

SINOPEC SHANGHAI PETROCHEMICAL CO LTD

Form 6-K

April 19, 2018

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SECURITIES AND EXCHANGE COMMISSION

Washington D.C. 20549

FORM 6-K

REPORT OF FOREIGN PRIVATE ISSUER

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

UNDER THE SECURITIES EXCHANGE ACT OF 1934

For the month of April 2018

Commission File Number: 1-12158

Sinopec Shanghai Petrochemical Company Limited

(Translation of registrant's name into English)

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

The People's Republic of China

(Address of principal executive offices)

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

Form 20-F

Form 40-F

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

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

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EXHIBITS

Exhibit

Number

99.1 Annual Report 2017.

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SIGNATURES

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

SINOPEC SHANGHAI PETROCHEMICAL COMPANY
LIMITED

Date: April 19, 2018

By: /s/ Wu Haijun
Name: Wu Haijun
Title: President

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Table of Contents**IMPORTANT MESSAGE**

(1) The board of directors (the **Directors**) (the **Board**) and the Supervisory Committee of Sinopec Shanghai Petrochemical Company Limited (the **Company** or **SPC**) as well as its Directors, Supervisors and senior management warrant the truthfulness, accuracy and completeness of the information contained in this annual report, and warrant that there are no false representations or misleading statements contained in, or material omissions from, the 2017 annual report of the Company, and severally and jointly accept responsibility.

(2) Director(s) who has/have not attended the Board meeting for approving the 2017 annual report of the Company is/are:

Name of Director	Position	Reasons for Absence	Name of Proxy
Zhou Meiyun	Executive Director	Business Engagement	Wu Haijun
Lei Dianwu	Non-Executive Director	Business Engagement	Gao Jinping
Mo Zhenglin	Non-Executive Director	Business Engagement	Wu Haijun
Liu Yunhong	Independent Non-Executive Director	Business Engagement	Zhang Yimin

(3) The financial statements for the year ended 31 December 2017 (the **Reporting Period**), prepared under the People's Republic of China (**PRC** or **China**)'s Accounting Standards (**CAS**) as well as the International Financial Reporting Standards (**IFRS**), were audited by PricewaterhouseCoopers Zhong Tian LLP and PricewaterhouseCoopers, respectively, and both firms have issued standard unqualified opinions on the financial report in their auditors' reports.

(4) Mr. Wu Haijun, Chairman, President and the responsible person of the Company; Mr. Zhou Meiyun, Director, Vice President and Chief Financial Officer overseeing the accounting department; and Mr. Zhang Feng, person in charge of the Accounting Department (Accounting Chief) and Director of Finance Department hereby warrant the truthfulness and completeness of the financial statements contained in the 2017 annual report.

(5) Plan for Profit Appropriation or Capital Reserve Capitalisation reviewed by the Board
 In 2017, the net profit attributable to equity shareholders of the Company amounted to RMB6,141,558,000 under CAS (net profit of RMB6,143,222,000 under IFRS). According to the 2017 profit distribution plan approved by the Board on 20 March 2018, the Board proposed to distribute a dividend of RMB0.3 per share (including tax) (the **Final Dividend**) based on the total number of issued shares of the Company as at the record date for distributing dividend. The 2017 profit distribution plan will be implemented subject to approval of the Company's 2017 annual general meeting (the **AGM**). The date and time of the AGM and book closure arrangement will be announced later. The notice of the AGM will be announced separately in accordance with the provisions of Articles of Association of the Company. The notice of the AGM, the accompanying circular and proxy form will be despatched to holders of H shares in accordance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (**Hong Kong Listing Rules**).

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Subject to the passing of the resolution by the shareholders of the Company at the AGM, the Final Dividend is expected to be distributed on or around Friday, 13 July 2018 to shareholders whose names appear on the register of members of the Company's H shares at the close of business on Tuesday, 26 June 2018. The Final Dividend is denominated and declared in Renminbi. The Final Dividend payable to the holders of the Company's A shares shall be paid in Renminbi while those payable to the holders of the Company's H shares shall be paid in Hong Kong dollars. The amount of Hong Kong dollars payable shall be calculated on the basis of the average closing exchange rates for Hong Kong dollars as announced by the Foreign Exchange Trading Centre of the PRC one calendar week prior to the approval of the Final Dividend at the AGM.

The Company is expected to close the register of members of the Company's H shares from Thursday, 21 June 2018 to Tuesday, 26 June 2018 (both days inclusive), during which period no transfer of H shares will be registered in order to confirm the shareholders' entitlement to receive the Final Dividend. The holders of the Company's H shares who wish to receive the Final Dividend should lodge the transfer documents and relevant share certificates with the Company's H shares share registrar, Hong Kong Registrars Limited, at Room 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong on or before 4:30 p.m. on Wednesday, 20 June 2018.

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

(6) Declaration of Risks Involved in the Forward-looking Statements

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

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

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

(9) Major Risk Warning

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

(10) The 2017 Annual Report is published in both Chinese and English. In the event of any discrepancy between the Chinese and English versions, the Chinese version shall prevail.

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DEFINITIONS

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

Company or SPC	Sinopec Shanghai Petrochemical Company Limited
Board	the board of directors of the Company
Director(s)	the Director(s) of the Company
Supervisory Committee	the Supervisory Committee of the Company
Supervisor(s)	the Supervisor(s) of the Company
PRC or China or State	the People's Republic of China
Reporting Period	the year ended 31 December 2017
Hong Kong Stock Exchange	The Stock Exchange of Hong Kong Limited
Shanghai Stock Exchange	The Shanghai Stock Exchange
Group	the Company and its subsidiaries
Sinopec Group	China Petrochemical Corporation
Sinopec Corp.	China Petroleum & Chemical Corporation
Hong Kong Listing Rules	The Rules Governing the Listing of Securities on the Hong Kong Stock Exchange
Shanghai Listing Rules	The Rules Governing the Listing of Securities on the Shanghai Stock Exchange
Model Code for Securities Transactions	the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Hong Kong Listing Rules
Securities Law	the PRC Securities Law
Company Law	the PRC Company Law
CSRC	China Securities Regulatory Commission
Articles of Association	the articles of association of the Company
Hong Kong Stock Exchange website	www.hkexnews.hk
Shanghai Stock Exchange website	www.sse.com.cn
website of the Company	www.spc.com.cn
HSE	Health, Safety and Environment
COD	Chemical Oxygen Demand
VOCs	Volatile Organic Compounds
SFO	the Securities and Futures Ordinance of Hong Kong (Chapter 571 of the Laws of Hong Kong)
Corporate Governance Code	the Corporate Governance Code set out in Appendix 14 to the Hong Kong Listing Rules
Share Option Incentive Scheme	the A Share Option Incentive Scheme of the Company

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Company Profile

Sinopec Shanghai Petrochemical Company Limited is one of the largest petrochemical enterprises in the People's Republic of China based on sales in 2017. It is also one of the largest PRC producers of ethylene. Ethylene is one of the most important intermediate petrochemical products used in the production of synthetic fibres, resins and plastics.

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

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

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

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

Table of Contents**Financial Highlights***(Financial highlights prepared under IFRS)*

Unit: RMB million	Year ended 31 December				
	2017	2016	2015	2014	2013
Net sales	79,218.3	65,936.5	67,037.2	92,725.0	105,503.2
Profit/(loss) before taxation	7,852.9	7,778.3	4,237.2	(889.9)	2,444.7
Profit/(loss) after taxation	6,154.2	5,981.5	3,310.4	(675.8)	2,065.5
Profit/(loss) attributable to equity shareholders of the Company	6,143.2	5,968.5	3,274.3	(692.2)	2,055.3
Basic earnings/(loss) per share (RMB)	0.569	0.553	0.303	(0.064)	0.190
Diluted earnings/(loss) per share (RMB)	0.568	0.552	0.303	(0.064)	0.190
Basic and diluted earnings/(loss) per share (RMB) (restated)*	N/A	N/A	N/A	N/A	N/A
As at 31 December:					
Total equity attributable to equity shareholders of the Company	28,230.2	24,722.0	19,797.3	16,500.3	17,732.5
Total assets	39,443.5	33,945.6	27,820.6	30,905.6	36,636.8
Total liabilities	10,928.0	8,942.4	7,726.3	14,134.0	18,645.3

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

After the first exercise of the Company's Share Option Incentive Scheme in August 2017, the number of issued shares of the Company increased by 14,176,600 shares.

