          | 134,496         |
| Profit from operations   | 3,908,932       | 6,777,856       | 6,401,873       |
| Net finance (expenses)/income  | (243,779)       | 83,685          | 207,332         |
| Share of profit of investments accounted for using the equity method | 572,035         | 916,754         | 1,243,693       |

|                        |           |           |           |
|------------------------|-----------|-----------|-----------|
| Profit before taxation | 4,237,188 | 7,778,295 | 7,852,898 |
|------------------------|-----------|-----------|-----------|

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**Table of Contents****Sinopec Shanghai Petrochemical Company Limited****Notes to the Consolidated Financial Statements****For the year ended 31 December 2017****5 Segment information (continued)****Other profit and loss disclosures**

|                                   | 2015                          |                           | 2016                          |                           | 2017                          |                           |                               |                           |                 |
|-----------------------------------|-------------------------------|---------------------------|-------------------------------|---------------------------|-------------------------------|---------------------------|-------------------------------|---------------------------|-----------------|
|                                   | Depreciation and amortisation | Inventory Impairment loss | Depreciation and amortisation | Inventory Impairment loss | Depreciation and amortisation | Inventory Impairment loss | Depreciation and amortisation | Inventory Impairment loss |                 |
|                                   | RMB 000                       | RMB 000                   | RMB 000                       | RMB 000                   | RMB 000                       | RMB 000                   | RMB 000                       | RMB 000                   |                 |
| Synthetic fibres                  | (159,472)                     | (4,768)                   | (137,153)                     | (185,096)                 | (38,750)                      | (79,658)                  | (49,107)                      | (38,287)                  |                 |
| Resins and plastics               | (122,558)                     | (339)                     | (120,641)                     |                           | 1,575                         | (163,618)                 | (9)                           | (5,177)                   |                 |
| Intermediate petrochemicals       | (552,833)                     | (50,001)                  | (429)                         | (525,698)                 | (14,351)                      | (642)                     | (538,435)                     | (50,210)                  |                 |
| Petroleum products                | (979,911)                     | (3,168)                   | (886,784)                     | (53,155)                  |                               | (922,670)                 | (44)                          | (12,399)                  |                 |
| Trading of petrochemical products | (175)                         | (13,150)                  | (176)                         |                           |                               | (171)                     |                               |                           |                 |
| Others                            | (230,012)                     | (756)                     | (23,014)                      | (211,808)                 | (1,570)                       | (38,451)                  | (129,577)                     | (18,875)                  |                 |
|                                   | <b>(2,044,961)</b>            | <b>(50,757)</b>           | <b>(44,868)</b>               | <b>(1,882,260)</b>        | <b>(254,172)</b>              | <b>(76,268)</b>           | <b>(1,834,129)</b>            | <b>(118,245)</b>          | <b>(60,461)</b> |

|                                   | As at 31 December |              |
|-----------------------------------|-------------------|--------------|
|                                   | 2016              | 2017         |
|                                   | Total assets      | Total assets |
|                                   | RMB 000           | RMB 000      |
| <b>Allocated assets</b>           |                   |              |
| Synthetic fibres                  | 1,405,804         | 1,101,836    |
| Resins and plastics               | 1,821,576         | 2,184,706    |
| Intermediate petrochemicals       | 4,441,418         | 5,122,226    |
| Petroleum products                | 13,426,863        | 13,792,883   |
| Trading of petrochemical products | 1,186,590         | 1,229,927    |



|   |                   |                   |
|---|-------------------|-------------------|
| Others  | 2,323,376         | 1,883,275         |
| <b>Allocated assets</b>                           | <b>24,605,627</b> | <b>25,314,853</b> |
| <b>Unallocated assets</b>                         |                   |                   |
| Investments accounted for using the equity method | 3,688,794         | 4,452,044         |
| Cash and cash equivalents                         | 5,440,623         | 7,504,266         |
| Time deposits with financial institutions         |                   | 2,000,000         |
| Deferred income tax assets                        | 103,091           | 119,307           |
| Others  | 107,475           | 52,993            |
| <b>Unallocated assets</b>                         | <b>9,339,983</b>  | <b>14,128,610</b> |
| <b>Total assets</b>                               | <b>33,945,610</b> | <b>39,443,463</b> |

**Table of Contents****Sinopec Shanghai Petrochemical Company Limited****Notes to the Consolidated Financial Statements****For the year ended 31 December 2017****5 Segment information (continued)**

|                                   | <b>As at 31 December</b> |                          |
|-----------------------------------|--------------------------|--------------------------|
|                                   | <b>2016</b>              | <b>2017</b>              |
|                                   | <b>Total liabilities</b> | <b>Total liabilities</b> |
|                                   | <b>RMB 000</b>           | <b>RMB 000</b>           |
| <b>Allocated liabilities</b>      |                          |                          |
| Synthetic fibres                  | 344,287                  | 461,706                  |
| Resins and plastics               | 1,118,166                | 1,209,940                |
| Intermediate petrochemicals       | 1,126,031                | 1,330,601                |
| Petroleum products                | 4,323,580                | 5,718,117                |
| Trading of petrochemical products | 1,407,484                | 1,521,818                |
| Others                            | 76,395                   | 79,584                   |
| <b>Allocated liabilities</b>      | <b>8,395,943</b>         | <b>10,321,766</b>        |
| <b>Unallocated liabilities</b>    |                          |                          |
| Borrowings                        | 546,432                  | 606,157                  |
| <b>Unallocated liabilities</b>    | <b>546,432</b>           | <b>606,157</b>           |
| <b>Total liabilities</b>          | <b>8,942,375</b>         | <b>10,927,923</b>        |

|   | <b>2015</b>    | <b>2016</b>    | <b>2017</b>    |
|---|----------------|----------------|----------------|
|   | <b>RMB 000</b> | <b>RMB 000</b> | <b>RMB 000</b> |
| <b>Additions to property, plant and equipment, construction in progress, lease prepayments and other assets</b> |                |                |                |
| Synthetic fibres  | 38,629         | 106,872        | 130,908        |
| Resins and plastics   | 94,935         | 169,330        | 156,189        |
| Intermediate petrochemicals   | 180,806        | 261,291        | 525,828        |
| Petroleum products  | 546,996        | 740,520        | 1,076,212      |
| Others  | 96,886         | 36,965         | 20,738         |

|         |           |           |
|---------|-----------|-----------|
| 958,252 | 1,314,978 | 1,909,875 |
|---------|-----------|-----------|

**Entity-wide information**

The Group's revenue from external customers are mainly within Mainland China in 2017, 2016 and 2015.

As at 31 December 2017 and 31 December 2016, assets other than financial instruments are mainly within Mainland China.

Revenue of approximate RMB 39,804,025 thousands (2016: RMB 31,796,065 thousands, 2015: RMB 39,657,297 thousands) are derived from a single customer. These revenues are attributable to the Petroleum products and Others segments.

**Table of Contents****Sinopec Shanghai Petrochemical Company Limited****Notes to the Consolidated Financial Statements****For the year ended 31 December 2017****6 Other operating income**

|  | <b>2015</b>    | <b>2016</b>    | <b>2017</b>    |
|--|----------------|----------------|----------------|
|  | <b>RMB 000</b> | <b>RMB 000</b> | <b>RMB 000</b> |
| Government grants (i)                            | 150,116        | 144,631        | 65,703         |
| Rental income from investment property (Note 16) | 48,553         | 46,164         | 46,700         |
| Income from pipeline transportation services     | 6,731          | 5,215          | 4,454          |
| Others   | 29,524         | 1,296          | 2,153          |
|  | <b>234,924</b> | <b>197,306</b> | <b>119,010</b> |

**(i) Government grants**

Grants related to R&D and other tax refund of RMB 65,266 thousands (2016: RMB 144,631 thousands, 2015: RMB 150,116 thousands) are included in the government grants line item. There are no unfulfilled conditions or other contingencies attaching to these grants. The Group did not benefit directly from any other forms of government assistance.

*Deferral and presentation of government grants*

Government grants relating to the purchase of property, plant and equipment are included in non-current liabilities as deferred income and are credited to profit or loss on a straight-line basis over the expected lives of the related assets. See Note 28 for further details. For the year ended 31 December 2017, RMB 437 thousands (For the year ended 31 December 2016 and 2015: Nil) were included in the government grants line item.

**7 Other operating expenses**

|  | <b>2015</b>     | <b>2016</b>     | <b>2017</b>     |
|--|-----------------|-----------------|-----------------|
|  | <b>RMB 000</b>  | <b>RMB 000</b>  | <b>RMB 000</b>  |
| Cost related to lease of investment property | (13,453)        | (13,904)        | (13,738)        |
| Others                                       | (20,418)        | (10,371)        | (7,641)         |
|  | <b>(33,871)</b> | <b>(24,275)</b> | <b>(21,379)</b> |

**8 Other gains/(loss) - net**

|  | <b>2015</b>    | <b>2016</b>    | <b>2017</b>    |
|--|----------------|----------------|----------------|
|  | <b>RMB 000</b> | <b>RMB 000</b> | <b>RMB 000</b> |
| Loss on disposal of property, plant and equipment-net              | (9,393)        | (42,031)       | (13,017)       |
| Net foreign exchange gain/(loss)                                   | 878            | (11,851)       | 23,656         |
| Gain from disposal of joint venture                                |                |                | 10,339         |
| Loss on financial liabilities at fair value through profit or loss |                |                | (1,516)        |
| Forward foreign exchange contracts                                 | 37,154         |                |                |
|  | 28,639         | (53,882)       | 19,462         |

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**Table of Contents****Sinopec Shanghai Petrochemical Company Limited****Notes to the Consolidated Financial Statements****For the year ended 31 December 2017****9 Finance income and expenses**

|  | <b>2015</b>      | <b>2016</b>     | <b>2017</b>     |
|--|------------------|-----------------|-----------------|
|  | <b>RMB 000</b>   | <b>RMB 000</b>  | <b>RMB 000</b>  |
| Interest income                                | 49,302           | 133,484         | 268,379         |
| Net foreign exchange gain                      |                  | 3,818           |                 |
| <b>Finance income</b>                          | <b>49,302</b>    | <b>137,302</b>  | <b>268,379</b>  |
| Interest on bank and other borrowings          | (215,460)        | (56,080)        | (55,188)        |
| Less: amounts capitalized on qualifying assets | 3,518            | 2,463           | 804             |
| Net interest expense                           | (211,942)        | (53,617)        | (54,384)        |
| Net foreign exchange loss                      | (81,139)         |                 | (6,663)         |
| <b>Finance expenses</b>                        | <b>(293,081)</b> | <b>(53,617)</b> | <b>(61,047)</b> |
| <b>Finance (expenses)/income - net</b>         | <b>(243,779)</b> | <b>83,685</b>   | <b>207,332</b>  |

**10 Expense by nature**

|  | <b>2015</b>    | <b>2016</b>    | <b>2017</b>    |
|--|----------------|----------------|----------------|
|  | <b>RMB 000</b> | <b>RMB 000</b> | <b>RMB 000</b> |
| Cost of raw material                           | 41,483,278     | 31,922,984     | 42,075,096     |
| Cost of trading products                       | 13,573,180     | 20,423,854     | 23,531,983     |
| Employee benefit expenses (Note 11)            | 2,595,646      | 2,487,534      | 2,752,996      |
| Depreciation and amortisation (Note 14, 15,16) | 2,044,961      | 1,882,260      | 1,834,129      |
| Repairs and maintenance expenses               | 978,845        | 1,192,203      | 1,136,379      |
| Transportation costs                           | 337,454        | 323,678        | 306,654        |
| Impairment loss (Note 15, 21)                  | 50,757         | 254,172        | 118,245        |
| Sales commissions (Note 30)                    | 112,245        | 100,221        | 116,616        |
| Inventory write-down (Note 20)                 | 44,868         | 76,268         | 60,461         |
| Leasing expenses                               | 23,477         | 73,852         | 79,438         |
| Auditors remuneration - audit services         | 7,800          | 7,800          | 7,800          |
| Change of goods in process and finished goods  | 855,692        | (731,944)      | (58,784)       |

|  |            |            |            |
|--|------------|------------|------------|
| Other expenses   | 1,249,762  | 1,264,879  | 972,534    |
| Total cost of sales, selling and administrative expenses | 63,357,965 | 59,277,761 | 72,933,547 |

## 11 Employee benefit expenses

|  | 2015<br>RMB 000 | 2016<br>RMB 000 | 2017<br>RMB 000 |
|--|-----------------|-----------------|-----------------|
| Wages and salaries   | 1,719,419       | 1,666,806       | 1,769,535       |
| Social welfare costs                                       | 694,415         | 640,710         | 622,854         |
| Share options granted to directors and employees (Note 26) | 22,702          | 18,004          | 11,276          |
| Others (a)   | 159,110         | 162,014         | 349,331         |
| Total employee benefit expense                             | 2,595,646       | 2,487,534       | 2,752,996       |

**Table of Contents****Sinopec Shanghai Petrochemical Company Limited****Notes to the Consolidated Financial Statements****For the year ended 31 December 2017****11 Employee benefit expenses (continued)**

(a) For the year ended 31 December 2017, employee benefit expenses others included the termination benefits accrued for employees accepted voluntary redundancy of a subsidiary of the Company amounting to RMB 154,081 thousands, which was paid subsequently in January 2018.

(i) Five highest paid individuals

During the year ended 31 December 2015, 2016 and 2017, all 5 individuals with the highest emoluments are directors and supervisors whose emoluments are disclosed in Note 36(i).