Table of Contents**(1) Major accounting data**

Unit: RMB 000

Major accounting data	2017	2016	Increase/ decrease compared to the previous year (%)	2015
Operating income	92,013,569	77,894,285	18.13%	80,803,422
Total profit	7,851,234	7,765,405	1.11%	4,208,729
Net profit attributable to equity shareholders of the Parent Company	6,141,558	5,955,576	3.12%	3,245,849
Net profit attributable to equity shareholders of the Parent Company excluding non-recurring items	6,293,745	5,921,988	6.28%	3,130,327
Net cash flow from operating activities	7,078,482	7,210,957	-1.84%	5,143,397

	End of 2017	End of 2016	Increase/ decrease compared to the previous year (%)	End of 2015
Net assets attributable to equity shareholders of the Parent Company	28,256,306	24,750,048	14.17%	19,838,862
Total assets	39,609,536	34,123,693	16.08%	28,022,171

Table of Contents**Financial Highlights** (continued)*(Financial highlights prepared under CAS)***(2) Major financial indicators**

Major financial indicators	2017	2016	Increase/decrease compared to the previous year (%)	2015
Basic earnings per share (RMB/Share)	0.568	0.551	3.09%	0.301
Diluted earnings per share (RMB/Share)	0.568	0.551	3.09%	0.300
Basic earnings per share excluding non-recurring items (RMB/Share)	0.583	0.550	6.00%	0.290
Return on net assets (weighted average) (%)*	20.840	26.383	Decreased by 5.54 percentage points	17.831
Return on net assets excluding non-recurring items (weighted average) (%)*	21.356	26.254	Decreased by 4.90 percentage points	17.251
Net cash flow per share generated from operating activities (RMB/Share)	0.655	0.668	-1.95%	0.476
	End of 2017	End of 2016	Increase/decrease compared to the previous year (%)	End of 2015
Net assets per share attributable to equity shareholders of the Parent Company (RMB/Share)*	2.613	2.292	14.01%	1.837
Liability-to-asset ratio (%)	27.943	26.645	Increased by 1.30 percentage points	28.143

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

Table of Contents**(3) Non-recurring items**

	2017	2016	Unit: RMB 000 2015
Non-recurring items			
Net loss from disposal of non-current assets(- for loss)	-13,017	-42,031	-9,393
Disposal of long-term equity investment gains and losses	10,339		
Employee reduction expenses	-176,954	-19,200	-24,892
Government grants recorded in profit and loss (excluding government grants pursuant to the State s unified standard sum and quota to closely related corporate business)	75,703	154,631	160,116
Income from external entrusted loans	1,164	1,818	2,880
Income from forward exchange contracts	-1,516		37,154
Other non-operating income and expenses other than those mentioned above	-44,159	-47,281	-10,280
Effect attributable to minority interests (after tax)	-1,526	-1,714	-1,525
Income tax effect	-2,221	-12,635	-38,538
Total	-152,187	33,588	115,522

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

	Net profit		Unit: RMB 000 Net asset	
	The Reporting Period	Corresponding period of the previous year	At the end of the Reporting Period	At the beginning of the Reporting Period
Prepared under CAS	6,152,495	5,968,583	28,541,613	25,031,318
Prepared under IFRS	6,154,159	5,981,473	28,515,540	25,003,235

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

Table of Contents**Financial Highlights** (continued)*(Financial highlights prepared under CAS)***(5) Major financial data by quarters in 2017**

	First Quarter (January to March)	Second Quarter (April to June)	Third Quarter (July to September)	Unit: RMB 000 Fourth Quarter (October to December)
Operating income	22,571,848	20,535,102	25,050,668	23,855,951
Net profit attributable to equity shareholders of the Parent Company	1,928,852	646,627	1,526,012	2,040,067
Net profit attributable to equity shareholders of the Parent Company excluding non-recurring items	1,938,530	633,053	1,553,371	2,168,791
Net cash flow generated from operating activities	2,854,156	-495,376	2,710,023	2,009,679

Table of Contents**Principal Products**

The Group produces over 60 different types of products including a broad range of synthetic fibres, resins and plastics, intermediate petrochemical products and petroleum products. As a result of the Group's high degree of integration, many of the petroleum products and intermediate petrochemical products produced by the Group are used primarily in the production of the Group's downstream products.

The following table sets forth the net sales of the Group's major products in 2017 as a percentage of total net sales and their typical uses.

Major products sold by the Company	% of 2017 net sales	Main use
Self-produced Products		
Petroleum Products		
Gasoline	17.15	Transportation fuels
Diesel	14.75	Transportation and agricultural machinery fuels
Jet fuel	3.29	Transportation fuels
Others	5.71	
Subtotal:	40.90	

Table of Contents**Principal Products** (continued)

Major products sold by the Company	% of 2017 net sales	Main use
Intermediate Petrochemical Products		
Ethylene	0.06	Feedstock for PE, EG, PVC and other intermediate petrochemicals which can be further processed into resins and plastics and synthetic fibre
Ethylene Oxide	1.45	Intermediate for chemical and pharmaceutical industry, dyes, detergents and adjuvant
Benzene	2.23	Intermediate petrochemical products, styrene, plastics, explosives, dyes, detergents, epoxies and polyamide fibre
PX	2.93	Intermediate petrochemical, polyester
Butadiene	1.20	Synthetic rubber and plastics
Ethylene Glycol	2.26	Fine chemicals
Others	2.58	
Subtotal:	12.71	
Resins and Plastics		
Polyester chips	2.57	Polyester fibres, films and containers
PE pellets	5.36	Films, ground sheeting, wire and cable compound and other injection moulding products such as housewares and toys
PP pellets	4.38	Films or sheets, injection moulding products such as housewares, toys and household electrical appliances and automobile parts
PVA	0.13	PVA fibres, building coating materials and textile starch
Others	0.46	
Subtotal:	12.90	
Manufactured products		
Synthetic Fibres		

Polyester staple	0.22	Textiles and apparel
Acrylic staple	2.11	Cotton type fabrics, wool type fabrics
Others	0.20	
Subtotal:	2.53	
Trading of petrochemical products	29.91	Import and export trade of petrochemical products (purchased from domestic and overseas suppliers)
Others	1.05	
TOTAL:	100	

Table of Contents**Change in Share Capital of Ordinary Shares and Shareholders****(1) Changes in share capital of ordinary shares during the Reporting Period****1. Changes in share capital of ordinary shares during the Reporting Period**

of shares	Beginning of		Increase/decrease (+, -) during the					Unit: Shares	
	the Reporting Period		Reporting Period					End of the Reporting	
	Number of shares	Percentage (%)	Number of shares of Number of shares of Number of shares of Number of shares of			Others	Subtotal	Number of shares	Perce (
				issued	reserves				
listed circulating shares	0	0	0	0	0	0	0	0	0
shares of Promoters	0	0	0	0	0	0	0	0	0
including:									
shares held by the State	0	0	0	0	0	0	0	0	0
shares of fund-raising legal person	0	0	0	0	0	0	0	0	0
shares with trading restrictions	0	0	0	0	0	0	0	0	0
shares held by state-owned legal	0	0	0	0	0	0	0	0	0
entity	0	0	0	0	0	0	0	0	0
shares held by other domestic investors	0	0	0	0	0	0	0	0	0
listed circulating shares	10,800,000,000							10,814,176,600	
	A shares or							A shares or	
	H shares	100	0	0	0	+14,176,600	+14,176,600	H shares	
	A shares	67.64	0	0	0	A shares	A shares	A shares	6
overseas listed foreign shares	3,495,000,000							3,495,000,000	
	H shares	32.36	0	0	0	0	0	H shares	3
	10,800,000,000							10,814,176,600	
	A shares or							A shares or	
	H shares	100	0	0	0	0	0	H shares	

Table of Contents**Change in Share Capital of Ordinary Shares and Shareholders (continued)****(2) Issue of shares****1. Issue of shares during the Reporting Period**

Class of shares and its derivative securities	Date of issue	Issue price	Issue volume	Listing date	Unit: Shares Currency: RMB	
					Permitted listing volume	Transaction termination date
Ordinary shares						
RMB-denominated ordinary A shares	27 September 2017	3.85	14,176,600*	11 October 2017	14,176,600	

* Issued in accordance with the first exercise of the Share Option Incentive Scheme.

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

The Company's total number of ordinary shares increased from 10,800,000,000 to 10,814,176,600 during the Reporting Period.