**12 Income tax**

|                           | 2015           | 2016             | 2017             |
|---------------------------|----------------|------------------|------------------|
|                           | RMB 000        | RMB 000          | RMB 000          |
| -Current income tax       | 82,753         | 1,828,868        | 1,714,955        |
| -Deferred taxation        | 844,024        | (32,046)         | (16,216)         |
| <b>Income tax expense</b> | <b>926,777</b> | <b>1,796,822</b> | <b>1,698,739</b> |

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

|   | 2015      | 2016      | 2017      |
|---|-----------|-----------|-----------|
|   | RMB 000   | RMB 000   | RMB 000   |
| Profit before taxation  | 4,237,188 | 7,778,295 | 7,852,898 |
| Expected PRC income tax at the statutory tax rate of 25%                            | 1,059,297 | 1,944,574 | 1,963,225 |
| Tax effect of share of profit of investments accounted for using the equity method  | (140,509) | (225,813) | (307,547) |
| Tax effect of other non-taxable income  | (19,178)  | (16,610)  | (8,733)   |
| Tax effect of non-deductible loss, expenses and costs                               | 5,486     | 23,578    | 7,268     |
| True up for final settlement of enterprise income taxes in respect of previous year | 1,752     | 32,457    | (15,121)  |



|   |          |           |           |
|---|----------|-----------|-----------|
| Utilisation of previously unrecognized tax losses   |          | (58)      | (1,185)   |
| Tax losses for which no deferred income tax asset was recognized                            | 32,273   | 25,219    | 60,832    |
| Temporary differences for which no deferred income tax asset was recognized in current year | 15       | 13,511    |           |
| Utilisation of previously unrecognized temporary differences                                | (12,359) | (36)      |           |
| Actual income tax   | 926,777  | 1,796,822 | 1,698,739 |

The provision for PRC income tax is calculated at the rate of 25% (2016 and 2015: 25%) on the estimated taxable income of the year ended 31 December 2017 determined in accordance with relevant income tax rules and regulations. The Group did not carry out business overseas and therefore does not incur overseas income taxes.

**Table of Contents****Sinopec Shanghai Petrochemical Company Limited****Notes to the Consolidated Financial Statements****For the year ended 31 December 2017****12 Income tax (continued)**

(i) The analysis of deferred tax assets and deferred tax liabilities is as follows:

|  | <b>2016</b>    | <b>2017</b>    |
|--|----------------|----------------|
|  | <b>RMB 000</b> | <b>RMB 000</b> |
| <b>Deferred tax assets:</b>  |                |                |
| Deferred tax asset to be recovered after more than 12 months       | 69,382         | 87,341         |
| Deferred tax asset to be recovered within 12 months                | 40,309         | 37,053         |
|  | 109,691        | 124,394        |
| <b>Deferred tax liabilities:</b>                                   |                |                |
| Deferred tax liabilities to be recovered after more than 12 months | (4,500)        | (3,574)        |
| Deferred tax liabilities to be recovered within 12 months          | (2,100)        | (1,513)        |
|  | (6,600)        | (5,087)        |
| <b>Deferred tax assets - net</b>                                   | <b>103,091</b> | <b>119,307</b> |

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

|   | <b>Balance at</b> |                   | <b>Balance at</b>  |
|---|-------------------|-------------------|--------------------|
|   | <b>1 January</b>  | <b>Recognized</b> | <b>31 December</b> |
|   | <b>2016</b>       | <b>in income</b>  | <b>2016</b>        |
|   | <b>RMB 000</b>    | <b>statement</b>  | <b>RMB 000</b>     |
|   |                   | <b>RMB 000</b>    |                    |
| Impairment for bad and doubtful debts, provision for inventories and payroll payables | 19,792            | 1,081             | 20,873             |
| Provision for impairment losses in fixed assets, construction in progress             | 137,908           | 35,868            | 173,776            |
| Difference in depreciation  | (91,321)          | (7,755)           | (99,076)           |
| Capitalisation of borrowing costs   | (8,701)           | 2,101             | (6,600)            |
| Tax losses carried forward  | 2,875             | (2,875)           |                    |

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|   |                   |                   |                    |
|---|-------------------|-------------------|--------------------|
| Share option  | 5,675             | 4,501             | 10,176             |
| Others  | 4,817             | (875)             | 3,942              |
| Deferred tax assets   | 71,045            | 32,046            | 103,091            |
|   | <b>Balance at</b> | <b>Recognized</b> | <b>Balance at</b>  |
|   | <b>1 January</b>  | <b>in income</b>  | <b>31 December</b> |
|   | <b>2017</b>       | <b>statement</b>  | <b>2017</b>        |
|   | <b>RMB 000</b>    | <b>RMB 000</b>    | <b>RMB 000</b>     |
| Impairment for bad and doubtful debts and provision for inventories | 20,873            | 3,634             | 24,507             |
| Provision for impairment losses in fixed assets                     | 173,776           | 29,212            | 202,988            |
| Difference in depreciation  | (99,076)          | (16,419)          | (115,495)          |
| Capitalisation of borrowing costs                                   | (6,600)           | 2,933             | (3,667)            |
| Share option  | 10,176            | (6,360)           | 3,816              |
| Others  | 3,942             | 3,216             | 7,158              |
| Deferred tax assets   | 103,091           | 16,216            | 119,307            |

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**Table of Contents****Sinopec Shanghai Petrochemical Company Limited****Notes to the Consolidated Financial Statements****For the year ended 31 December 2017****12 Income tax (continued)**

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

**(iii) Deferred tax assets not recognized**

As at 31 December 2017, certain subsidiaries of the Company did not recognise the deferred tax assets in respect of the impairment losses on property, plant and equipment amounting to RMB 486,592 thousands and provision for inventories amounting to RMB 47,582 thousands (31 December 2016: RMB 456,623 thousands and RMB 46,190 thousands respectively), because it was not probable that the related tax benefit would be realized.

As at 31 December 2017, certain subsidiaries of the Company did not recognize the deferred tax assets of RMB 607,753 thousands (31 December 2016: RMB 432,634 thousands) in respect of unused tax losses carried forward for PRC income tax purpose because it was not probable that the related tax benefit would be realized.

Tax losses carried forward that are not recognised as deferred tax assets will expire in the following years:

|      | <b>2016</b>    | <b>2017</b>    |
|------|----------------|----------------|
|      | <b>RMB 000</b> | <b>RMB 000</b> |
| 2017 | 68,211         |                |
| 2018 | 63,733         | 63,733         |
| 2019 | 70,723         | 70,723         |
| 2020 | 140,591        | 140,591        |
| 2021 | 89,376         | 89,376         |
| 2022 |                | 243,330        |
|      | 432,634        | 607,753        |

**Table of Contents****Sinopec Shanghai Petrochemical Company Limited****Notes to the Consolidated Financial Statements****For the year ended 31 December 2017****13 Earnings per share****(a) Basic**

Basic earnings per share is calculated by dividing the profit attributable to owners of the Company by the weighted average number of ordinary shares in issue during the year.

|  | <b>2015</b>    | <b>2016</b>    | <b>2017</b>    |
|--|----------------|----------------|----------------|
|  | <b>RMB 000</b> | <b>RMB 000</b> | <b>RMB 000</b> |
| Net profit attributable to owners of the Company                         | 3,274,308      | 5,968,466      | 6,143,222      |
| Weighted average number of ordinary shares in issue(thousands of shares) | 10,800,000     | 10,800,000     | 10,803,690     |
| Basic earnings per share(RMB per share)                                  | RMB 0.303      | RMB 0.553      | RMB 0.569      |
| Basic earnings per ADS(RMB per ADS)                                      | RMB 30.318     | RMB 55.264     | RMB 56.862     |

**(b) Diluted**

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

The Company has dilutive potential ordinary shares from share options. The number of shares that would have been issued assuming the exercise of the share options less the number of shares that could have been issued at fair value (determined as the average market price per the Company's A share for year ended 31 December 2017) for the same total proceeds is the number of shares issued for no consideration. The resulting number of shares issued for no consideration is included in the weighted average number of ordinary shares as the denominator for calculating diluted earnings per share.

The calculation of the diluted earnings per share for year ended 31 December 2015,2016 and 2017 was shown as:

|          | <b>2015</b>    | <b>2016</b>    | <b>2017</b>    |
|----------|----------------|----------------|----------------|
|          | <b>RMB 000</b> | <b>RMB 000</b> | <b>RMB 000</b> |
| Earnings |                |                |                |

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|   |            |            |            |
|---|------------|------------|------------|
| Profit attributable to owners of the Company  | 3,274,308  | 5,968,466  | 6,143,222  |
| Weighted average number of ordinary shares in issue (thousands of shares)                       | 10,800,000 | 10,800,000 | 10,803,690 |
| Adjustments for share options granted (thousands of shares)                                     | 9,041      | 8,632      | 6,179      |
| Weighted average number of ordinary shares for diluted earnings per share (thousands of shares) | 10,809,041 | 10,808,632 | 10,809,869 |
| Diluted earnings per share (RMB per share)  | RMB 0.303  | RMB 0.552  | RMB 0.568  |
| Diluted earnings per ADS (RMB per ADS)(i)   | RMB 30.292 | RMB 55.219 | RMB 56.830 |

- (i) ADSs are references to our American Depositary Shares, which are listed and traded on the New York Stock Exchange. Each ADS represents 100 H Shares.

**Table of Contents****Sinopec Shanghai Petrochemical Company Limited****Notes to the Consolidated Financial Statements****For the year ended 31 December 2017****14 Lease prepayments and other assets**

|  | <b>Land use<br/>rights<br/>RMB 000</b> | <b>Other<br/>Intangible<br/>assets<br/>RMB 000</b> | <b>Long-term<br/>prepaid expense<br/>RMB 000</b> | <b>Total<br/>RMB 000</b> |
|--|--|--|--|--------------------------|
| <b>As at 1 January 2016</b>                              |  |  |  |                          |
| Cost   | 708,972                                | 81,085   | 359,488  | 1,149,545                |
| Accumulated amortisation                                 | (314,777)                              | (51,752)   |  | (366,529)                |
| <b>Net book amount</b>                                   | <b>394,195</b>                         | <b>29,333</b>                                      | <b>359,488</b>                                   | <b>783,016</b>           |
| <b>Year ended 31 December 2016</b>                       |  |  |  |                          |
| Opening net book amount                                  | 394,195                                | 29,333   | 359,488  | 783,016                  |
| Additions  |  |  | 324,523  | 324,523                  |
| Charge for the year                                      | (14,491)                               | (2,922)  | (226,744)  | (244,157)                |
| Reclassified to prepayments                              |  |  | (157,926)  | (157,926)                |
| <b>Closing net book amount</b>                           | <b>379,704</b>                         | <b>26,411</b>                                      | <b>299,341</b>                                   | <b>705,456</b>           |
| <b>As at 31 December 2016</b>                            |  |  |  |                          |
| Cost   | 708,972                                | 81,085   | 299,341  | 1,089,398                |
| Accumulated amortisation                                 | (329,268)                              | (54,674)   |  | (383,942)                |
| <b>Net book amount</b>                                   | <b>379,704</b>                         | <b>26,411</b>                                      | <b>299,341</b>                                   | <b>705,456</b>           |
| <b>Year ended 31 December 2017</b>                       |  |  |  |                          |
| Opening net book amount                                  | 379,704                                | 26,411   | 299,341  | 705,456                  |
| Additions  |  |  | 491,288  | 491,288                  |
| Charge for the year                                      | (14,598)                               | (2,922)  | (228,115)  | (245,635)                |
| Reclassified to prepayments                              |  |  | (212,926)  | (212,926)                |
| Transferred from property, plant and equipment (Note 15) | 9,066                                  |  |  | 9,066                    |
| <b>Closing net book amount</b>                           | <b>374,172</b>                         | <b>23,489</b>                                      | <b>349,588</b>                                   | <b>747,249</b>           |

**As at 31 December 2017**

|                          |                |               |                |                |
|--------------------------|----------------|---------------|----------------|----------------|
| Cost                     | 725,152        | 81,085        | 349,588        | 1,155,825      |
| Accumulated amortisation | (350,980)      | (57,596)      |                | (408,576)      |
| <b>Net book amount</b>   | <b>374,172</b> | <b>23,489</b> | <b>349,588</b> | <b>747,249</b> |

Long-term prepaid expenses are mainly catalyst. As at 31 December 2017, current portion of catalyst amounted to RMB 212,926 thousands (31 December 2016: RMB 157,926 thousands,) was reclassified to prepayments, while the net book value of non-current portion was RMB 338,837 thousands (31 December 2016: RMB 287,423 thousands).

During the year ended 31 December 2017, the amortisation of RMB 245,635 thousands (2016: RMB 244,157 thousands, 2015: RMB 322,647 thousands) has been charged in cost of sales.