3. Employees shares

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

(3) Shareholders and de facto controller**1. Total number of shareholders**

Number of shareholders of ordinary shares as at the end of the Reporting Period	99,245
Number of shareholders of ordinary shares as at the end of the month immediately preceding the publication date of the annual report	100,501

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

Unit: Shares

Shareholding of the top ten shareholders									
Full name of shareholders	Class of shares	Increase/ decrease of	Number of	Number of shares held at the end of the Reporting Period (Shares)	Percentage of shareholding (%)	Number of shares pledged/ frozen (Shares)	Status of shares	Number of shares	Nature of shareholders
		shareholding during the Reporting Period (Shares)	shares held at the end of the Reporting Period (Shares)						
China Petroleum & Chemical Corporation	A shares	0	5,460,000,000	50.49	0	None	0	State-owned legal person	
HKSCC (Nominees) Limited	H shares	1,666,000	3,456,632,321	31.96	0	Unknown	0	Overseas legal person	
China Securities Finance Corporation Limited	A shares	107,586,155	439,689,245	4.07	0	None	0	Others	
Central Huijin Investment Ltd.	A shares	0	67,655,800	0.63	0	None	0	Others	
GF Fund Agricultural Bank of China GF CSI Financial Asset Management Plan	A shares	Unknown	22,751,900	0.21	0	None	0	Others	
Shanghai Kangli Industry and Trade Co., Ltd.	A shares	0	22,375,300	0.21	0	None	0	Others	
Dacheng Fund Agricultural Bank of China Dacheng CSI Financial Asset Management Plan	A shares	Unknown	21,061,069	0.19	0	None	0	Others	
China Asset Fund Agricultural Bank of China China Asset CSI Financial Asset Management Plan	A shares	Unknown	20,613,350	0.19	0	None	0	Others	
Bosera Fund Agricultural Bank of China Bosera CSI Financial Asset Management Plan	A shares	Unknown	20,613,300	0.19	0	None	0	Others	
E Fund Agricultural Bank of China E Fund CSI Financial Asset Management Plan	A shares	Unknown	20,613,300	0.19	0	None	0	Others	
Note on connected relationship or acting in concert of the above shareholders	Among the above-mentioned shareholders, Sinopec Corp., a State-owned legal person, does not have any connected relationship with the other shareholders, and does not constitute an act-in-concert party under the								

Administrative Measures on Acquisition of Listed Companies. Among the above-mentioned shareholders, HKSCC (Nominees) Limited is a nominee. Apart from the above, the Company is not aware of any connected relationships among the other shareholders, or whether any other shareholder constitutes an act-in-concert party under the Administrative Measures on Acquisition of Listed Companies.

Table of Contents**Change in Share Capital of Ordinary Shares and Shareholders (continued)****(4) Details of the controlling shareholder and the de facto controller****1. Details of the controlling shareholder****(1) Legal person**

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

Company Name	Number of shares held	Percentage of shareholding
Sinopec Shandong Taishan Petroleum Co., Ltd.	118,140,120	24.57%

Table of Contents**2. Details of the de facto controller****(1) Legal person**

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

Company Name	Number of shares held	Percentage of shareholding
China Petroleum & Chemical Corporation*	85,792,671,101	70.86%
Sinopec Engineering (Group) Co., Ltd.	2,907,856,000	65.67%
Sinopec Oilfield Service Corporation	9,224,327,662	65.22%
Sinopec Oilfield Equipment Corporation	351,351,000	58.74%
China Merchants Energy Shipping Co., Ltd.	912,886,426	17.23%

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

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Change in Share Capital of Ordinary Shares and Shareholders (continued)

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

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

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

As at 31 December 2017, HKSCC (Nominees) Limited held 3,456,632,321 H shares of the Company, representing 31.96% of the total number of issued shares of the Company.

(6) Public float

Based on the public information available to the Board, as at 20 March 2018, the Company had a public float which is in compliance with the minimum requirement under the Hong Kong Listing Rules.

Table of Contents**(7) Interests and short positions of the substantial shareholders of the Company in shares and underlying shares of the Company**

As at 31 December 2017, so far as was known to the Directors or chief executive of the Company, the interests and short positions of the Company's substantial shareholders (being those who are entitled to exercise or control the exercise of 5% or more of the voting power at any general meeting of the Company but excluding the Directors, chief executive and Supervisors) in the shares and underlying shares of the Company who are required to disclose their interests pursuant to Divisions 2 and 3 of Part XV of the SFO or as recorded in the register of interests required to be kept under section 336 of the SFO were as set out below:

Interests in ordinary shares of the Company

Name of shareholders	Interests held or deemed as held (shares)	Note	Percentage of total issued shares of the relevant class		Capacity
			Percentage of total issued shares of the Company (%)	Percentage of total issued shares of the relevant class (%)	
China Petroleum & Chemical Corporation	5,460,000,000 A shares (L) Shares of legal person		50.49	74.60	Beneficial owner
BlackRock, Inc.	248,433,833 H shares (L)	(1)	2.30	7.11	Interests of controlled corporation
	2,210,000 H shares (S)	(2)	0.02	0.06	Interests of controlled corporation
Corn Capital Company Limited	211,008,000 H shares (L)	(3)	1.95	6.04	Beneficial owner
200,020,000 H shares (S)		(3)	1.85	5.72	Beneficial owner
Lam Yan Yan	211,008,000 H shares (L)	(3)	1.95	6.04	Interests of controlled corporation
200,020,000 H shares (S)		(3)	1.85	5.72	Interests of controlled corporation
Yardley Finance Limited	200,020,000 H shares (L)	(4)	1.85	5.72	Having a security interest in shares
Chan Kin Sun	200,020,000 H shares (L)	(4)	1.85	5.72	Interests of controlled corporation

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

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Change in Share Capital of Ordinary Shares and Shareholders (continued)

Notes:

- (1) Of the H shares (long position) held by BlackRock, Inc., 1,954,000 H shares (long position) were held through cash settled unlisted derivatives.
- (2) All the 2,210,000 H shares (short position) held by BlackRock, Inc. were held through cash settled unlisted derivatives.
- (3) These shares were held by Corn Capital Company Limited. Lam Yan Yan held 90% interests in Corn Capital Company Limited. Pursuant to the SFO, Lam Yan Yan was deemed to be interested in the shares held by Corn Capital Company Limited.
- (4) These shares were held by Yardley Finance Limited. Chan Kin Sun held 100% interests in Yardley Finance Limited. Pursuant to the SFO, Chan Kin Sun was deemed to be interested in the shares held by Yardley Finance Limited.
- (5) Based on the information obtained by the Directors from the website of the Hong Kong Stock Exchange and as far as the Directors are aware, Sinopec Group directly and indirectly owned 71.32% of the issued share capital of Sinopec Corp. as at 31 December 2017. By virtue of such relationship, Sinopec Group is deemed to have an interest in the 5,460,000,000 A shares of the Company directly owned by Sinopec Corp.

Save as disclosed above, as at 31 December 2017, the Directors have not been notified by any person (other than the Directors, chief executive and Supervisors) who had interests or short positions in the shares and underlying shares of the Company which would fall to be disclosed to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO or as recorded in the register of interests required to be kept by the Company under section 336 of the SFO.

Table of Contents**Directors, Supervisors, Senior Management and Employees****(1) Changes in shareholdings and remuneration****1. Changes in shareholdings and remuneration of Directors, Supervisors and senior management who hold the position currently or left the office during the Reporting Period**

	Position	Sex	Age	Date of commencement of service term	Date of end of service term	Number of shares held at the beginning of the Reporting Period (ten thousand shares)	Change in number of shares held during the Reporting Period	Reason of change	Total Remuneration received from the Company during the Reporting Period (before tax) (RMB ten thousand)
Jun*	Executive Director, Chairman & President	M	55	June 2017	June 2020	0	0		
Jun	Executive Director, Vice Chairman & Vice President	M	51	June 2017	June 2020	0	20	Share Option Incentive Scheme	75.8
Jun	Executive Director & Vice President	M	52	June 2017	June 2020	0	17.2	Share Option Incentive Scheme	72.8
Jun*	Executive Director, Vice President, Secretary to the Board & Joint Company Secretary	M	48	June 2017	June 2020	0	17.2	Share Option Incentive Scheme	66.0
Jun	Executive Director, Vice President & Chief Financial Officer	M	48	June 2017	June 2020	0	0		28.7
Jun	Non-executive Director	M	55	June 2017	June 2020	0	0		
Jun	Non-executive Director	M	53	June 2017	June 2020	0	0		
Jun	Independent Non-executive Director	M	63	June 2017	June 2020	0	0		1
Jun	Independent Non-executive Director	M	41	June 2017	June 2020	0	0		1
Jun	Independent Non-executive Director	M	41	June 2017	June 2020	0	0		1
Jun	Independent Non-executive Director	F	44	August 2017	June 2020	0	0		6.2

	Independent Non-executive Director									
ui	Supervisor, Chairman of the Supervisory Committee	M	46	October 2017	June 2020	0	0	0		10.9
g	Supervisor	M	55	June 2017	June 2020	0	0	0		49.1
a	Supervisor	F	48	June 2017	June 2020	0	0	0		45.4
n	Supervisor	M	53	June 2017	June 2020	0	0	0		
yong	Supervisor	M	53	June 2017	June 2020	0	0	0		
nru	Independent Supervisor	M	52	June 2017	June 2020	0	0	0		1
g Ki*	Former Independent Non-executive Director, Independent Supervisor	M	63	June 2014	June 2017	0	0	0		12
				June 2017	June 2020					
in									Share Option Incentive Scheme	
	Vice President	M	52	June 2017	June 2020	0	10	10		54.0
qing*	Former Executive Director, Chairman & President	M	55	June 2017	December 2017	0				72.5
ua*	Former Executive Director, Vice President & Chief Financial Officer	M	49	June 2014	January 2017	0				2.8
nbo*	Former Secretary to the Board & Joint Company Secretary	M	55	March 2016	April 2017	0				47.7
	Former Supervisor & Chairman of the Supervisory Committee			June 2017	July 2017	0				
	Former Independent Supervisor	M	61	June 2015	June 2017	0				6.8
	Former Independent Director			June 2017	August 2017	0				
/	/	/	/	/	/	0	64.4	64.4	/	606.8