**Table of Contents****Sinopec Shanghai Petrochemical Company Limited****Notes to the Consolidated Financial Statements****For the year ended 31 December 2017****15 Property, plant and equipment**

|   | <b>Buildings<br/>RMB 000</b> | <b>Plant and<br/>machinery<br/>RMB 000</b> | <b>Vehicles and<br/>other equipment<br/>RMB 000</b> | <b>Total<br/>RMB 000</b> |
|---|------------------------------|--|---|--------------------------|
| <b>As at 1 January 2016</b>                         |                              |  |   |                          |
| Cost  | 3,813,839                    | 40,630,644                                 | 1,903,931   | 46,348,414               |
| Accumulated depreciation                            | (2,216,300)                  | (27,279,363)                               | (1,495,393)   | (30,991,056)             |
| Impairment loss                                     | (279,099)                    | (640,897)                                  | (54,043)  | (974,039)                |
| <b>Net book amount</b>                              | <b>1,318,440</b>             | <b>12,710,384</b>                          | <b>354,495</b>                                      | <b>14,383,319</b>        |
| <b>Year ended 31 December 2016</b>                  |                              |  |   |                          |
| Opening net book amount                             | 1,318,440                    | 12,710,384                                 | 354,495   | 14,383,319               |
| Additions   | 195                          | 149,691                                    | 16,826  | 166,712                  |
| Disposals   | (1,300)                      | (33,660)                                   | (2,173)   | (37,133)                 |
| Reclassification                                    | (4,192)                      | (5,573)                                    | 9,765   |                          |
| Transferred from construction in progress (Note 17) | 28,652                       | 757,157                                    | 42,782  | 828,591                  |
| Transferred from investment property (Note 16)      | 11,587                       |  |   | 11,587                   |
| Charge for the year                                 | (94,189)                     | (1,467,424)                                | (62,934)  | (1,624,547)              |
| Impairment loss                                     |                              | (247,058)                                  | (7,184)   | (254,242)                |
| <b>Closing net book amount</b>                      | <b>1,259,193</b>             | <b>11,863,517</b>                          | <b>351,577</b>                                      | <b>13,474,287</b>        |
| <b>As at 31 December 2016</b>                       |                              |  |   |                          |
| Cost  | 3,841,570                    | 41,025,426                                 | 1,924,313   | 46,791,309               |
| Accumulated depreciation                            | (2,303,278)                  | (28,330,684)                               | (1,511,509)   | (32,145,471)             |
| Impairment loss                                     | (279,099)                    | (831,225)                                  | (61,227)  | (1,171,551)              |
| <b>Net book amount</b>                              | <b>1,259,193</b>             | <b>11,863,517</b>                          | <b>351,577</b>                                      | <b>13,474,287</b>        |
| <b>Year ended 31 December 2017</b>                  |                              |  |   |                          |
| Opening net book amount                             | 1,259,193                    | 11,863,517                                 | 351,577   | 13,474,287               |
| Additions   |                              | 1,231                                      | 1,694   | 2,925                    |
| Disposals   | (736)                        | (14,029)                                   | (1,659)   | (16,424)                 |

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|   |                  |                   |                |                   |
|---|------------------|-------------------|----------------|-------------------|
| Reclassification  | (22,337)         | 20,519            | 1,818          |                   |
| Transferred from construction in progress(Note 17)          | 3,631            | 1,085,101         | 43,484         | 1,132,216         |
| Transferred to investment property (Note 16)                | (24,489)         |                   |                | (24,489)          |
| Transferred to lease prepayments and other assets (Note 14) | (9,066)          |                   |                | (9,066)           |
| Charge for the year   | (83,803)         | (1,423,511)       | (67,528)       | (1,574,842)       |
| Impairment loss   |                  | (118,179)         |                | (118,179)         |
| <b>Closing net book amount</b>                              | <b>1,122,393</b> | <b>11,414,649</b> | <b>329,386</b> | <b>12,866,428</b> |

**As at 31 December 2017**

|                          |                  |                   |                |                   |
|--------------------------|------------------|-------------------|----------------|-------------------|
| Cost                     | 3,641,220        | 41,661,819        | 1,907,177      | 47,210,216        |
| Accumulated depreciation | (2,239,728)      | (29,299,129)      | (1,516,564)    | (33,055,421)      |
| Impairment loss          | (279,099)        | (948,041)         | (61,227)       | (1,288,367)       |
| <b>Net book amount</b>   | <b>1,122,393</b> | <b>11,414,649</b> | <b>329,386</b> | <b>12,866,428</b> |

In the year ended 31 December 2017, the amount of depreciation expense charged to cost of sales and selling and administrative expense were RMB 1,565,465 thousands and RMB 9,377 thousands, respectively (2016: RMB 1,616,117 thousands and RMB 8,430 thousands, respectively; 2015: RMB 1,706,595 thousands and RMB 2,172 thousands, respectively).

**Table of Contents****Sinopec Shanghai Petrochemical Company Limited****Notes to the Consolidated Financial Statements****For the year ended 31 December 2017****15 Property, plant and equipment (continued)**

During the year ended 31 December 2017, the Group made impairment provision of RMB 118,179 thousands against these property, plant and equipment which will be redundant and replaced by new facilities (2016: RMB 254,242 thousands).

**16 Investment property**

|  | <b>RMB 000</b> |
|--|----------------|
| <b>As at 1 January 2016</b>                              |                |
| Cost   | 556,884        |
| Accumulated depreciation                                 | (151,312)      |
| <b>Net book amount</b>                                   | <b>405,572</b> |
| <b>Year ended 31 December 2016</b>                       |                |
| Opening net book amount                                  | 405,572        |
| Transferred to property, plant and equipment (Note 15)   | (11,587)       |
| Charge for the year                                      | (13,556)       |
| <b>Closing net book amount</b>                           | <b>380,429</b> |
| <b>As at 1 January 2017</b>                              |                |
| Cost   | 540,493        |
| Accumulated depreciation                                 | (160,064)      |
| <b>Net book amount</b>                                   | <b>380,429</b> |
| <b>Year ended 31 December 2017</b>                       |                |
| Opening net book amount                                  | 380,429        |
| Transferred from property, plant and equipment (Note 15) | 24,489         |
| Charge for the year                                      | (13,652)       |
| <b>Closing net book amount</b>                           | <b>391,266</b> |
| <b>As at 31 December 2017</b>                            |                |

|                          |                |
|--------------------------|----------------|
| Cost                     | 594,135        |
| Accumulated depreciation | (202,869)      |
| <b>Net book amount</b>   | <b>391,266</b> |

As at 31 December 2017, the Group had no contractual obligations for future repairs and maintenance (31 December 2016 and 2015: Nil).

Investment properties represent certain floors of an office building leased to other entities including related parties.

The fair value of the investment properties of the Group as at 31 December 2017 was estimated by the directors to be approximately RMB 1,332,452 thousands by reference to market values of similar properties in the nearby area (31 December 2016: RMB 1,330,700 thousands). This fair value estimation was at level 3 of fair value hierarchy by using market observable inputs. The investment property has not been valued by an external independent appraiser.

Rental income of RMB 46,700 thousands was recognized by the Group for the year ended 31 December 2017 (2016: RMB 46,164 thousands, 2015: RMB 48,553 thousands).

**Table of Contents****Sinopec Shanghai Petrochemical Company Limited****Notes to the Consolidated Financial Statements****For the year ended 31 December 2017****17 Construction in progress**

|   | <b>2016</b>    | <b>2017</b>    |
|---|----------------|----------------|
|   | <b>RMB 000</b> | <b>RMB 000</b> |
| <b>As at 1 January</b>                                | 722,520        | 717,672        |
| Additions   | 823,743        | 1,415,662      |
| Transferred to property plant and Equipment (Note 15) | (828,591)      | (1,132,216)    |
| <b>As at 31 December</b>                              | 717,672        | 1,001,118      |

During the year ended 31 December 2017, the Group capitalised borrowing costs amounting to RMB 804 thousands (2016: RMB 2,463 thousands, 2015: RMB 3,518 thousands) on qualifying assets. Borrowing costs were capitalised at the weighted average rate of its general borrowings of 2.93% (2016: 3.03%, 2015: 3.47%).

**18 Subsidiaries**

The following list contains the particulars of major subsidiaries of the Group, all of which are limited companies established and operated in the PRC as at 31 December 2017.

| Company   | Registered capital<br>000 | Percentage<br>of equity<br>directly<br>held by<br>the<br>Company<br>% | Percentage<br>of equity<br>held by<br>the<br>Group<br>% | Percentage<br>of equity<br>held by<br>non-<br>controlling<br>interests<br>% | Principal activities                                      |
|---|---------------------------|---|---|---|---|
| Shanghai Petrochemical Investment Development Company Limited | RMB 1,000,000             | 100.00  | 100.00  |   | Investment management                                     |
| China Jinshan Associated Trading Corporation                  | RMB 25,000                | 67.33   | 67.33   | 32.67   | Import and export of petrochemical products and equipment |
| Shanghai Jinchang Engineering Plastics Company Limited        | USD 9,154                 |   | 74.25   | 25.75   | Production of Polypropylene compound products             |
| Shanghai Golden Phillips Petrochemical Company Limited        | USD 50,000                |   | 60.00   | 40.00   | Production of polyethylene products                       |

|   |             |       |        |       |   |
|---|-------------|-------|--------|-------|---|
| Zhejiang Jin Yong Acrylic Fibre Company Limited     | RMB 250,000 | 75.00 | 75.00  | 25.00 | Production of acrylic fibre products        |
| Shanghai Golden Conti Petrochemical Company Limited | RMB 545,776 |       | 100.00 |       | Production of petrochemical products        |
| Shanghai Jinshan Trading Corporation                | RMB 100,000 |       | 67.33  | 32.67 | Import and export of petrochemical products |

The total comprehensive income attributable to non-controlling interests for the year ended 31 December 2017 is RMB 10,937 thousands (2016: RMB 13,007 thousands, 2015: 36,103 thousands).

**Table of Contents****Sinopec Shanghai Petrochemical Company Limited****Notes to the Consolidated Financial Statements****For the year ended 31 December 2017****19 Investments accounted for using the equity method**

The amounts recognised in the balance sheet are as follows:

|                       | <b>2016</b>      | <b>2017</b>      |
|-----------------------|------------------|------------------|
|                       | <b>RMB 000</b>   | <b>RMB 000</b>   |
| <b>Associates</b>     |                  |                  |
| -Share of net assets  | 3,498,097        | 4,239,795        |
| <b>Joint ventures</b> |                  |                  |
| -Share of net assets  | 190,697          | 212,249          |
|                       | <b>3,688,794</b> | <b>4,452,044</b> |

The amounts recognised in the share of profit of investments accounted for using the equity method are as follows:

|                | <b>2016</b>    | <b>2017</b>      |
|----------------|----------------|------------------|
|                | <b>RMB 000</b> | <b>RMB 000</b>   |
| Associates     | 929,315        | 1,200,141        |
| Joint ventures | (12,561)       | 43,552           |
|                | <b>916,754</b> | <b>1,243,693</b> |

**Investment in associates**

|                             | <b>2016</b>      | <b>2017</b>      |
|-----------------------------|------------------|------------------|
|                             | <b>RMB 000</b>   | <b>RMB 000</b>   |
| <b>As at 1 January</b>      | 3,074,156        | 3,498,097        |
| Share of profit             | 929,315          | 1,200,141        |
| Other comprehensive income  | 18,213           | (810)            |
| Cash dividends distribution | (523,587)        | (457,633)        |
| <b>As at 31 December</b>    | <b>3,498,097</b> | <b>4,239,795</b> |





**Table of Contents****Sinopec Shanghai Petrochemical Company Limited****Notes to the Consolidated Financial Statements****For the year ended 31 December 2017****19 Investments accounted for using the equity method (continued)****Investment in associates (continued)**

Set out below are the material associates of the Group as at 31 December 2017. The associates as listed below have share capital consisting solely of ordinary shares, which are held directly by the Group; the country of incorporation or registration is also their principal place of business.

Principal activities of material associates as at 31 December 2017 and 2016.

| <b>Name of entity</b>   | <b>Place of<br/>business/country of<br/>incorporation</b> | <b>% of ownership<br/>interest</b> | <b>Nature of the relationship</b>   | <b>Measurement<br/>method</b> |
|---|---|------------------------------------|---|-------------------------------|
| Shanghai Secco<br>Petrochemical Company<br>Limited [ Shanghai Secco ]                         | PRC   | 20                                 | Manufacturing and<br>distribution of chemical<br>products                                   | Equity                        |
| Shanghai Chemical<br>Industry Park<br>Development Company<br>Limited [ Chemical<br>Industry ] | PRC   | 38.26                              | Planning, development<br>and operation of the<br>Chemical Industry Park in<br>Shanghai, PRC | Equity                        |
| Shanghai Jinsen<br>Hydrocarbon Resins<br>Company Limited<br>[ Jinsen ]                        | PRC   | 40                                 | Production of resins<br>products  | Equity                        |
| Shanghai Azbil<br>Automation Company<br>Limited [ Azbil ]                                     | PRC   | 40                                 | Service and maintenance of<br>building automation systems<br>and products                   | Equity                        |

Shanghai Secco, Chemical Industry, Jinsen and Azbil are private companies and there are no quoted market prices available for their shares.

There are no contingent liabilities relating to the Group's interest in the associates.



**Table of Contents****Sinopec Shanghai Petrochemical Company Limited****Notes to the Consolidated Financial Statements****For the year ended 31 December 2017****19 Investments accounted for using the equity method (continued)****Investment in associates (continued)****Summarised financial information for major associates**

Set out below are the summarised financial information for the above associates.