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Directors, Supervisors, Senior Management and Employees (continued)

(1) Changes in shareholdings and remuneration (continued)

- * At the 5th meeting of the Ninth Session of the Board held on 21 December 2017, Mr. Wu Haijun was elected as the Chairman and was appointed as the President of the Company. Prior to the election of Mr. Wu Haijun as the Chairman and appointment as the President of the Company, he served as the President of Shanghai SECCO, the related company, and obtained remuneration from Shanghai SECCO.
- * Mr. Guo Xiaojun was appointed as Secretary to the Board and Joint Company Secretary on 15 June 2017.
- * Mr. Choi Ting Ki changed from Independent Non-executive Director of the Company to Independent Supervisor of the Company on 15 June 2017.
- * On 4 December 2017, Mr. Wang Zhiqing requested to resign from his positions as Executive Director, Chairman and President due to new working arrangement. Mr. Wang's resignation took effect upon the submission of the resignation letter to the Board on 4 December 2017.
- * On 26 January 2017, Mr. Ye Guohua requested to resign from his positions as Executive Director, Vice President and Chief Financial Officer due to new working arrangement. Mr. Ye's resignation took effect upon the submission of the resignation letter to the Board on 26 January 2017.
- * On 11 July 2017, Mr. Zhang Jianbo requested to resign from his positions as Chairman of the Supervisory Committee and Supervisor due to new working arrangement. Mr. Zhang's resignation took effect upon the submission of the resignation letter to the Supervisory Committee on 11 July 2017.
- * Mr. Pan Fei changed from Independent Supervisor of the Company to Independent Non-executive Director of the Company on 15 June 2017. On 7 July 2017, Mr. Pan requested to resign from his position as Independent Non-Executive Director due to his personal work arrangements. Mr. Pan's resignation took effect upon the election of a new independent non-executive Director at the first extraordinary general meeting of 2017 of the Company held on 2 August 2017.

Table of Contents**(2) Profiles of Directors, Supervisors and senior management****Directors:**

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

Gao Jinping, aged 51, is an Executive Director, Vice Chairman, Secretary of the Communist Party Committee and Vice President of the Company. Mr. Gao joined the Complex in 1990 and has held various positions, including 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 Director of the Propaganda Department of the Company. Mr. Gao was Deputy Secretary of the Communist Party Committee from May 2003 to March 2013, Chairman of the Labour 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 Supervisor and Chairman of the Supervisory Committee of the Company from June 2006 to April 2013. He has been Secretary of the Communist Party Committee of the Company since March 2013, as well as 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 Vice Chairman of the Company. Mr. Gao graduated from the 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.

Table of Contents**Directors, Supervisors, Senior Management and Employees (continued)****(2) Profiles of Directors, Supervisors and senior management (continued)**

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

Guo Xiaojun, aged 48, is an Executive Director, Vice President, Secretary to the Board, Joint Company Secretary and member of the Strategy Committee of the Company. Mr. Guo joined the Complex in 1991. He has held various positions, including Director of the Polyolefin Integrated Plant in the Plastics Division, 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 Deputy Chief Engineer and Director of the Production Department of the Company from March 2011 to April 2013 and has served as Vice President of the Company since April 2013. In June 2014, Mr. Guo was appointed Executive Director of the Company and was appointed as Secretary to the Board and Joint Company Secretary of the Company in June 2017. He graduated from the 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 the 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, Vice President, Chief Financial Officer, member of the Remuneration and Appraisal Committee and the Strategy Committee of the Company. Mr. Zhou joined the Complex in 1991 and has held various positions, including 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 Vice President and Chief Financial Officer of the Company in February 2017. He has served as Executive Director of the Company since June 2017 and Chairman of China Jinshan Associated Trading Corporation (Jinshan Associated Trading) since July 2017. Mr. Zhou graduated from the Shanghai University of Finance and Economics in 1991 majoring in accounting, and obtained a master's degree in economics from the Huazhong University of Science and Technology majoring in western economics in 1997. He is a senior accountant by professional title.

Table of Contents**(2) Profiles of Directors, Supervisors and senior management** (continued)

Lei Dianwu, aged 55, is a Non-executive Director and member of the Strategy Committee of the Company, 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 Non-executive Director of the Company. Mr. Lei has held various positions, including Deputy Director of Planning Division and Director of the Preparation Office of the Joint Venture of Yangzi Petrochemical Company, and Vice President and manager of the Production Division of Yangzi BASF Styrene Company Limited. He acted as 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 Director of Development and Planning Division of Sinopec Corp. Mr. Lei was appointed Assistant to the President of Sinopec Group in March 2009, and Vice President of Sinopec Corp. in May 2009, and 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 the 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 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.

Zhang Yimin, aged 63, is an Independent Non-executive Director, Chairman of the Remuneration and Appraisal Committee and the Nomination Committee of the Company and a Professor of Economics and Finance at the 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 the University of British Columbia, Canada, and has held various positions, including a Post-doctoral Fellow at the Business School of the University of British Columbia, Canada, Assistant Professor at the Business School of the University of New Brunswick, Canada, and Associate Professor of Economics and Finance Department at the City University of Hong Kong. He was appointed as Professor of the 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.

Table of Contents**Directors, Supervisors, Senior Management and Employees (continued)****(2) Profiles of Directors, Supervisors and senior management (continued)**

Liu Yunhong, aged 41, is an Independent Non-executive Director and member of Audit Committee of the Company, 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 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 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.

Du Weifeng, aged 41, is an Independent Non-executive Director, 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 the Company s Independent Non-executive Director since June 2015. Mr. Du began his career in July 1998. He has held various positions, including 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 the 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.

Table of Contents**(2) Profiles of Directors, Supervisors and senior management** (continued)

Li Yuanqin, aged 44, is an Independent Non-executive Director, Chairman of the Audit Committee and member of the Strategy Committee of the Company, associate professor of the School of Management and the associate head of the Department of Accountancy at Shanghai University. She is currently the 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 the 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.

Supervisors:

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

Table of Contents**Directors, Supervisors, Senior Management and Employees** (continued)**(2) Profiles of Directors, Supervisors and senior management** (continued)

Zuo Qiang, aged 55, is a Supervisor, Deputy Chief of Political Work, 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 the Complex in 1981 and has held various positions, including archivist of the Command Division for the construction of Phase II of No. 1 Chemical Plant of the Complex, 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 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 Director of the Supervisory Office of the Company, and has been serving as Supervisor and Director of Supervisory Committee Office of the Company since June 2011, and Deputy Secretary of the Discipline Inspection Commission of the Company since October 2011. In February 2016, he was appointed the Deputy Chief of Political Work of the Company. He has served as 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.

Li Xiaoxia, aged 48, is a Supervisor and Secretary of the Communist Party Committee and Deputy Director of the Plastics Division of the Company. Ms. Li joined the Complex in 1991 and has held various positions, including 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 Supervisor of the Company in June 2011 and served as Vice Chairman of the Labour Union of the Company from December 2011 to August 2017. She was appointed as 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, 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 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, Deputy Director of the General Administrative Office of the Auditing Bureau of China Petrochemical Corporation, 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 has concurrently held the posts of Deputy Director of the Auditing Bureau of Sinopec Group and Deputy Director of Auditing Department of Sinopec Corp. Mr. Zhai graduated from the Jilin Siping Normal College in 1986 and is a senior economist by professional title.

Table of Contents**(2) Profiles of Directors, Supervisors and senior management** (continued)

Fan Qingyong, aged 53, is an External Supervisor of the Company, Deputy Chief of the Supervisory Bureau and member of the Discipline Inspection Group of Sinopec Group, Deputy Director of the Supervisory Department of Sinopec Corp., the controlling shareholder of the Company, and 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 Deputy Director of the Communist Party Office of No. 2 Oil Plant and Director of Corporate Management Department of Fushun Petrochemical Company, 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 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 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 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 obtained a master's degree in law. He is a professor-grade senior professional by professional title and is qualified to practice law.

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 Member of Expert Consultation Committee of Shanghai Yangpu District People's Procuratorate and Mediator of Shanghai Second Intermediate People's Court. He has served as the Company's Independent Supervisor since December 2014. 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 the Shangrao Normal University in Jiangxi Province, majoring in English Language. Mr. Zheng obtained a master's degree in law and a doctorate's degree in law from the Faculty of Law of Peking University in July 1993 and July 1998, respectively. Mr. Zheng previously worked at the Education Bureau of Shangrao County, Jiangxi Province, Hainan Airport Limited, China Township Enterprise Investment and Development Company Limited and the Legal Affairs Office of the Shanghai Municipal People's Government. He has been teaching at East China University of Political Science and Law since August 2001. He was a visiting scholar at the Faculty of Law of National University of Singapore between July 2002 and December 2002. 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 member of Expert Advisory Committee of the People's Procuratorate of Shanghai Yangpu District and mediator of Shanghai No. 2 intermediate People's Court on 24 March 2017 and 26 June 2017, respectively.

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Directors, Supervisors, Senior Management and Employees (continued)

(2) Profiles of Directors, Supervisors and senior management (continued)

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

Senior Management:

Jin Wenmin, aged 53, is Vice President of the Company. Mr. Jin joined the Company in 1985 and served as the Secretary of the Communist Party Committee of the Company's No.1 Oil Refining Device of Refining Unit, Head of Butadiene Device, Manager of the storage and transportation, branch company, manager and Deputy Secretary of the Communist Party Committee of Storage and Transportation Department, manager and Deputy Secretary of the Communist Party Committee of Oil Refining Department etc. From April 2013 to February 2017, Mr. Jin was appointed as Head of Production Department of the Company. From May 2013 to August 2016, Mr. Jin was appointed as Assistant to the President of the Company and was appointed as Vice President of the Company in September 2016. Mr. Jin graduated from the Shanghai Second Polytechnic University in July 2003, majoring in business administration. He is a senior engineer by professional title.

Table of Contents**(3) Share options held by the Directors, Supervisors and senior management during the Reporting Period**

Name	Position	Number of					Unit:	
		Number of A shares held at the beginning of the Reporting Period	A shares granted during the Reporting Period	Number of A shares exercisable during the Reporting Period	Number of A shares exercised during the Reporting Period	Number of A shares cancelled or lapsed during the Reporting Period	Number of A shares share options held at the end of the Reporting Period	Shares
Wang Zhiqing*	Former Executive Director, Chairman & President	500,000	0	200,000	200,000	300,000	0	
Gao Jinping	Executive Director, Vice Chairman & Vice President	500,000	0	200,000	200,000	0	300,000	
Ye Guohua**	Former Executive Director, Vice President & Chief Financial Officer	430,000	0	0	0	430,000	0	
Jin Qiang	Executive Director & Vice President	430,000	0	172,000	172,000	0	258,000	
Guo Xiaojun	Executive Director, Vice President, Secretary to the Board & Joint Company Secretary	430,000	0	172,000	172,000	0	258,000	
Jin Wenmin	Vice President	250,000	0	100,000	100,000	0	150,000	
Total	/	2,540,000	0	844,000	844,000	730,000	966,000	

* On 4 December 2017, Mr. Wang Zhiqing requested to resign from his positions as Executive Director, Chairman and President due to new working arrangements. Mr. Wang's resignation took effect upon the submission of the resignation letter to the Board on 4 December 2017. The 300,000 outstanding A shares share options granted to

him have lapsed in accordance with the relevant provisions of the Share Option Incentive Scheme.

- ** On 26 January 2017, Mr. Ye Guohua requested to resign from his positions as Executive Director, Vice President and Chief Financial Officer due to new working arrangement. Mr. Ye's resignation took effect upon the submission of the resignation letter to the Board on 26 January 2017. The 430,000 outstanding A shares share options granted to him have lapsed in accordance with the relevant provisions of the Share Option Incentive Scheme.

Table of Contents**Directors, Supervisors, Senior Management and Employees (continued)****(4) Positions held in the Company's shareholders during the Reporting Period**

Name	Name of shareholder	Position held	Commencement of term of service	End of term of service
Lei Dianwu	Sinopec Corp.	Vice President	May 2015	May 2018
Mo Zhenglin		Deputy Director of the Finance Division		
Zhai Yalin	Sinopec Corp.	Department Deputy Director of the Auditing Department	August 2017	May 2018
Fan Qingyong	Sinopec Corp.	Deputy Director of the Supervisory Department	May 2015	May 2018
	Sinopec Corp.		May 2015	May 2018

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

Name	Name of other company	Position held	Commencement of term of service	End of term of service
Wu Haijun		Director and Secretary of the Communist Party		
	Shanghai SECCO	Committee	March 2015	March 2019
Wu Haijun	Shanghai SECCO	Chairman	October 2017	March 2019
Wu Haijun	Shanghai SECCO	President	March 2015	December 2017
Zhou Meiyun	Jinshan Associated Trading	Chairman	July 2017	July 2020

Apart from the information set out in the tables above and in section (2) Profile of Directors, Supervisors and Senior Management, no Director, Supervisor or senior management of the Company holds any other position at any other company.

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

<p>Procedures for determining the remuneration of Directors, Supervisors and senior management</p>	<p>Remuneration for Independent Non-executive Directors are determined in accordance with the Remuneration System for Independent Directors approved at the 2007 Annual General Meeting. Remuneration for Independent Supervisors are determined in accordance with the Remuneration Payment Method for Independent Supervisors approved at the 2016 Annual General Meeting. Remuneration of the other Directors, Employee Representative Supervisors and External Supervisors and senior management are determined in accordance with the Remuneration System for Directors, Supervisors and Senior Management approved at the 2002 Annual General Meeting.</p> <p>For details of the remuneration of the Directors and Supervisors of the Company, please refer to Note 11 and Note 36 to the consolidated financial statements prepared under IFRS.</p>
<p>Basis for determining the remuneration of Directors, Supervisors and senior management</p>	<p>The remuneration of Directors, Supervisors and senior management of the Company is determined on the principles of efficiency, motivation and fairness and in accordance with the Remuneration System for Directors, Supervisors and Senior Management.</p>
<p>Remuneration paid to Directors, Supervisors and senior management</p>	<p>Please refer to item (1) Changes in shareholdings and remuneration of this chapter.</p>
<p>Total remuneration received by all Directors, Supervisors and senior management for the Reporting Period</p>	<p>RMB6,068,800</p>
<p>The five highest paid individuals</p>	<p>Please refer to note 36(i) to the consolidated financial statements prepared under IFRS. The five individuals are the Directors and Supervisors of the Company.</p>
<p>Pension scheme</p>	<p>Please refer to Notes 2.25 and 30(e) to the consolidated financial statements prepared under IFRS.</p>

Table of Contents**Directors, Supervisors, Senior Management and Employees** (continued)**(7) Changes in Directors, Supervisors and senior management during the Reporting Period**

Name	Position held	Change	Reason
Wang Zhiqing	Executive Director, Chairman & President	Resigned	Change of work arrangements
Zhang Jianbo	Secretary to the Board, Joint Company Secretary	Resigned	Change of work arrangements
Zhang Jianbo	Supervisor & Chairman of the Supervisory Committee	Appointed	
Zhang Jianbo	Supervisor & Chairman of the Supervisory Committee	Resigned	Change of work arrangements
Ye Guohua	Executive Director, Vice President & Chief Financial Officer	Resigned	Change of work arrangements
Zhou Meiyun	Executive Director, Vice President & Chief Financial Officer	Elected and Appointed	
Guo Xiaojun	Secretary to the Board, Joint Company Secretary	Appointed	
Choi Ting Ki	Independent Non-executive Director	Ceased	Expiry of term of office
Choi Ting Ki	Independent Supervisor	Elected	
Pan Fei	Independent Supervisor	Resigned	Expiry of term of office
Pan Fei	Independent Non-executive Director	Elected	
Pan Fei	Independent Non-executive Director	Resigned	Personal
Fan Qingyong	Supervisor	Elected	
Ma Yanhui	Supervisor & Chairman of the Supervisory Committee	Elected	
Li Yuanqin	Independent Non-executive Director	Elected	

Table of Contents**(8) Interests and short positions of Directors, chief executives and Supervisors in the shares, underlying shares and debentures of the Company or associated corporations**

As at 31 December 2017, the interests and short positions of the Directors, chief executive and Supervisors of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or to be recorded in the register of interests required to be kept under section 352 of the SFO; or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions set out in Appendix 10 to the Hong Kong Listing Rules were as follows:

Interests in the shares and underlying shares of the Company:

Name	Position held	Number of shares held (Shares)	Number of underlying A shares share options held according to the Share Option Incentive Scheme (Shares)	Percentage of the total issued shares of the Company(%)	Percentage of the total issued A shares (%)	Capacity
Gao Jinping	Executive Director, Vice Chairman and Vice President	200,000		0.002	0.002	Beneficial owner
		A shares (L)	300,000 (L)	0.003	0.004	Beneficial owner
Jin Qiang	Executive Director and Vice President	172,000		0.002	0.002	Beneficial owner
		A shares (L)	258,000 (L)	0.002	0.004	Beneficial owner
Guo Xiaojun	Executive Director, Vice President, Secretary to the Board and Joint Company Secretary	172,000		0.002	0.002	Beneficial owner
		A shares (L)	258,000 (L)	0.002	0.004	Beneficial owner

(L): Long position

Save as disclosed above, as at 31 December 2017, so far as was known to the Directors, chief executive and Supervisors of the Company, none of the Directors, chief executive or Supervisors of the Company had any interests

or short positions in the shares, underlying shares or debentures of the Company or its associated corporations which were required to be disclosed or recorded pursuant to the SFO and the Hong Kong Listing Rules as mentioned above.