**Summarised balance sheet for material associates**

| <b>As at 31 December 2016</b> | <b>Shanghai Secco<br/>RMB 000</b> | <b>Chemical<br/>Industry<br/>RMB 000</b> | <b>Jinsen<br/>RMB 000</b> | <b>Azbil<br/>RMB 000</b> |
|-------------------------------|-----------------------------------|--|---------------------------|--------------------------|
| <b>Current</b>                |                                   |  |                           |                          |
| -Current assets               | 5,596,573                         | 4,265,139                                | 110,499                   | 153,980                  |
| -Current liabilities          | (1,982,932)                       | (1,299,046)                              | (10,324)                  | (46,532)                 |
| <b>Non-current</b>            |                                   |  |                           |                          |
| -Non-current assets           | 6,582,633                         | 3,001,112                                | 83,077                    | 3,145                    |
| -Non-current liabilities      |                                   | (1,655,448)                              |                           |                          |
| <b>Net assets</b>             | <b>10,196,274</b>                 | <b>4,311,757</b>                         | <b>183,252</b>            | <b>110,593</b>           |

| <b>As at 31 December 2017</b> | <b>Shanghai Secco<br/>RMB 000</b> | <b>Chemical<br/>Industry<br/>RMB 000</b> | <b>Jinsen<br/>RMB 000</b> | <b>Azbil<br/>RMB 000</b> |
|-------------------------------|-----------------------------------|--|---------------------------|--------------------------|
| <b>Current</b>                |                                   |  |                           |                          |
| -Current assets               | 11,601,793                        | 3,615,350                                | 105,178                   | 168,675                  |
| -Current liabilities          | (4,173,984)                       | (1,358,611)                              | (12,618)                  | (51,729)                 |
| <b>Non-current</b>            |                                   |  |                           |                          |
| -Non-current assets           | 5,842,119                         | 3,098,107                                | 73,623                    | 2,829                    |
| -Non-current liabilities      |                                   | (690,497)                                |                           |                          |
| <b>Net assets</b>             | <b>13,269,928</b>                 | <b>4,664,349</b>                         | <b>166,183</b>            | <b>119,775</b>           |

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**Table of Contents****Sinopec Shanghai Petrochemical Company Limited****Notes to the Consolidated Financial Statements****For the year ended 31 December 2017****19 Investments accounted for using the equity method (continued)****Investment in associates (continued)****Summarised statement of comprehensive income for material associates**

|   | <b>Shanghai Secco</b> | <b>Chemical</b> | <b>Jinsen</b>  | <b>Azbil</b>   |
|---|-----------------------|-----------------|----------------|----------------|
|   | <b>RMB 000</b>        | <b>Industry</b> | <b>RMB 000</b> | <b>RMB 000</b> |
| <b>2015</b>                                       |                       | <b>RMB 000</b>  | <b>RMB 000</b> | <b>RMB 000</b> |
| Revenue   | 23,848,576            | 1,032           | 245,060        | 186,657        |
| Post-tax profit from continuing operations        | 2,185,268             | 235,635         | 8,155          | 20,507         |
| Other comprehensive income                        |                       |                 |                |                |
| Total comprehensive income                        | 2,185,268             | 235,635         | 8,155          | 20,507         |
| Dividends declared by associate                   | 780,000               | 42,000          | 7,315          | 30,000         |
|   |                       |                 |                |                |
|   | <b>Shanghai</b>       | <b>Chemical</b> | <b>Jinsen</b>  | <b>Azbil</b>   |
|   | <b>Secco</b>          | <b>Industry</b> | <b>RMB 000</b> | <b>RMB 000</b> |
|   | <b>RMB 000</b>        | <b>RMB 000</b>  | <b>RMB 000</b> | <b>RMB 000</b> |
| <b>2016</b>                                       |                       |                 |                |                |
| Revenue   | 23,969,408            | 2,471,027       | 167,956        | 180,108        |
| Post-tax profit/(loss) from continuing operations | 3,753,476             | 513,804         | (16,394)       | 16,278         |
| Other comprehensive income                        |                       | 47,603          |                |                |
| Total comprehensive income/(loss)                 | 3,753,476             | 561,407         | (16,394)       | 16,278         |
| Dividends declared by associate                   | 2,451,000             | 45,000          | 7,340          | 18,000         |
|   |                       |                 |                |                |
|   | <b>Shanghai</b>       | <b>Chemical</b> | <b>Jinsen</b>  | <b>Azbil</b>   |
|   | <b>Secco</b>          | <b>Industry</b> | <b>RMB 000</b> | <b>RMB 000</b> |
|   | <b>RMB 000</b>        | <b>RMB 000</b>  | <b>RMB 000</b> | <b>RMB 000</b> |
| <b>2017</b>                                       |                       |                 |                |                |
| Revenue   | 29,186,371            | 2,664,866       | 193,007        | 234,852        |

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|   |           |         |          |        |
|---|-----------|---------|----------|--------|
| Post-tax profit/(loss) from continuing operations | 5,179,254 | 407,709 | (17,069) | 26,182 |
| Other comprehensive income                        |           | (2,116) |          |        |
| Total comprehensive income/(loss)                 | 5,179,254 | 405,593 | (17,069) | 26,182 |
| Dividends declared by associate                   | 2,105,600 | 53,001  |          | 17,000 |

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**Table of Contents****Sinopec Shanghai Petrochemical Company Limited****Notes to the Consolidated Financial Statements****For the year ended 31 December 2017****19 Investments accounted for using the equity method (continued)****Investment in associates (continued)**

The information above reflects the amounts presented in the financial statements of the associates (and not the Group's share of those amounts) adjusted for differences in accounting policies between the group and the associates.

**Reconciliation of summarised financial information**

Reconciliation of the summarised financial information presented to the carrying amount of its interest in material associates

**Summarised financial information for material associates**

|  | <b>Shanghai<br/>Secco<br/>RMB 000</b> | <b>Chemical<br/>Industry<br/>RMB 000</b> | <b>Jinsen<br/>RMB 000</b> | <b>Azbil<br/>RMB 000</b> |
|--|---------------------------------------|--|---------------------------|--------------------------|
| <b>2016</b>                                    |                                       |  |                           |                          |
| Opening net assets 1 January                   | 8,893,798                             | 3,795,350                                | 206,986                   | 112,315                  |
| Profit/(loss) for the year                     | 3,753,476                             | 513,804                                  | (16,394)                  | 16,278                   |
| Other comprehensive income                     |                                       | 47,603                                   |                           |                          |
| Declared dividends                             | (2,451,000)                           | (45,000)                                 | (7,340)                   | (18,000)                 |
| Closing net assets                             | 10,196,274                            | 4,311,757                                | 183,252                   | 110,593                  |
| % of ownership interest                        | 20.00%                                | 38.26%                                   | 40.00%                    | 40.00%                   |
| Interest in associates                         | 2,039,256                             | 1,649,677                                | 73,301                    | 44,237                   |
| Unrealized upstream and downstream transaction | (7,979)                               |  |                           |                          |
| Unentitled portion (Note a)                    |                                       | (348,600)                                |                           |                          |
| <b>Carrying value</b>                          | <b>2,031,277</b>                      | <b>1,301,077</b>                         | <b>73,301</b>             | <b>44,237</b>            |

**2017**

|   | <b>Shanghai<br/>Secco<br/>RMB 000</b> | <b>Chemical<br/>Industry<br/>RMB 000</b> | <b>Jinsen<br/>RMB 000</b> | <b>Azbil<br/>RMB 000</b> |
|---|---------------------------------------|--|---------------------------|--------------------------|
| Opening net assets 1 January                      | 10,196,274                            | 4,311,757                                | 183,252                   | 110,593                  |
| Profit/(loss) for the year                        | 5,179,254                             | 407,709                                  | (17,069)                  | 26,182                   |
| Other comprehensive income                        |                                       | (2,116)                                  |                           |                          |
| Declared dividends                                | (2,105,600)                           | (53,001)                                 |                           | (17,000)                 |
| <b>Closing net assets</b>                         | <b>13,269,928</b>                     | <b>4,664,349</b>                         | <b>166,183</b>            | <b>119,775</b>           |
| <br>  |                                       |  |                           |                          |
| % of ownership interest                           | 20%                                   | 38.26%                                   | 40.00%                    | 40.00%                   |
| Interest in associates                            | 2,653,987                             | 1,784,580                                | 66,473                    | 47,910                   |
| Unrealized upstream and downstream<br>transaction | (9,512)                               |  |                           |                          |
| Unentitled portion (Note a)                       |                                       | (348,346)                                |                           |                          |
| <br>  |                                       |  |                           |                          |
| Carrying value                                    | 2,644,475                             | 1,436,234                                | 66,473                    | 47,910                   |

Note a: Unentitled portion represented the earnings from sales of the lands injected by Government in Chemical Industry cannot be shared by other shareholders.



**Table of Contents****Sinopec Shanghai Petrochemical Company Limited****Notes to the Consolidated Financial Statements****For the year ended 31 December 2017****19 Investments accounted for using the equity method (continued)****Investment in associates (continued)****Summarised financial information for other associates**

|   | <b>2016</b>    | <b>2017</b>    |
|---|----------------|----------------|
|   | <b>RMB 000</b> | <b>RMB 000</b> |
| Carrying value of investments as at 31 December | 48,205         | 44,703         |
| Profit for the year                             | 7,423          | 5,933          |
| <b>Total comprehensive income</b>               | <b>7,423</b>   | <b>5,933</b>   |

**Investment in joint ventures**

|                             | <b>2016</b>    | <b>2017</b>    |
|-----------------------------|----------------|----------------|
|                             | <b>RMB 000</b> | <b>RMB 000</b> |
| <b>As at 1 January</b>      | <b>236,983</b> | <b>190,697</b> |
| Share of (loss)/profit      | (12,561)       | 43,552         |
| Cash dividends distribution | (33,725)       | (22,000)       |
| <b>As at 31 December</b>    | <b>190,697</b> | <b>212,249</b> |

The joint venture listed below has share capital consisting solely of ordinary shares, which is held directly by the Group.

| Name of entity                                       | Place of<br>business/country of<br>incorporation | % of<br>ownership<br>interest | Nature of the<br>relationship            | Measurement<br>method |
|--|--|-------------------------------|--|-----------------------|
| BOC-SPC Gases Company Limited [ BOC ]                | PRC  | 50                            | Production and sales of industrial gases | Equity                |
| Shanghai Petrochemical Yangu Gas Development Company | PRC  | 50                            | Production and sales of industrial gases | Equity                |

Limited [ Yangu Gas ]

BOC and Yangu Gas are private companies and there are no quoted market prices available for their shares.

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**Table of Contents****Sinopec Shanghai Petrochemical Company Limited****Notes to the Consolidated Financial Statements****For the year ended 31 December 2017****19 Investments accounted for using the equity method (continued)****Investment in joint venture (continued)****Summarised financial information for joint ventures**

Set out below are the summarised financial information for joint ventures which are accounted for using the equity method.

**Summarised balance sheet**

| <b>As at 31 December 2016</b>         | <b>BOC<br/>RMB 000</b> | <b>Yangu Gas<br/>RMB 000</b>     |
|---------------------------------------|------------------------|----------------------------------|
| <b>Current</b>                        |                        |                                  |
| Cash and cash equivalents             | 43,356                 | 27,174                           |
| Other current assets (excluding cash) | 37,422                 | 12,401                           |
| <b>Total current assets</b>           | <b>80,778</b>          | <b>39,575</b>                    |
| <b>Financial liabilities</b>          |                        |                                  |
| Other current liabilities             | (29,522)               | (3,104)                          |
| <b>Total current liabilities</b>      | <b>(42,067)</b>        | <b>(5,219)</b>                   |
| <b>Non-current</b>                    |                        |                                  |
| Total non-current Assets              | 273,096                | 66,757                           |
| Total non-current liabilities         |                        |                                  |
| <b>Net assets</b>                     | <b>311,807</b>         | <b>101,113</b>                   |
| <br>                                  |                        |                                  |
| <b>As at 31 December 2017</b>         | <b>BOC<br/>RMB 000</b> | <b>Yangu<br/>Gas<br/>RMB 000</b> |

|                                       |                |               |
|---------------------------------------|----------------|---------------|
| <b>Current</b>                        |                |               |
| Cash and cash equivalents             | 81,288         | 37,541        |
| Other current assets (excluding cash) | 66,756         | 14,712        |
| Total current assets                  | 148,044        | 52,253        |
| <b>Financial liabilities</b>          |                |               |
| Other current liabilities             | (40,291)       | (5,868)       |
| Total current liabilities             | (40,291)       | (5,868)       |
| <b>Non-current</b>                    |                |               |
| Total non-current assets              | 241,323        | 53,556        |
| Total non-current liabilities         |                |               |
| <b>Net assets</b>                     | <b>349,076</b> | <b>99,941</b> |

**Table of Contents****Sinopec Shanghai Petrochemical Company Limited****Notes to the Consolidated Financial Statements****For the year ended 31 December 2017****19 Investments accounted for using the equity method (continued)****Investment in joint venture (continued)****Summarised statement of comprehensive income for joint ventures**

|   | <b>BOC</b>     | <b>Jinpu</b>    | <b>Yangu<br/>Gas</b> |
|---|----------------|-----------------|----------------------|
| <b>2015</b>                                       | <b>RMB 000</b> | <b>RMB 000</b>  | <b>RMB 000</b>       |
| Revenue   | 396,176        | 118,966         | 68,469               |
| Depreciation and amortisation                     | (44,727)       | (8,498)         | (10,952)             |
| Interest income                                   | 326            | 50              | 169                  |
| Interest expense                                  | (4,012)        | (1,072)         | (244)                |
| Profit/(loss) from continuing operations          | 72,778         | (24,213)        | 1,830                |
| Income tax expense                                | (14,392)       |                 |                      |
| Post-tax profit/(loss) from continuing operations | 58,386         | (24,213)        | 1,830                |
| Other comprehensive income                        |                |                 |                      |
| <b>Total comprehensive income/(loss)</b>          | <b>58,386</b>  | <b>(24,213)</b> | <b>1,830</b>         |
| Dividends declared by joint venture               |                |                 | 1,300                |
|   |                |                 |                      |
|   | <b>BOC</b>     | <b>Jinpu</b>    | <b>Yangu<br/>Gas</b> |
| <b>2016</b>                                       | <b>RMB 000</b> | <b>RMB 000</b>  | <b>RMB 000</b>       |
| Revenue   | 370,171        | 31,794          | 59,904               |
| Depreciation and amortisation                     | (45,317)       | (8,463)         | (11,612)             |
| Interest income                                   | 354            | 6               | 246                  |
| Interest expense                                  | (927)          | (775)           |                      |
| Profit/(loss) from continuing operations          | 66,855         | (82,690)        | (2,651)              |
| Income tax expense                                | (16,370)       |                 |                      |
| Post-tax profit/(loss) from continuing operations | 50,485         | (82,690)        | (2,651)              |
| Other comprehensive income                        |                |                 |                      |



**Table of Contents****Sinopec Shanghai Petrochemical Company Limited****Notes to the Consolidated Financial Statements****For the year ended 31 December 2017****19 Investments accounted for using the equity method (continued)****Investment in joint venture (continued)****Reconciliation of summarised financial information**

| <b>2016</b>                            | <b>BOC<br/>RMB 000</b> | <b>Jinpu<br/>RMB 000</b> | <b>Yangu Gas<br/>RMB 000</b>     |
|--|------------------------|--------------------------|----------------------------------|
| <b>Opening net assets 1 January</b>    | 327,572                | 79,963                   | 104,964                          |
| Profit/(loss) for the year             | 50,485                 | (82,690)                 | (2,651)                          |
| Other comprehensive income             |                        |                          |                                  |
| Declared dividends                     | (66,250)               |                          | (1,200)                          |
| <b>Closing net assets/(deficit)(a)</b> | <b>311,807</b>         | <b>(2,727)</b>           | <b>101,113</b>                   |
| % of ownership interest                | 50.00%                 | 50.00%                   | 50.00%                           |
| Interest in joint ventures             | 155,903                |                          | 50,558                           |
| Unrealized downstream transactions     | (15,764)               |                          |                                  |
| <b>Carrying value</b>                  | <b>140,139</b>         |                          | <b>50,558</b>                    |
| <b>2017</b>                            | <b>BOC<br/>RMB 000</b> | <b>Jinpu<br/>RMB 000</b> | <b>Yangu<br/>Gas<br/>RMB 000</b> |
| <b>Opening net assets 1 January</b>    | 311,807                | (2,727)                  | 101,113                          |
| Profit/(loss) for the year             | 81,269                 | (6,605)                  | (1,172)                          |
| Other comprehensive income             |                        |                          |                                  |
| Declared dividends                     | (44,000)               |                          |                                  |
| <b>Closing net assets (a)</b>          | <b>349,076</b>         | <b>(9,332)</b>           | <b>99,941</b>                    |
| % of ownership interest                | 50.00%                 |                          | 50.00%                           |
| Interest in joint ventures             | 174,538                |                          | 49,972                           |
| Unrealized downstream transactions     | (12,261)               |                          |                                  |
| <b>Carrying value</b>                  | <b>162,277</b>         |                          | <b>49,972</b>                    |

- (a) Jinpu was disposed of in August 2017 and the related profit of RMB 10,339 thousands was accounted for in other gains/(losses) - net. The Group's share of losses in Jinpu exceeded RMB 2,727 thousands to its interest during the year ended 31 December, cumulatively exceeded RMB 2,727 thousands to its investment as at 31 December 2016.

## 20 Inventories

|                             | As at 31 December 2016                 |                              |                               | As at 31 December 2017                 |                              |                               |
|-----------------------------|--|------------------------------|-------------------------------|--|------------------------------|-------------------------------|
|                             | Provision for declines<br>in the value |                              | Carrying<br>amount<br>RMB 000 | Provision for declines<br>in the value |                              | Carrying<br>amount<br>RMB 000 |
|                             | Gross carrying<br>amount<br>RMB 000    | of<br>inventories<br>RMB 000 |                               | Gross carrying<br>amount<br>RMB 000    | of<br>inventories<br>RMB 000 |                               |
| Raw materials               | 3,863,647                              | (309)                        | 3,863,338                     | 4,265,699                              | (841)                        | 4,264,858                     |
| Work in progress            | 1,004,580                              | (44,453)                     | 960,127                       | 951,493                                | (47,180)                     | 904,313                       |
| Finished goods              | 1,154,679                              | (22,583)                     | 1,132,096                     | 1,265,964                              | (19,270)                     | 1,246,694                     |
| Spare parts and consumables | 266,189                                | (62,277)                     | 203,912                       | 259,934                                | (78,201)                     | 181,733                       |
|                             | 6,289,095                              | (129,622)                    | 6,159,473                     | 6,743,090                              | (145,492)                    | 6,597,598                     |



**Table of Contents****Sinopec Shanghai Petrochemical Company Limited****Notes to the Consolidated Financial Statements****For the year ended 31 December 2017****20 Inventories (continued)**

The cost of inventories recognized in Cost of Sales amounted to RMB 65,607,079 thousands for the year ended 31 December 2017 (2016: RMB 52,400,798 thousands, 2015: RMB 55,056,458 thousands) which excluded an inventory provision of RMB 60,461 thousands (2016: RMB 76,268 thousands, 2015: RMB 44,868 thousands).

As at 31 December 2017, the provision for inventory write-down was RMB 145,492 thousands (31 December 2016: RMB 129,622 thousands). During the year ended 31 December 2017, the Group sold certain finished goods and utilised certain spare parts and consumables which were previously provided for. The related provision of RMB 44,591 thousands was reversed and included in cost of sales in the consolidated income statement.

**21 Trade and other receivables**

|                                  | <b>As at 31 December</b> |                |
|----------------------------------|--------------------------|----------------|
|                                  | <b>2016</b>              | <b>2017</b>    |
|                                  | <b>RMB 000</b>           | <b>RMB 000</b> |
| Trade receivables                | 414,962                  | 386,517        |
| Less: impairment provision       | (18)                     | (37)           |
|                                  | 414,944                  | 386,480        |
| Bills receivable                 | 1,238,620                | 1,090,479      |
| Amounts due from related parties | 1,290,619                | 1,975,408      |
|                                  | 2,944,183                | 3,452,367      |
| Prepayments                      | 165,804                  | 228,269        |
| Other receivables                | 165,798                  | 83,551         |
|                                  | 3,275,785                | 3,764,187      |

During the year ended 31 December 2017, certain associates and joint ventures of the Group declared dividends with total amount of RMB 479,633 thousands to the Group (2016: RMB 557,312 thousands, 2015: RMB 197,158

thousands). As at 31 December 2017 and 31 December 2016, all these declared dividends had been received by the Group.

As at 31 December 2017, entrusted lendings of RMB 12,000 thousands included in other receivables was made by the Group at an interest rate of 1.75% per annum, which will be due in 2018 (31 December 2016: RMB 88,000 thousands included in other receivables was made by the Group at an interest rate of 1.75% per annum, 31 December 2015: RMB 106,000 thousands at interest rates ranging from 1.75% to 3.00% per annum).

The remaining balance of other receivables mainly represented interest receivables.

As of 31 December 2017, the Group didn't have any trade receivable which was past due but not impaired (31 December 2016 and 2015: Nil).

Amounts due from related parties mainly represent trade-related balances, unsecured in nature and bear no interest.

**Table of Contents****Sinopec Shanghai Petrochemical Company Limited****Notes to the Consolidated Financial Statements****For the year ended 31 December 2017****21 Trade and other receivables (continued)**

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

|                 | <b>As at 31 December</b> |                  |
|-----------------|--------------------------|------------------|
|                 | <b>2016</b>              | <b>2017</b>      |
|                 | <b>RMB 000</b>           | <b>RMB 000</b>   |
| Within one year | 2,944,162                | 3,452,321        |
| Above one year  | 21                       | 46               |
|                 | <b>2,944,183</b>         | <b>3,452,367</b> |

Movements of the Group's impairment provision for trade and other receivables are as follows:

|  | <b>2016</b>    | <b>2017</b>    |
|--|----------------|----------------|
|  | <b>RMB 000</b> | <b>RMB 000</b> |
| <b>As at 1 January</b>                                   | 1,269          | 992            |
| Provision for receivables impairment                     | 71             | 66             |
| Receivables written off during the year as uncollectible | (207)          | (5)            |
| Unused amounts reversed                                  | (141)          |                |
| <b>As at 31 December</b>                                 | <b>992</b>     | <b>1,053</b>   |

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

As at 31 December 2016 and 2017, no trade receivable or bills receivable was pledged as collateral.

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



**Table of Contents****Sinopec Shanghai Petrochemical Company Limited****Notes to the Consolidated Financial Statements****For the year ended 31 December 2017****22 Cash and cash equivalents**

|                                    | As at 31 December |           |
|------------------------------------|-------------------|-----------|
|                                    | 2016              | 2017      |
|                                    | RMB 000           | RMB 000   |
| Cash deposits with a related party | 169,261           | 29,128    |
| Cash at bank and on hand           | 5,271,362         | 7,475,138 |
|                                    | 5,440,623         | 7,504,266 |

**23 Time deposits with financial institutions**

|   | As at 31 December |           |
|---|-------------------|-----------|
|   | 2016              | 2017      |
|   | RMB 000           | RMB 000   |
| Six-month time deposits with financial institutions |                   | 2,000,000 |
|   |                   | 2,000,000 |

**24 Share capital**

|                                   | Ordinary A<br>shares<br>listed<br>in PRC<br>with<br>restriction<br>RMB 000 | Ordinary<br>A<br>shares<br>listed<br>in PRC<br>RMB 000 | Foreign invested<br>H shared listed<br>overseas<br>RMB 000 | Total<br>RMB 000 |
|-----------------------------------|--|--|--|------------------|
| <b>As at 1 January 2016</b>       | 4,380,000  | 2,925,000  | 3,495,000  | 10,800,000       |
| Transition to unrestricted shares | (4,380,000)  | 4,380,000  |  |                  |

|   |           |           |            |
|---|-----------|-----------|------------|
| <b>As at 31 December 2016</b>                                       | 7,305,000 | 3,495,000 | 10,800,000 |
| <b>As at 1 January 2017</b>   | 7,305,000 | 3,495,000 | 10,800,000 |
| Exercise of employee share options - proceeds received<br>(Note 26) | 14,177    |           | 14,177     |
| <b>As at 31 December 2017</b>                                       | 7,319,177 | 3,495,000 | 10,814,177 |

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**Table of Contents****Sinopec Shanghai Petrochemical Company Limited****Notes to the Consolidated Financial Statements****For the year ended 31 December 2017****25 Reserves**

|  | Legal surplus | Capital surplus | Surplus reserve | Other reserve | Share premium | Safety production fund | Retained earnings | Total       |
|--|---------------|-----------------|-----------------|---------------|---------------|------------------------|-------------------|-------------|
|  | RMB 000       | RMB 000         | RMB 000         | RMB 000       | RMB 000       | RMB 000                | RMB 000           | RMB 000     |
| <b>Balance at 1 January 2016</b>   | 4,072,476     | 4,180           | 101,355         | 22,702        |               | 953                    | 4,795,616         | 8,997,282   |
| Net profit attributable to shareholders of the Company                                   |               |                 |                 |               |               |                        | 5,968,466         | 5,968,466   |
| Dividends proposed and approved  |               |                 |                 |               |               |                        | (1,080,000)       | (1,080,000) |
| Utilisation of safety production fund  |               |                 |                 |               |               | (607)                  | 607               |             |
| Share option scheme (Note 26)  |               |                 |                 | 18,004        |               |                        |                   | 18,004      |
| Share of other comprehensive income of investments accounted for using the equity method |               |                 |                 | 18,213        |               |                        |                   | 18,213      |
| <b>Balance at 31 December 2016</b>   | 4,072,476     | 4,180           | 101,355         | 58,919        |               | 346                    | 9,684,689         | 13,921,965  |
| Net profit attributable to shareholders of the Company                                   |               |                 |                 |               |               |                        | 6,143,222         | 6,143,222   |
| Dividends proposed and approved  |               |                 |                 |               |               |                        | (2,700,000)       | (2,700,000) |
| Utilisation of safety production fund  |               |                 |                 |               |               | (346)                  | 346               |             |
| Share option scheme (Note 26)  |               |                 |                 | (10,640)      |               |                        |                   | (10,640)    |
| Exercise of share option   |               |                 |                 |               | 62,319        |                        |                   | 62,319      |
|  |               |                 |                 | (810)         |               |                        |                   | (810)       |

Share of other  
comprehensive income  
of investments  
accounted for using the  
equity method

|                         |           |       |         |        |        |  |            |            |
|-------------------------|-----------|-------|---------|--------|--------|--|------------|------------|
| <b>Balance at</b>       |           |       |         |        |        |  |            |            |
| <b>31 December 2017</b> | 4,072,476 | 4,180 | 101,355 | 47,469 | 62,319 |  | 13,128,257 | 17,416,056 |

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**Sinopec Shanghai Petrochemical Company Limited**

**Notes to the Consolidated Financial Statements**

**For the year ended 31 December 2017**

**26 Share-based payments**

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

According to the Company's share option incentive scheme, the grant date of share options was 6 January 2015, and there were a total of 38,760 thousand share options granted to 214 participants (0.359% of the total ordinary share capital issued). Each share option has a right to purchase an ordinary A share listed in PRC on vesting date at the exercise price under vesting conditions. The options were divided by three tranches of 40%, 30% and 30% of the total share options granted, respectively. Each tranche had independent vesting conditions relevant to year 2015, 2016 and 2017, respectively, which were listed as following:

weighted average rate of return on equity of the Group should be no less than 9% for 2015, 9.5% for 2016 and 10% for 2017 in respect to the three tranche;

for each year of 2015, 2016 and 2017, the compound annual growth rate in net profit based on the net profit of 2013 should achieve 5%;

for each year of 2015, 2016 and 2017, proportion of the main business revenue in the total revenue should be no less than 99%;

for each year of 2015, 2016 and 2017, each of the above three conditions should be no lower than the 75% level of peer companies; and

achieving the target budget set by the Sinopec Corp. in 2015, 2016 and 2017, respectively.