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Directors, Supervisors, Senior Management and Employees (continued)

(9) Changes in Directors and Supervisors information

Save as disclosed in the 2017 interim report, disclosure of changes in Directors and Supervisors information pursuant to Rule 13.51B(1) of the Hong Kong Listing Rules during the Reporting Period are set out as below:

1. Mr. Wu Haijun, Executive Director, Chairman and President, is now a professor-grade senior engineer.
2. Mr. Zhou Meiyun, Executive Director, Vice President and Chief Financial Officer, has been chairman of Jinshan Associated Trading since July 2017.
3. Mr. Lei Dianwu, Non-executive Director, is now a professor-grade senior engineer.
4. Mr. Mo Zhenglin, Non-Executive Director, has been appointed as the deputy director of the Finance Division of Sinopec Corp., the controlling shareholder of the Company, since August 2017. At the same time, he is no longer the deputy director of the Chemical Division of Sinopec Corp. Mr. Mo ceased to be a director of Shanghai SECCO in October 2017.
5. Ms. Li Xiaoxia, Supervisor, has been appointed as the secretary of the Communist Party Committee and deputy director of the Plastics Division of the Company since July 2017 and ceased to be the vice chairman of the Company's Labour Union in August 2017.
6. Mr. Zheng Yunrui, Independent Supervisor, has been an independent director of Jiangxi Xinyu Guoke Technology Co., Ltd. (listed on the Shenzhen Stock Exchange, stock code: 300722) since November 2017. He ceased to be an independent director of Shandong Jiangquan Industry Co., Ltd. (listed on the Shanghai Stock Exchange, stock code: 600212) in December 2017.

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

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

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

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

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(11) Directors rights to acquire shares or debentures

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

(12) Compliance of Model Code for Securities Transactions

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

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

(13) Management contracts

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

(14) Permitted indemnity provision

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

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

Nil.

Table of Contents**Directors, Supervisors, Senior Management and Employees (continued)****(16) Employees****1. Employees of the Group**

	Number (Person)
Number of employees of the Company	10,226
Number of employees of the subsidiaries	95
Total number of employees of the Group	10,361
Number of retired workers whose retirement costs are borne by the Group	17,854
Professionals	
Category of professionals	
Production staff	6,197
Sales staff	86
Technical staff	2,819
Financial staff	111
Administrative staff	1,148
Total	10,361
Education level	
Educational attainment	
College graduate and below	7,692
Undergraduate	2,504
Post-graduate	165
Total	10,361

2. Remuneration policy

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

3. Training programs

According to the human resources core value of streamlining the structure, enhancing the quality and strengthening the foundation and with the mission of facilitating the employee development and strengthening the team foundation ,

the Company improves the training of management and talent growth, enhances the focus area and the effectiveness of the training so as to upgrade the quality of the employees and to develop the Company into a nationwide leading and world class petrochemicals enterprise.

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(16) Employees (continued)

4. Professional structure chart

5. Level of education chart

6. Outsourcing services

The total remuneration paid for outsourcing services of the Company during the Reporting Period was RMB112,301,230.

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Corporate Governance

(1) Notes for corporate governance and insider registration management

1. Corporate governance

In 2017, the Company strictly complied with the regulatory legislation such as Company Law, Securities Law and the Corporate Governance Principles for Listed Companies issued by the CSRC, as well as the relevant provisions and requirements of the Shanghai Stock Exchange, the Hong Kong Stock Exchange and the New York Stock Exchange. It continued to improve its corporate governance structure, developed its corporate system, standardized the corporate operations and enhanced its overall corporate image.

Improving governance policies: During the Reporting Period, in accordance with the requirements of the relevant laws and regulations of the places where the Company's shares are listed, the Company amended and improved the Company's Articles of Association and its appendices which were considered and approved at the Company's annual general meeting in 2016 and the first extraordinary general meeting of 2017. The Company also amended and improved the Company's Internal Control Manual (2017 Edition).

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

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

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

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

Table of Contents**(2) Brief introduction of general meeting**

Session of the meeting	Convening date	Title of the motions	Status of the resolutions	Designated websites for publication of resolutions	Date of publication of resolutions
The Company's 2016 annual general meeting	15 June 2017	<ol style="list-style-type: none"> 1. 2016 Work Report of the Board of the Company 2. 2016 Work Report of the Supervisory Committee of the Company 3. 2016 Audited Financial Statements of the Company 4. 2016 Profit Distribution Plan of the Company 5. 2017 Financial Budget Report of the Company 6. The re-appointment of PricewaterhouseCoopers Zhong Tian LLP and PricewaterhouseCoopers as the domestic and international auditors, respectively, of the Company for the year 2017 and authorization to the Board to fix their remunerations 7. Waiver of the pre-emptive rights in the assigned equity interest in a joint venture company, a connected transaction under the Listing Rules of the Shanghai Stock Exchange 8. Remuneration Payment Method for Independent Supervisors 	Passed	Websites of the Shanghai Stock Exchange, the Hong Kong Stock Exchange and the Company	16 June 2017

9. The election of the non-employee representative supervisors of the Ninth Session of the Supervisory Committee

10. Adjustment of peer benchmark enterprises under the A Shares Share Option Incentive Scheme of the Company

11. The amendments to both the articles of association of the Company and the appendix as proposed by the Board

12. The election of non-independent directors of the Ninth Session of the Board

13. The election of independent non-executive directors of the Ninth Session of the Board

The first extraordinary general meeting for 2017 of the Company	2 August 2017	<p>1. The amendments to the Articles of Association of the Company and its appendix as proposed by the Board</p> <p>2. The election of Ms. Li Yuanqin as an independent non-executive director of the Ninth Session of the Board</p>	Passed	<p>Websites of the Shanghai Stock Exchange, the Hong Kong Stock Exchange and the Company</p>	3 August 2017
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Table of Contents**Corporate Governance (continued)****(3) Performance of duties by the directors****1. Directors attendance at the Board meetings and general meetings**

Name of Director	Independent Director or not	Information on participating in the Board Meeting					Information on participating in General Meetings	
		Attendance at the Board meetings during the year	Attendance in person	Attendance by correspondence	Attendance by proxy	Absence consecutive	Failure to attend the meeting in general	Attendance at meetings
		(number of times)	(number of times)	(number of times)	(number of times)	(number of times)	(number of times)	(number of times)
Wu Haijun	No	8	8	4	0	0	No	1
Gao Jinping	No	8	6	4	2	0	No	2
Jin Qiang	No	8	7	4	1	0	No	1
Guo Xiaojun	No	8	8	4	0	0	No	2
Zhou Meiyun	No	5	5	2	0	0	No	1
Lei Dianwu	No	8	5	4	3	0	No	0
Mo Zhenglin	No	8	5	4	3	0	No	1
Zhang Yimin	Yes	8	7	4	1	0	No	1
Liu Yunhong	Yes	8	8	4	0	0	No	1
Du Weifeng	Yes	8	8	4	0	0	No	1
Li Yuanqin	Yes	4	4	2	0	0	No	0
Wang Zhiqing	No	7	7	4	0	0	No	1
Ye Guohua	No	0	0	0	0	0	No	0
Choi Ting Ki	Yes	3	3	2	0	0	No	1
Pan Fei	Yes	1	1	0	0	0	No	0

Number of Board meetings held during the year	8
including: number of meetings held on site	4
number of meetings held by correspondence	4
number of meetings held on site and by correspondence concurrently	0

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

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

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

On 14 March 2017, the Board's Audit Committee reviewed together with the management the accounting principles and standards adopted by the Company and discussed matters regarding audit, risk management, internal control and financial reporting, including the review of the financial statements for the year ended 31 December 2016.

On 14 March 2017, the Board's Remuneration and Appraisal Committee reviewed the remuneration of Directors, Supervisors and senior management set out in the Company's annual report for the year ended 31 December 2016.

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

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

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

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

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

The Remuneration System for the senior management was considered and approved at the 2002 annual general meeting of the Company on 18 June 2003. In 2017, the Company continued to implement this system as the basis of appraising and rewarding the Company's senior management.

In accordance with the Share Option Incentive Scheme of the Company and its auxiliary measures considered and approved at the general meeting, the Company has achieved the relevant targets contemplated by the Share Option Incentive Scheme. According to the scheme, Directors Mr. Gao Jinping, Mr. Jin Qiang, Mr. Guo Xiaojun and senior management Mr. Jin Wenmin were eligible participants, and have been granted the Company's share options on 6 January 2015. Details of the share options granted are set out in "Share Option Incentive Scheme" under "Major Events" in the Report of the Directors of this annual report.