The participant should serve the Group at the required position from the grant date. Exercisable amount of each tranche depended on the time for which the participant served the Group during each year of 2015, 2016 and 2017. Upon the fulfilment of relevant vesting conditions, the share options of each tranche shall become exercisable at its exercisable date.

The fair value of the employee services received in exchange for the grant of this equity-settled, share-based compensation plan is recognised as an expense on a straight-line basis over the vesting period of each tranche. The total amount to be expensed is determined by reference to the fair value of the options granted excluding the impact of any service and non-market performance vesting conditions. When the options are exercised, the Company issues new

shares. The proceeds received net of any directly attributable transaction costs are credited to share capital and share premium.

As at the grant date, the exercise price of each option was RMB 4.2. During the vesting period, the exercise price would be adjusted according to the declaration of dividends or any changes of total shares. As at 31 December 2017, the outstanding share options of each tranche, their exercisable date and exercise price are as follows. These outstanding share options will expire in twelve months after each exercisable date.

| <b>Tranche</b> | <b>Exercisable date</b> | <b>Exercise price<br/>(per share<br/>in<br/>RMB)</b> | <b>Outstanding<br/>share<br/>options</b> |
|----------------|-------------------------|--|--|
| 1              | 6 January 2017          | 3.85   |  |
| 2              | 6 January 2018          | 3.85   | 9,552,250                                |
| 3              | 6 January 2019          | 3.85   | 9,552,250                                |

The total fair value of share options at the grant date was RMB 65,412 thousands, which has been valued by an external valuation expert using Black-Scholes valuation model with the support from an external valuation expert.

The significant inputs into the model were as follows:

|                         | <b>Granting date</b> |             |
|-------------------------|----------------------|-------------|
| Spot share price        | RMB                  | 4.51        |
| Exercise price          | RMB                  | 4.20        |
| Expected volatility     |                      | 41.20%      |
| Maturity (years)        |                      | 5.00        |
| Risk-free interest rate |                      | 3.39%~3.67% |
| Dividend yield          |                      | 1.00%       |

**Table of Contents****Sinopec Shanghai Petrochemical Company Limited****Notes to the Consolidated Financial Statements****For the year ended 31 December 2017****26 Share-based payments (continued)**

The first tranche of the Share Option Incentive Scheme was exercised on 29 August 2017, and the Company received cash payment of RMB 54,580 thousands from 199 grantees, out of which, RMB 14,177 thousands were in share capital (Note 24) and RMB 40,403 thousands were in reserve as share premium (Note 25).

Share option expenses of RMB 11,276 thousands have been recognised in Selling and administrative expenses of the Consolidated Income Statement for the year ended 31 December 2017 (2016: RMB 18,004 thousands, 2015: RMB 22,702 thousands).

**27 Borrowings**

|                           | <b>As at 31 December</b> |                |
|---------------------------|--------------------------|----------------|
|                           | <b>2016</b>              | <b>2017</b>    |
|                           | <b>RMB 000</b>           | <b>RMB 000</b> |
| Loans due within one year |                          |                |
| -Short term bank loans    | 546,432                  | 606,157        |
|                           | <b>546,432</b>           | <b>606,157</b> |

The weighted average interest rate for the Group's borrowings was 2.93% for the year ended 31 December 2017 (2016: 3.03%).

As at 31 December 2017, no borrowings were secured by property, plant and equipment (31 December 2016: Nil).

As at 31 December 2017, the Group had credit facilities with several PRC financial institutions which provided the Group to borrow or to guarantee the issuance of the bills of lading up to RMB 21,296,000 thousands, within which amounted to RMB 20,273,466 thousands were unused. The maturity dates of the unused facility amounted to RMB 6,710,000 thousands will be after 31 December 2018. Management assessed that all the facilities could be renewed upon the expiration dates.

**28 Deferred income**

|  | <b>2016</b> | <b>2017</b> |
|--|-------------|-------------|
|--|-------------|-------------|

|  | <b>RMB 000</b> | <b>RMB 000</b> |
|--|----------------|----------------|
| <b>As at 1 January</b>   |                |                |
| Government grants received during the year to compensate the cost caused by the project of relocation of pipeline in Huanggutang |                | 5,679          |
| <b>As at 31 December</b>   |                | <b>5,679</b>   |

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**Table of Contents****Sinopec Shanghai Petrochemical Company Limited****Notes to the Consolidated Financial Statements****For the year ended 31 December 2017****29 Trade and other payables**

|  | <b>As at 31 December</b> |                |
|--|--------------------------|----------------|
|  | <b>2016</b>              | <b>2017</b>    |
|  | <b>RMB 000</b>           | <b>RMB 000</b> |
| Trade payables                             | 2,123,904                | 1,908,457      |
| Bills payable                              | 5,000                    |                |
| Amounts due to related parties             | 3,044,304                | 3,731,687      |
|  | 5,173,208                | 5,640,144      |
| Staff salaries and welfares payable        | 37,634                   | 123,959        |
| Taxes payable (exclude income tax payable) | 1,538,062                | 2,655,291      |
| Interest payable                           | 465                      | 864            |
| Dividends payable                          | 20,473                   | 23,686         |
| Construction payable                       | 191,043                  | 425,891        |
| Other liabilities                          | 351,701                  | 339,126        |
|  | 2,139,378                | 3,568,817      |
|  | 7,312,586                | 9,208,961      |

As at 31 December 2017 and 2016, all trade and other payables of the Group were non-interest bearing, and their fair value approximated their carrying amounts due to their short maturities.

As at 31 December 2017, amounts due to related parties included the advances from the related parties of RMB 6,407 thousands (31 December 2016: RMB 13,814 thousands).

As at 31 December 2017, the ageing analysis of the trade payables (including bills payable and amounts due to related parties with trading nature) based on invoice date was as follows:

|                           | <b>As at 31 December</b> |                |
|---------------------------|--------------------------|----------------|
|                           | <b>2016</b>              | <b>2017</b>    |
|                           | <b>RMB 000</b>           | <b>RMB 000</b> |
| Within one year           | 5,151,868                | 5,568,507      |
| Between one and two years | 7,373                    | 58,016         |

|                |           |           |
|----------------|-----------|-----------|
| Over two years | 13,967    | 13,621    |
|                | 5,173,208 | 5,640,144 |

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**Table of Contents****Sinopec Shanghai Petrochemical Company Limited****Notes to the Consolidated Financial Statements****For the year ended 31 December 2017****30 Related party transactions**

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

| Names of related parties   | Relationship with the Company              |
|--|--|
| Sinopec Group  | Ultimate parent company                    |
| BOC  | Joint venture of the Group                 |
| Jinpu  | Joint venture of the Group                 |
| Yangu Gas  | Joint venture of the Group                 |
| Secco (i)  | Associate of the Group                     |
| Chemical Industry  | Associate of the Group                     |
| Jinsen   | Associate of the Group                     |
| Azbil  | Associate of the Group                     |
| Shanghai Nam Kwong Petro-Chemical Company Limited                  | Associate of the Group                     |
| Shanghai Jinhuan Petroleum Naphthalene Development Company Limited | Associate of the Group                     |
| Shanghai Chemical Industry Park Logistics Company Limited          | Associate of the Group                     |
| Sinopec Chemical Commercial Holding Company Limited                | Subsidiary of the immediate parent company |
| Sinopec Sales Company Limited                                      | Subsidiary of the immediate parent company |
| Sinopec Yizheng Chemical Fibre Company Limited                     | Subsidiary of the immediate parent company |
| China International United Petroleum and Chemical Company Limited  | Subsidiary of the immediate parent company |
| China Petrochemical International Company Limited                  | Subsidiary of the immediate parent company |
| Sinopec Refinery Product Sales Company Limited                     | Subsidiary of the immediate parent company |
| Sinopec Yangzi Petrochemical Company Limited                       | Subsidiary of the immediate parent company |
| China Petrochemical International Beijing Company Limited          | Subsidiary of the immediate parent company |
| China Petrochemical International Ningbo Company Limited           | Subsidiary of the immediate parent company |
| China Petrochemical International Tianjin Company Limited          | Subsidiary of the immediate parent company |
| China Petrochemical International Russia Company Limited           | Subsidiary of the immediate parent company |
| Sinopec Europe Company Limited                                     | Subsidiary of the immediate parent company |
| China and South Korea (Wuhan) petrochemical Company Limited        | Subsidiary of the immediate parent company |
| Sinopec USA Company Limited  | Subsidiary of the immediate parent company |

|   |   |
|---|---|
| Sinopec Chemical Commercial Holding (Hong Kong) Company Limited |   |
| Sinopec Huadong Supplies and Equipment Company Limited          | Subsidiary of the immediate parent company    |
| Petro-Cyber Works Information Technology Company Limited        | Subsidiary of the immediate parent company    |
| Sinopec Fuel Oil Sales Corporation Limited                      | Subsidiary of the immediate parent company    |
| BASF-YPC Company Limited  | Joint venture of the immediate parent company |
| Zhejiang Baling Hengyi Caprolactam Limited Company              | Joint venture of the immediate parent company |
| Sinopec Petroleum Storage and Reserve Limited                   | Subsidiary of the ultimate parent company     |
| Sinopec Assets Management Corporation                           | Subsidiary of the ultimate parent company     |
| Shanghai Petrochemical Machine Manufacturing Company Limited    | Subsidiary of the ultimate parent company     |



**Table of Contents****Sinopec Shanghai Petrochemical Company Limited****Notes to the Consolidated Financial Statements****For the year ended 31 December 2017****30 Related party transactions (continued)**

| Names of related parties   | Relationship with the Company             |
|--|---|
| Sinopec Shanghai Engineering Company Limited   | Subsidiary of the ultimate parent company |
| The Fourth Construction Company of Sinopec   | Subsidiary of the ultimate parent company |
| The Fifth Construction Company of Sinopec  | Subsidiary of the ultimate parent company |
| The Tenth Construction Company of Sinopec  | Subsidiary of the ultimate parent company |
| Sinopec Engineering Incorporation  | Subsidiary of the ultimate parent company |
| Sinopec Ningbo Engineering Company Limited   | Subsidiary of the ultimate parent company |
| Sinopec Finance Company Limited( Sinopec Finance )   | Subsidiary of the ultimate parent company |
| (i) For the year ended 31 December 2017, Secco becomes the subsidiary of the immediate parent company. |   |

The following is a summary of significant balances and transactions between the Group and its related parties except for the dividends received as disclosed in the forgoing Note 21.

- (a) Most of the transactions undertaken by the Group during the year ended 31 December 2017 have been affected on such terms as determined by Sinopec Corp. and relevant PRC authorities.

Sinopec Corp. negotiates and agrees the terms of crude oil supply with suppliers on a group basis, which is then allocated among its subsidiaries, including the Group, on a discretionary basis. Sinopec Corp. also owns a widespread petroleum products sales network and possesses a fairly high market share in domestic petroleum products market, which is subject to extensive regulation by the PRC government.

The Group has entered into a mutual product supply and sales services framework agreement with Sinopec Corp. Pursuant to the agreement, Sinopec Corp. provides the Group with crude oil, other petrochemical raw materials and agent services. On the other hand, the Group provides Sinopec Corp. with petroleum products, petrochemical products and property leasing services.

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

If there are applicable State (central and local government) tariffs, the pricing shall follow the State tariffs;

If there are no State tariffs, but there are applicable State's guidance prices, the pricing shall follow the State's guidance prices; or

If there are no State tariffs or State's guidance prices, the pricing shall be determined in accordance with the prevailing market prices (including any bidding prices).

Transactions between the Group and Sinopec Corp., its subsidiaries and joint ventures were as follows:

|                                     | <b>2015</b>    | <b>2016</b>    | <b>2017</b>    |
|-------------------------------------|----------------|----------------|----------------|
|                                     | <b>RMB 000</b> | <b>RMB 000</b> | <b>RMB 000</b> |
| Sales of petroleum products         | 41,731,401     | 33,159,665     | 39,992,682     |
| Sales other than petroleum products | 4,010,856      | 5,738,425      | 6,708,955      |
| Purchases of crude oil              | 23,313,185     | 21,599,355     | 34,819,936     |
| Purchases other than crude oil      | 4,683,317      | 3,748,055      | 4,987,955      |
| Sales commissions                   | 112,245        | 100,221        | 116,616        |
| Rental income                       | 29,071         | 28,160         | 28,368         |

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**Table of Contents****Sinopec Shanghai Petrochemical Company Limited****Notes to the Consolidated Financial Statements****For the year ended 31 December 2017****30 Related party transactions (continued)**

- (b) Other transactions between the Group and Sinopec Group and its subsidiaries, associates and joint ventures of the Group were as follows:

|  | 2015<br>RMB 000 | 2016<br>RMB 000 | 2017<br>RMB 000 |
|--|-----------------|-----------------|-----------------|
| <b>Sales of goods and service fee income</b> |                 |                 |                 |
| - Sinopec Group and its subsidiaries         | 151,417         | 38,389          | 10,531          |
| - Associates and joint ventures of the Group | 1,466,511       | 2,051,620       | 3,043,689       |
|  | 1,617,928       | 2,090,009       | 3,054,220       |
| <b>Purchase</b>                              |                 |                 |                 |
| - Sinopec Group and its subsidiaries         | 421,803         | 1,056,737       | 378,111         |
| - Associates and joint ventures of the Group | 3,607,573       | 3,602,791       | 4,034,448       |
|  | 4,029,376       | 4,659,528       | 4,412,559       |
| <b>Insurance premiums expenses</b>           |                 |                 |                 |
| - Sinopec Group and its subsidiaries         | 117,914         | 123,621         | 126,405         |
| <b>Lease expenses</b>                        |                 |                 |                 |
| - Sinopec Group and its subsidiaries         |                 | 53,960          | 53,960          |
| <b>Interest income</b>                       |                 |                 |                 |
| - Sinopec Finance                            | 624             | 232             | 5,147           |
| <b>Loans borrowed</b>                        |                 |                 |                 |
| - Sinopec Finance                            | 5,720,000       |                 |                 |
| <b>Loans repayment</b>                       |                 |                 |                 |
| - Sinopec Finance                            | 6,420,000       | 370,000         |                 |

|   |         |         |         |
|---|---------|---------|---------|
| <b>Interest expense</b>                   |         |         |         |
| - Sinopec Finance                         | 31,328  | 3,322   |         |
| <b>Construction and installation cost</b> |         |         |         |
| - Sinopec Group and its subsidiaries      | 158,822 | 177,792 | 172,404 |

The directors of the Company are of the opinion that the transactions with Sinopec Corp., its subsidiaries and joint ventures, Sinopec Group and its subsidiaries, associates and joint ventures of the Group as disclosed in Note 30(a) and 30(b) were conducted in the ordinary course of business, on normal commercial terms and in accordance with the agreements governing such transactions.

**Table of Contents****Sinopec Shanghai Petrochemical Company Limited****Notes to the Consolidated Financial Statements****For the year ended 31 December 2017****30 Related party transactions (continued)**

- (c) The relevant amounts due from/to Sinopec Corp., its subsidiaries and joint venture, Sinopec Group and its subsidiaries, associates and joint ventures of the Group, arising from purchases, sales and other transactions as disclosed in Note 30 (a) and 30(b), are summarised as follows:

|  | <b>As at 31 December</b> |                  |
|--|--------------------------|------------------|
|  | <b>2016</b>              | <b>2017</b>      |
|  | <b>RMB 000</b>           | <b>RMB 000</b>   |
| <b>Amounts due from related parties</b>              |                          |                  |
| - Sinopec Corp., its subsidiaries and joint ventures | 1,226,972                | 1,792,857        |
| - Sinopec Group and its subsidiaries                 | 331                      | 763              |
| - Associates and joint ventures of the Group         | 63,316                   | 181,788          |
|  | <b>1,290,619</b>         | <b>1,975,408</b> |
| <b>Amounts due to related parties</b>                |                          |                  |
| - Sinopec Corp., its subsidiaries and joint ventures | 2,620,546                | 3,250,329        |
| - Sinopec Group and its subsidiaries                 | 387,788                  | 61,728           |
| - Associates and joint ventures of the Group         | 35,970                   | 419,630          |
|  | <b>3,044,304</b>         | <b>3,731,687</b> |
| <b>Cash deposits, maturing within 3 months</b>       |                          |                  |
| - Sinopec Finance                                    | 169,261                  | 29,128           |

- (d) As at 31 December 2017 and 31 December 2016, cash deposits with Sinopec Finance were at an interest rate of 0.35% per annum.

- (e) Key management personnel compensation and post-employment benefit plans  
Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including directors and supervisors of the Group. The key personnel compensations are as follows:

|                              | <b>Year ended 31 December</b> |                |                |
|------------------------------|-------------------------------|----------------|----------------|
|                              | <b>2015</b>                   | <b>2016</b>    | <b>2017</b>    |
|                              | <b>RMB 000</b>                | <b>RMB 000</b> | <b>RMB 000</b> |
| Short-term employee benefits | 4,469                         | 5,218          | 5,926          |
| Post-employment benefits     | 147                           | 148            | 143            |
| Share-based payments         | 1,342                         | 1,270          | 505            |
|                              | 5,958                         | 6,636          | 6,574          |

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**Table of Contents****Sinopec Shanghai Petrochemical Company Limited****Notes to the Consolidated Financial Statements****For the year ended 31 December 2017****30 Related party transactions (continued)****(f) Contributions to defined contribution retirement plans**

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

|                                       | <b>Year ended 31 December</b> |                |                |
|---------------------------------------|-------------------------------|----------------|----------------|
|                                       | <b>2015</b>                   | <b>2016</b>    | <b>2017</b>    |
|                                       | <b>RMB 000</b>                | <b>RMB 000</b> | <b>RMB 000</b> |
| Municipal retirement scheme costs     | 273,841                       | 247,710        | 249,578        |
| Supplementary retirement scheme costs | 68,921                        | 69,846         | 66,546         |

As at 31 December 2017 and 31 December 2016, there was no material outstanding contribution to the above defined contribution retirement plans.

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

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

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

sales and purchases of goods and ancillary materials;

rendering and receiving services;

lease of assets, purchase of property, plant and equipment;

placing deposits and obtaining finance; and

use of public utilities

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

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**Table of Contents****Sinopec Shanghai Petrochemical Company Limited****Notes to the Consolidated Financial Statements****For the year ended 31 December 2017****30 Related party transactions (continued)**

(h) Commitments with related parties

(1) Construction and installation cost:

|                                    | <b>As at 31 December</b> |                |
|------------------------------------|--------------------------|----------------|
|                                    | <b>2016</b>              | <b>2017</b>    |
|                                    | <b>RMB 000</b>           | <b>RMB 000</b> |
| Sinopec Group and its subsidiaries | 4,310                    | 29,528         |

(2) Operating lease commitments Group company as lessee

|   | <b>As at 31 December</b> |                |
|---|--------------------------|----------------|
|   | <b>2016</b>              | <b>2017</b>    |
|   | <b>RMB 000</b>           | <b>RMB 000</b> |
| Sinopec Group and its subsidiaries          |                          |                |
| No later than 1 year                        | 53,960                   | 59,160         |
| Later than 1 year and no later than 2 years | 53,960                   |                |
|   | 107,920                  | 59,160         |

The lease agreement is non-cancellable and will be ended at 31 December 2018.

(i) Investment commitments with related parties

|  | <b>As at 31 December</b> |                |
|--|--------------------------|----------------|
|  | <b>2016</b>              | <b>2017</b>    |
|  | <b>RMB 000</b>           | <b>RMB 000</b> |

|  |         |         |
|--|---------|---------|
| Capital contribution to Shanghai Secco | 111,263 | 111,263 |
|--|---------|---------|

Pursuant to the resolution of the 18th meeting of the 7th term of Board of Directors on 5 December 2013, the Company was approved to make capital contribution of USD 30,017 thousands (RMB 182,804 thousands equivalent) to Shanghai Secco, an associate of the Group. The capital to Shanghai Secco will be contributed in RMB by instalments. The capital contribution is mainly to meet the funding needs of the implementation of the 260,000 tons of AN-2 project ( AN-2 project ), and 90,000 tons of BEU-2 project ( BEU-2 project ).

On 10 December 2013, the Company contributed the first instalment of RMB 60,000 thousands for AN-2 project. On 5 March 2014, the Company contributed the first instalment of RMB 11,541 thousands for BEU-2 project. According to the approval by Shanghai Municipal Commission of Commerce date 19 October 2015, the rest of the capital contribution to Shanghai Secco should be made within 50 years starting from its registration date.

Except for the above disclosed in Note 30(h) and 30(i), the Group had no other material commitments with related parties as at 31 December 2017, which are contracted, but not included in the financial statements.

### **31 Dividend**

An annual dividend in respect of the year ended 31 December 2017 of RMB 0.3 per share, amounting to a total dividend of RMB 3,247,144 thousands, was approved by the Board of Directors on 20 March 2018. This financial statement has not reflected such dividend payable.

Dividend in respect of the year ended 31 December 2016 of RMB 0.25 per share, amounting to a total dividend of RMB 2,700,000 thousands, was approved by the Board of Directors on 15 March 2017 and subsequently paid in July 2017.

**Table of Contents****Sinopec Shanghai Petrochemical Company Limited****Notes to the Consolidated Financial Statements****For the year ended 31 December 2017****32 Cash generated from operations**

Reconciliation of profit before taxation to cash used in operation:

|   | <b>Year ended 31 December</b> |                |                |
|---|-------------------------------|----------------|----------------|
|   | <b>2015</b>                   | <b>2016</b>    | <b>2017</b>    |
|   | <b>RMB 000</b>                | <b>RMB 000</b> | <b>RMB 000</b> |
| Profit before tax   | 4,237,188                     | 7,778,295      | 7,852,898      |
| Adjustment items:   |                               |                |                |
| Interest income   | (49,302)                      | (133,484)      | (268,379)      |
| Share of profit of investments accounted for using the equity method                      | (572,035)                     | (916,754)      | (1,243,693)    |
| Gain on disposal of a joint venture   |                               |                | (10,339)       |
| Loss on fair value change of transaction financial liabilities                            |                               |                | 1,516          |
| Gain on forward contract  | (37,154)                      |                |                |
| Interest expense  | 199,908                       | 27,762         | 17,259         |
| Foreign exchange loss/(gain)  | 81,139                        | (2,307)        | 7,091          |
| Depreciation of property, plant and equipment   | 1,708,767                     | 1,624,547      | 1,574,842      |
| Depreciation of investment property   | 13,547                        | 13,556         | 13,652         |
| Amortisation of lease prepayments and other assets  | 322,647                       | 244,157        | 245,635        |
| Impairment loss on property, plant and equipment  | 50,001                        | 254,242        | 118,179        |
| Loss on disposal of property, plant and equipment-net                                     | 9,393                         | 42,031         | 13,017         |
| Government grant relating to disposal of property, plant and equipment                    |                               | (15,000)       |                |
| Share-based payment   | 22,702                        | 18,004         | 11,276         |
| Profit on operation before change of working capital                                      | 5,986,801                     | 8,935,049      | 8,332,954      |
| Decrease/(increase) in inventories  | 1,752,515                     | (1,981,285)    | (438,125)      |
| Decrease/(increase) in operation receivables  | 485,167                       | (483,169)      | (116,580)      |
| Increase/(decrease) in operation payables   | (1,451,695)                   | 665,616        | 1,003,653      |
| Trade receivables being offset according to the offsetting master arrangements (Note 3.4) | (927,225)                     | (1,017,666)    |                |

|  |             |           |           |
|--|-------------|-----------|-----------|
| Trade payables being offset according to the offsetting master arrangements (Note 3.4) | 927,225     | 1,017,666 |           |
| (Decrease)/increase in balances to related parties-net                                 | (1,596,273) | 1,342,846 | 2,594     |
| Cash generated from operating activities   | 5,176,515   | 8,479,057 | 8,784,496 |

(a) Reconciliation of liabilities arising from financing activities

|            | <b>As at</b>          | <b>Financing</b>  | <b>As at</b>            |
|------------|-----------------------|-------------------|-------------------------|
|            | <b>1 January 2017</b> | <b>cash flows</b> | <b>31 December 2017</b> |
|            | <b>RMB 000</b>        | <b>RMB 000</b>    | <b>RMB 000</b>          |
| Bank loans | 546,432               | 59,725            | 606,157                 |

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(b) In the statement of cash flows, proceeds from sale of property, plant and equipment comprise:

|  | <b>2015</b>    | <b>2016</b>    | <b>2017</b>    |
|--|----------------|----------------|----------------|
|  | <b>RMB 000</b> | <b>RMB 000</b> | <b>RMB 000</b> |
| Net book amount  | 26,268         | 37,133         | 16,424         |
| Loss on disposal of property, plant and equipment-net                  | (9,393)        | (42,031)       | (13,017)       |
| Government grant relating to disposal of property, plant and equipment |                | 15,000         |                |
| Increase in other payables   |                | 1,787          |                |
|  | (9,393)        | (25,244)       | (13,017)       |
| Net proceeds from disposal of property, plant and equipment            | 16,875         | 11,889         | 3,407          |

**33 Capital commitments**

(a) Capital commitments

|                                   | <b>As at 31 December</b> |                |
|-----------------------------------|--------------------------|----------------|
|                                   | <b>2016</b>              | <b>2017</b>    |
|                                   | <b>RMB 000</b>           | <b>RMB 000</b> |
| Property, plant and equipment     |                          |                |
| Contracted but not provided for   | 5,300                    | 230,997        |
| Authorised but not contracted for | 908,036                  | 9,306,567      |
|                                   | 913,336                  | 9,537,564      |

(b) Operating lease commitments the Group as lessee

Except the lease agreement disclosed in the forgoing Note 30(h), the Group also entered into other various non-cancellable operating lease agreements. The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

|  | <b>As at 31 December</b> |                |
|--|--------------------------|----------------|
|  | <b>2016</b>              | <b>2017</b>    |
|  | <b>RMB 000</b>           | <b>RMB 000</b> |
| No later than 1 year                         | 60,125                   | 63,505         |
| Later than 1 year and no later than 2 years  | 54,438                   | 1,583          |
| Later than 2 years and no later than 3 years | 384                      | 403            |
| Later than 3 years                           | 3,207                    | 2,819          |
|  | <b>118,154</b>           | <b>68,310</b>  |

**Table of Contents****Sinopec Shanghai Petrochemical Company Limited****Notes to the Consolidated Financial Statements****For the year ended 31 December 2017****34 Subsequent event**

A dividend in respect of the year ended 31 December 2017 of RMB 0.3 per share, amounting to a total dividend of RMB 3,247,144 thousands, was proposed by the Board of Directors on 20 March 2018.