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Internal Control

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

1. Statement of responsibility for internal control

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

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

The Board has evaluated the internal controls pertinent to financial reporting in accordance with the requirements under the Basic Standards for Enterprise Internal Control, and is of the view that such internal control was effective in the year 2017.

2. Establishment of internal control system

Overall plan of internal control establishment

Since 2004, the Company has established and implemented a comprehensive internal control system which covers aspects such as production, operations, finance, investment, human resources and information disclosure, and amends the Internal Control Manual annually in accordance with domestic and overseas regulatory requirements, risk prevention needs and recommendations by external auditors on internal control review.

The Company's internal control system has been established primarily for the following basic objectives: (a) to standardize the enterprise's business operation, prevent operational and managerial risks, ensure that financial statements and relevant information are truthful and complete, improve operational efficiency and effectiveness, and facilitate the achievement of the Company's development strategy; (b) to plug loopholes and eliminate potential hazards so as to prevent, detect and correct mistakes and fraudulent acts in a timely manner, thereby ensuring that the Company's assets are secure and integral; and (c) to ensure that the relevant state laws and regulations, the Articles of Association and internal rules and regulations are thoroughly enforced so as to fulfill the regulatory requirements for listed companies in both domestic and overseas capital markets.

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

Work plan on establishing and improving the internal control system and implementation thereof

The Internal Control Manual (2017 Edition) comprises 22 categories, 56 operation process and sets out 1,566 control points and 186 authorization control indicators. The scope of control covers the major areas of the Company's production, operations and development, as well as the key procedures of relevant business such as financial management, accounting and auditing, procurement of resources, product sales, capital expenditures, human resources and information management. The scope of control also includes reviewing the sufficiency of the Company's resources of accounting, financial management and reporting functions as well as employee qualifications and experience and the adequacy of the training courses attended by the employees and the relevant budget.

In 2017, the Company conscientiously enforced the Internal Control Manual approved by the Board, and conducted self-assessment, walk-through test on procedures and integrated inspection on internal control in accordance with the relevant rules and regulations. PricewaterhouseCoopers Zhong Tian LLP, external auditor of the Company also reviewed the status of the Company's internal control. The management of the Company considers that the internal control of the Company was effective during the Reporting Period.

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Internal Control (continued)

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

Establishment of the department inspecting and supervising internal control

The Company has established an internal control task force, with the President and the Chief Financial Officer as its chief and deputy chief, respectively. As the leading organ of the Company's overall internal control system, the guidance group is mainly responsible for approving interim amendments to the Internal Control Manual during the year, considering updates to the Internal Control Manual, reviewing the annual self-assessment report on internal control, handling and rectifying issues identified during an internal control inspection and reporting major issues to the Board for consideration and approval.

An internal control office was established under the internal control task force as the department in charge of internal control inspection and supervision. This office is responsible for directing or organizing daily inspections and evaluation, organizing annual comprehensive inspections and evaluation of the Company, organizing specific inspections and evaluation as needed, supervising and rectifying, drafting assessment proposals and reporting them to the internal control task force, and submitting regular reports on internal control inspection and supervision to the Audit Committee of the Board.

The Company has established an internal control supervisor working network consisting of 37 members. These internal control supervisors, representing their respective departments, and administrative heads of second-tier units, conduct internal control work and activities within their respective supervisory scope and functionally report to the internal control office of the Company.

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

The Board's work arrangements for internal control

Control reports on the establishment of the internal control system of the Company and the findings of the implementation and inspection of the internal control on a regular basis. The Board also considers and publishes a self-assessment report on the internal control of the Company on an annual basis, and considers and approves the revised Internal Control Manual of the Company annually.

PricewaterhouseCoopers, the Company's external auditor, issued an auditor's report on internal control over financial reporting according to the Sarbanes-Oxley Act. PricewaterhouseCoopers Zhong Tian LLP, the Company's external auditor, issued an auditor's report on internal control over financial reporting according to Audit Guidelines for Enterprise Internal Control in 2017.

Improvements in the internal control system in relation to financial audit

The Company took the lead for the assessment of the rules and regulations and fully assessed the compliance and effectiveness of each system. A total of 53 amendments were made, 11 systems were added and 1 system were abolished.

Deficiencies in internal control and the relevant rectification

The Company conducted a self-assessment on its internal control work in 2017. The results of the assessment are: no material deficiencies were detected in the design or implementation of the internal control of the Company from 1 January 2017 to 31 December 2017.

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Internal Control (continued)

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

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

(3) Auditor's report on internal control

The Auditor's report on internal control is disclosed or not: Disclosed

The Company has engaged PricewaterhouseCoopers Zhong Tian LLP to conduct an audit on the effectiveness of the internal control over financial reporting of the Company for the year ended 31 December 2017 pursuant to the requirements of the Audit Guidelines for Enterprise Internal Control and an auditor's report on internal control has been issued.

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

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

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Corporate Governance Report

(Prepared in accordance with the Hong Kong Listing Rules)

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

(1) Corporate Governance Practices

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

In the opinion of the Directors, throughout the Reporting Period, the Company has complied with all applicable code provisions set out in the Corporate Governance Code, except for the deviation from code provision A.2.1 which states that the roles of chairman and chief executive should be separate and should not be performed by the same individual, details of which are set out in the Chairman and President section in this report.

(2) Securities Transactions by Directors and Supervisors

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

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

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

(3) Board of Directors

1. Composition of the Board

The Board currently consists of 11 Directors, including 5 Executive Directors, 2 Non-executive Directors and 4 Independent Non-executive Directors, among whom there is one Chairman and one Vice-Chairman. Details of the current Board composition are as follows:

Executive Directors:

Wu Haijun, *Chairman, President, Chairman of the Strategy Committee and member of the Nomination Committee*

Gao Jinping, *Vice Chairman and Vice President*

Jin Qiang, *Vice President*

Guo Xiaojun, *Vice President and member of the Strategy Committee*

Zhou Meiyun, *Vice President, Chief Financial Officer and member of the Remuneration and Appraisal Committee and the Strategy Committee*

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Corporate Governance Report

(Prepared in accordance with the Hong Kong Listing Rules) (continued)

Non-executive Directors:

Lei Dianwu, *member of the Strategy Committee*

Mo Zhenglin, *member of the Strategy Committee*

Independent Non-executive Directors:

Zhang Yimin, *Chairman of the Remuneration and Appraisal Committee and the Nomination Committee*

Liu Yunhong, *member of the Audit Committee*

Du Weifeng, *member of the Audit Committee, the Remuneration and Appraisal Committee and the Nomination Committee*

Li Yuanqin, *Chairman of the Audit Committee and member of the Strategy Committee*

The biographical information of the Directors are set out in the section headed Directors, Supervisors, Senior Management and Employees on pages 21 to 39 of this annual report. None of the members of the Board is related to one another.

2. Attendance Records of Directors

The Board meets at least once per quarter. In 2017, the Board held eight meetings. Most of the Directors entitled to attend the meetings had actively attended the eight meetings held this year in person or by alternates. Before each Board meeting, the joint company secretary would consult each Director on matters to be tabled at the Board meeting. Any matters so raised by the Directors would be included in the agenda of the Board meeting. During the Reporting Period, notices and draft agenda of Board meetings were sent to all Directors at least 14 days before the date of the meeting.

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

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The attendance record of each Director at the Board meetings and the general meetings of the Company held during the Reporting Period is set out in the table below:

Name of Director	Board Meeting Attendance		Annual General Meeting	Extraordinary General Meeting
	Attendance in Person/Number of Meetings	Attendance by Alternate/Number of Meetings	Attendance/Number of Meetings	Attendance/Number of Meetings
Executive Directors:				
Wu Haijun	8/8		1/1	0/1
Gao Jinping	6/8	2/8	1/1	1/1
Jin Qiang	7/8	1/8	0/1	1/1
Guo Xiaojun	8/8		1/1	1/1
Zhou Meiyun ⁽¹⁾	5/5			1/1
Wang Zhiqing ⁽²⁾	7/7		1/1	0/1
Ye Guohua ⁽³⁾				
Non-executive Directors:				
Lei Dianwu	5/8	3/8	0/1	0/1
Mo Zhenglin	5/8	3/8	0/1	1/1
Independent Non-executive Directors:				
Zhang Yimin	7/8	1/8	1/1	0/1
Liu Yunhong	8/8		1/1	0/1
Du Weifeng	8/8		1/1	0/1
Li Yuanqin ⁽⁴⁾	4/4			
Choi Ting Ki ⁽⁵⁾	3/3		1/1	
Pan Fei ⁽⁶⁾	1/1			

(1) Mr. Zhou Meiyun was appointed as Executive Director on 15 June 2017.

(2) Mr. Wang Zhiqing resigned as Executive Director on 4 December 2017.

(3) Mr. Ye Guohua resigned as Executive Director on 26 January 2017.

(4) Ms. Li Yuanqin was appointed as Independent Non-executive Director on 2 August 2017.