The second tranche of the Share Option Incentive Scheme was exercised at RMB 3.85 yuan per share on 12 January 2018. Total amount to 9,636,900 shares was subscribed by 185 grantees.

**35 Balance sheet and reserve movement of the Company**

|   | As at       | As at       |
|---|-------------|-------------|
|   | 31 December | 31 December |
|   | 2016        | 2017        |
|   | RMB 000     | RMB 000     |
| <b>Assets</b>   |             |             |
| <b>Non-current assets</b>                                 |             |             |
| Lease prepayments and other assets                        | 623,455     | 671,355     |
| Property, plant and equipment                             | 13,191,911  | 12,618,633  |
| Investment properties                                     | 413,943     | 423,941     |
| Construction in progress                                  | 717,294     | 1,000,924   |
| Investments in subsidiaries                               | 1,445,620   | 1,673,120   |
| Investments in associates and jointly controlled entities | 3,332,354   | 3,853,209   |
| Deferred income tax assets                                | 99,057      | 111,929     |
|   | 19,823,634  | 20,353,111  |
| <b>Current assets</b>                                     |             |             |
| Inventories   | 5,374,425   | 5,971,505   |
| Trade receivables   | 3,562       | 2,983       |
| Bills receivable  | 1,097,011   | 795,863     |
| Other receivables   | 49,841      | 124,875     |
| Prepayments   | 157,771     | 211,624     |
| Amounts due from related parties                          | 1,226,943   | 1,798,138   |
| Cash and cash equivalents                                 | 4,421,143   | 6,268,493   |
| Time deposits with financial institutions                 |             | 2,000,000   |

|   |                   |                   |
|---|-------------------|-------------------|
|   | 12,330,696        | 17,173,481        |
| <b>Total assets</b>                                 | <b>32,154,330</b> | <b>37,526,592</b> |
| <b>Equity and liabilities</b>                       |                   |                   |
| <b>Equity attributable to owners of the Company</b> |                   |                   |
| Share capital                                       | 10,800,000        | 10,814,177        |
| Reserves (a)  | 13,778,226        | 17,403,339        |
| <b>Total equity</b>                                 | <b>24,578,226</b> | <b>28,217,516</b> |

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**Table of Contents****Sinopec Shanghai Petrochemical Company Limited****Notes to the Consolidated Financial Statements****For the year ended 31 December 2017****35 Balance sheet and reserve movement of the Company (continued)**

|                                     | As at       | As at       |
|-------------------------------------|-------------|-------------|
|                                     | 31 December | 31 December |
|                                     | 2016        | 2017        |
|                                     | RMB 000     | RMB 000     |
| <b>Liabilities</b>                  |             |             |
| <b>Non-current liabilities</b>      |             |             |
| Deferred income                     |             | 5,679       |
|                                     |             | 5,679       |
| <b>Current liabilities</b>          |             |             |
| Borrowings                          | 632,000     | 518,000     |
| Advance from customers              | 431,134     | 400,627     |
| Trade payables                      | 801,804     | 890,459     |
| Other payables                      | 1,992,421   | 3,348,432   |
| Amounts due to related parties      | 3,105,940   | 3,530,044   |
| Income tax payable                  | 612,805     | 615,835     |
|                                     | 7,576,104   | 9,303,397   |
| <b>Total liabilities</b>            | 7,576,104   | 9,309,076   |
| <b>Total equity and liabilities</b> | 32,154,330  | 37,526,592  |

The balance sheet of the Company was approved by the Board of Directors on 27 April 2018 and were signed on its behalf.

**Wu Haijun**  
Chairman and General  
Manager

**Zhou Meiyun**  
Director and Chief Financial Officer



**Table of Contents****Sinopec Shanghai Petrochemical Company Limited****Notes to the Consolidated Financial Statements****For the year ended 31 December 2017****35 Balance sheet and reserve movement of the Company (continued)**

## (a) Reserve movement of the Company

|  | <b>Reserves<br/>RMB 000<br/>(Restatement)</b> |
|--|---|
| As at 1 January 2016                                   | 8,737,101                                     |
| Employees share option scheme                          | 18,004  |
| Net profit attributable to shareholders of the Company | 6,084,908                                     |
| Other comprehensive income                             | 18,213  |
| Dividends proposed and approved                        | (1,080,000)                                   |
| <b>As at 31 December 2016</b>                          | <b>13,778,226</b>                             |
| As at 1 January 2017                                   | 13,778,226                                    |
| Employees share option scheme                          | 51,679  |
| Net profit attributable to shareholders of the Company | 6,274,244                                     |
| Other comprehensive loss                               | (810)   |
| Dividends proposed and approved                        | (2,700,000)                                   |
| <b>As at 31 December 2017</b>                          | <b>17,403,339</b>                             |

**Table of Contents****Sinopec Shanghai Petrochemical Company Limited****Notes to the Consolidated Financial Statements****For the year ended 31 December 2017****36 Benefits and interests of directors**

## (i) Directors and chief executives emoluments:

|   | <b>2015</b>  |  |  |                                     |                          |
|---|--|--|--|-------------------------------------|--------------------------|
|   | <b>Salaries<br/>and<br/>other<br/>benefits<br/>RMB 000</b> | <b>Retirement<br/>scheme<br/>contributions<br/>RMB 000</b> | <b>Discretionary<br/>bonus<br/>RMB 000</b> | <b>Share<br/>option<br/>RMB 000</b> | <b>Total<br/>RMB 000</b> |
| <b>Executive Directors</b>                  |  |  |  |                                     |                          |
| Wang Zhiqing                                | 197  | 18   | 463  | 293                                 | 971                      |
| Gao Jinping                                 | 197  | 18   | 463  | 293                                 | 971                      |
| Ye Guohua                                   | 173  | 18   | 405  | 252                                 | 848                      |
| Jin Qiang                                   | 173  | 17   | 469  | 252                                 | 911                      |
| Guo Xiaojun                                 | 173  | 18   | 397  | 252                                 | 840                      |
| <b>Independent non- executive directors</b> |  |  |  |                                     |                          |
| Cai Tingji                                  | 150  |  |  |                                     | 150                      |
| Zhang Yimin                                 | 150  |  |  |                                     | 150                      |
| Liu Yunhong                                 | 150  |  |  |                                     | 150                      |
| Du Weifeng                                  | 150  |  |  |                                     | 150                      |
| <b>Supervisors</b>                          |  |  |  |                                     |                          |
| Kuang Yuxiang (a)                           | 129  | 14   | 146  |                                     | 289                      |
| Zhang Jianbo (b)                            | 48   | 3  | 287  |                                     | 338                      |
| Zuo Qiang                                   | 105  | 14   | 281  |                                     | 400                      |
| Li Xiaoxia                                  | 115  | 14   | 246  |                                     | 375                      |
|   | 1,910  | 134  | 3,157                                      | 1,342                               | 6,543                    |

(a) Newly appointed as supervisor in April 2015.

(b) Resigned as supervisor in March 2015.

**Table of Contents****Sinopec Shanghai Petrochemical Company Limited****Notes to the Consolidated Financial Statements****For the year ended 31 December 2017****36 Benefits and interests of directors (continued)**

(i) Directors and chief executives emoluments (continued):

|   | <b>2016</b>  |  |  |                                     |                          |
|---|--|--|--|-------------------------------------|--------------------------|
|   | <b>Salaries<br/>and<br/>other<br/>benefits<br/>RMB 000</b> | <b>Retirement<br/>scheme<br/>contributions<br/>RMB 000</b> | <b>Discretionary<br/>bonus<br/>RMB 000</b> | <b>Share<br/>option<br/>RMB 000</b> | <b>Total<br/>RMB 000</b> |
| <b>Executive Directors</b>                  |  |  |  |                                     |                          |
| Wang Zhiqing                                | 199  | 18   | 564  | 250                                 | 1,031                    |
| Gao Jinping                                 | 199  | 18   | 563  | 250                                 | 1,030                    |
| Ye Guohua (a)                               | 175  | 18   | 490  | 215                                 | 898                      |
| Jin Qiang                                   | 239  | 18   | 490  | 215                                 | 962                      |
| Guo Xiaojun                                 | 175  | 18   | 484  | 215                                 | 892                      |
| <b>Independent non- executive directors</b> |  |  |  |                                     |                          |
| Cai Tingji                                  | 150  |  |  |                                     | 150                      |
| Zhang Yimin                                 | 150  |  |  |                                     | 150                      |
| Liu Yunhong                                 | 150  |  |  |                                     | 150                      |
| Du Weifeng                                  | 150  |  |  |                                     | 150                      |
| <b>Supervisors</b>                          |  |  |  |                                     |                          |
| Kuang Yuxiang (b)                           | 140  | 11   | 320  |                                     | 471                      |
| Zuo Qiang                                   | 120  | 15   | 295  |                                     | 430                      |
| Li Xiaoxia                                  | 119  | 14   | 259  |                                     | 392                      |
|   | 1,966  | 130  | 3,465                                      | 1,145                               | 6,706                    |

(a) Resigned in January 2017.

(b) Resigned in July 2016.



**Table of Contents****Sinopec Shanghai Petrochemical Company Limited****Notes to the Consolidated Financial Statements****For the year ended 31 December 2017****36 Benefits and interests of directors (continued)**

(i) Directors and chief executives emoluments (continued):

|   | <b>2017</b>  |  |  |                                     |                          |
|---|--|--|--|-------------------------------------|--------------------------|
|   | <b>Salaries<br/>and<br/>other<br/>benefits<br/>RMB 000</b> | <b>Retirement<br/>scheme<br/>contributions<br/>RMB 000</b> | <b>Discretionary<br/>bonus<br/>RMB 000</b> | <b>Share<br/>option<br/>RMB 000</b> | <b>Total<br/>RMB 000</b> |
| <b>Executive Directors</b>                  |  |  |  |                                     |                          |
| Gao Jinping                                 | 201  | 18   | 540  | 157                                 | 916                      |
| Jin Qiang                                   | 241  | 18   | 470  | 135                                 | 864                      |
| Guo Xiaojun                                 | 177  | 18   | 465  | 135                                 | 795                      |
| Wang Zhiqing (a)                            | 184  | 16   | 525  |                                     | 725                      |
| Zhou Meiyun (b)                             | 148  | 15   | 125  |                                     | 288                      |
| Ye Guohua (c)                               | 15   | 2  | 13   |                                     | 30                       |
| <b>Independent non- executive directors</b> |  |  |  |                                     |                          |
| Zhang Yimin                                 | 150  |  |  |                                     | 150                      |
| Liu Yunhong                                 | 150  |  |  |                                     | 150                      |
| Du Weifeng                                  | 150  |  |  |                                     | 150                      |
| Cai Tingji (d)                              | 75   |  |  |                                     | 75                       |
| Li Yuanqin (e)                              | 63   |  |  |                                     | 63                       |
| Pan Fei (f)                                 | 19   |  |  |                                     | 19                       |
| <b>Supervisors</b>                          |  |  |  |                                     |                          |
| Zuo Qiang                                   | 128  | 15   | 348  |                                     | 491                      |
| Li Xiaoxia                                  | 127  | 14   | 313  |                                     | 454                      |
| Ma Yanhui (g)                               | 63   | 3  | 43   |                                     | 109                      |
| Zheng Yunrui (h)                            | 100  |  |  |                                     | 100                      |
| Pan Fei(i)                                  | 50   |  |  |                                     | 50                       |
| Cai Tingji (j)                              | 50   |  |  |                                     | 50                       |
|   | 2,091  | 119  | 2,842                                      | 427                                 | 5,479                    |

- (a) Resigned in November 2017.
- (b) Appointed in March 2017.
- (c) Resigned in January 2017.
- (d) Resigned in June 2017
- (e) Appointed in July 2017.
- (f) Appointed in July 2017 and resigned in August 2017.
- (g) Appointed in October 2017.
- (h) Appointed in January 2017.
- (i) Appointed in January 2017 and resigned in June 2017.
- (j) Appointed in July 2017.

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**Sinopec Shanghai Petrochemical Company Limited**

**Notes to the Consolidated Financial Statements**

**For the year ended 31 December 2017**

**36 Benefits and interests of directors (continued)**

(ii) Directors' retirement benefits

No specific retirement benefits were paid to directors in respect of services in connection with the management of the affairs of the company or its subsidiary undertaking (2016 and 2015: Nil).

(iii) Directors' material interests in transactions, arrangements or contracts

No significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.