(5) Mr. Choi Ting Ki ceased as Independent Non-executive Director on 15 June 2017 upon expiry of his term of office.

(6) Mr. Pan Fei was appointed as Independent Non-executive Director on 15 June 2017. He tendered his resignation as Independent Non-executive Director on 7 July 2017 and his resignation became effective on 2 August 2017.

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Corporate Governance Report

(Prepared in accordance with the Hong Kong Listing Rules) (continued)

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

3. Chairman and President (equivalent to Chief Executive)

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

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

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

During the Reporting Period, Mr. Wang Zhiqing served as the Chairman and the President (equivalent to chief executive officer) of the Company from 1 January 2017 to 3 December 2017. Following the resignation of Mr. Wang Zhiqing, Mr. Wu Haijun performed the duties of the Chairman from 4 December 2017 to 20 December 2017 and served as the Chairman and the President from 21 December 2017. Mr. Wang Zhiqing and Mr. Wu Haijun have extensive experience in the management of petrochemicals production. They are the most suitable candidates to serve both the positions of the Chairman and the President of the Company. For the time being, the Company has not been able to identify another person who is in possession of better or similar competency and talent as Mr. Wu Haijun to serve either of the above positions.

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4. Independent Non-executive Directors

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

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

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

5. Appointment and Re-election of Directors

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

6. Responsibilities of the Directors

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

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

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Corporate Governance Report

(Prepared in accordance with the Hong Kong Listing Rules) (continued)

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

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

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

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

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

7. Continuous Professional Development of Directors

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

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

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

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All Directors should participate in continuous professional development to upgrade their expertise and skills and to refresh their knowledge to ensure that they perform their duties better in contributing to the Board. Each of the Directors has provided to the Company records of their participation in the relevant training in 2017. The Company has also committed to organizing training programs for its Directors. Internally-facilitated briefings for Directors would be arranged and reading material on relevant topics would be provided to Directors where appropriate.

During the Reporting Period, Mr. Wu Haijun participated in the training of leadership of enterprise safety applicable to refinery companies, endorsed by ISRS, an international safety rating system. Mr. Guo Xiaojun participated in training courses organized by the Company on major issues and case studies related to the operations of listed companies. Mr. Guo also participated in the 89th Session of qualification training for secretary to the board of directors organized by the Shanghai Stock Exchange and the 44th session of continuous professional development seminar for Associate Members organised by the Hong Kong Institute of Chartered Secretaries in 2017. Mr. Zhou Meiyun participated in the training course for senior financial staff of Sinopec Group. Mr. Mo Zhenglin read publications relating to securities and finance. Ms. Li Yuanqin participated in the 1st New Institutional Accounting Seminar organized by the School of Accounting of Shanghai University of Finance and Economics and also read articles on accounting.

(4) Board Committees

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

1. The Remuneration and Appraisal Committee

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

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

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

Table of Contents**Corporate Governance Report****(Prepared in accordance with the Hong Kong Listing Rules)** (continued)

(ii) Members of the Remuneration and Appraisal Committee

The Remuneration and Appraisal Committee of the Board comprises one Executive Director and

two Independent Non-executive Directors.

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

Chairman: Zhang Yimin, Independent Non-executive Director

Members: Du Weifeng, Independent Non-executive Director

Zhou Meiyun, Executive Director (appointed on 15 June 2017)

Ye Guohua, Executive Director (resigned on 26 January 2017)

Following the resignation of Mr. Ye Guohua as Executive Director on 26 January 2017, there were only two members in the Remuneration and Appraisal Committee until the appointment of Mr. Zhou Meiyun to the Remuneration and Appraisal Committee on 15 June 2017.

(iii) Meetings of the Remuneration and Appraisal Committee

The Remuneration and Appraisal Committee convenes at least one meeting each year. In 2017, the Remuneration and Appraisal Committee held two meetings with a record of attendance as follows:

Name of Director	Attendance in Person/	Attendance by Alternate/
	Number of Meetings	Number of Meetings
Zhang Yimin	2/2	
Du Weifeng	2/2	
Zhou Meiyun	1/1	
Ye Guohua		

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

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

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

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

During the Reporting Period, the Remuneration and Appraisal Committee reviewed the remuneration policy of the Directors and conducted annual appraisals with the Directors and the senior management. The committee also reviewed the remuneration structure of the Directors, Supervisors and senior management, meeting the fulfillment of exercise conditions for the first exercisable period of share options as well as the adjustments to the number of share options outstanding due to job transfer.

2. The Audit Committee

(i) Role and Functions of the Audit Committee

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

Table of Contents**Corporate Governance Report****(Prepared in accordance with the Hong Kong Listing Rules)** (continued)

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

(ii) **Members of the Audit Committee**

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

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

Chairman: Li Yuanqin, Independent Non-executive Director (appointed on 2 August 2017) Pan Fei, Independent Non-executive Director (15 June 2017 to 1 August 2017) Choi Ting Ki, Independent Non-executive Director (ceased on 15 June 2017)

Members: Liu Yunhong, Independent Non-executive Director

Du Weifeng, Independent Non-executive Director

(iii) **Meetings of the Audit Committee**

The Audit Committee convenes at least two meetings each year. In 2017, the Audit Committee held two meetings without the presence of the Executive Directors with a record of attendance as follows:

Name of Director	Attendance in Person/ Attendance by Alternate/	
	Number of Meetings	Number of Meetings
Liu Yunhong	2/2	
Du Weifeng	2/2	
Li Yuanqin	1/1	
Choi Ting Ki	1/1	
Pan Fei		

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

During the Reporting Period, the Audit Committee reviewed the accounting principles and standards adopted by the Company, the interim and annual financial results and reports and significant issues on the financial reporting,

operational and compliance controls, the effectiveness of the risk management and internal control systems, appointment of external auditors and relevant scope of works, continuing connected transactions of the Company.

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3. The Nomination Committee

(i) Role and Functions of the Nomination Committee

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

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

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

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

(ii) Members of the Nomination Committee

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

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

Chairman: Zhang Yimin, Independent Non-executive Director

Members: Du Weifeng, Independent Non-executive Director(since January 2016)

Wu Haijun, Executive Director (appointed on 21 December 2017)

Wang Zhiqing, Executive Director (resigned on 4 December 2017)

Following the resignation of Mr. Wang Zhiqing as Executive Director on 4 December 2017, there were only two members in the Nomination Committee until the appointment of Mr. Wu Haijun to be the member of Nomination Committee on 21 December 2017.

Table of Contents**Corporate Governance Report****(Prepared in accordance with the Hong Kong Listing Rules)** (continued)

(iii) Meetings of the Nomination Committee

The Nomination Committee convenes at least one meeting each year. In 2017, the Nomination Committee held three meetings during the Reporting Period. The attendance record of the meetings of the Nomination Committee is set out in the table below:

Name of Director	Attendance in Person/ Number of Meetings	Attendance by Alternate/ Number of Meetings
Zhang Yimin	2/3	1/3
Du Weifeng	3/3	
Wu Haijun		
Wang Zhiqing	2/2	

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

During the Reporting Period, the Nomination Committee reviewed the structure and number of members and composition of the Board. The committee also nominated the candidates of the Ninth Session of the Board, Chairman, President, vice president and chief financial officer of the Company. It also assessed the independence of the Independent Non-executive Directors and considered that an appropriate balance of diversity perspectives of the Board is maintained and has not set any measurable objective implementing the Board diversity policy.

4. The Strategy Committee

(i) Role and Functions of the Strategy Committee

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

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(ii) Members of the Strategy Committee

The Strategy Committee was established on 15 June 2017 with three Executive Directors, two Non-executive Directors and one Independent Non-executive Director.

Chairman: Wu Haijun, Executive Director (appointed on 21 December 2017)

Wang Zhiqing, Executive Director (resigned on 4 December 2017)

Members: Guo Xiaojun, Executive Director

Zhou Meiyun, Executive Director

Lei Dianwu, Non-executive Director

Mo Zhenglin, Non-executive Director

Li Yuanqin, Independent Non-executive Director (appointed on 2 August 2017) Pan Fei,
Independent Non-executive Director (resignation effective on 2 August 2017)

(iii) Meetings of the Strategy Committee

In 2017, the Strategy Committee did not hold any meeting.

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

During the Reporting Period, after the establishment of the Strategy Committee, it actively monitored the Company's long-term development strategy and major investment decisions, strengthened top-level management, focused on pollution control, enterprise reforms, and upgraded the quality and efficiency of production, and strived to break through the bottleneck of development.

5. Corporate Governance Functions

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

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

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Corporate Governance Report

(Prepared in accordance with the Hong Kong Listing Rules) (continued)

6. Supervisory Committee

The Company's Eighth Session of the Supervisory Committee comprised five members, including two Employee Representative Supervisors, one External Supervisor and two Independent Supervisors as at 1 January 2017. During the Reporting Period, the Company's Ninth Session of the Supervisory Committee was elected which comprised three Employee Representative Supervisors (one of who had served as Chairperson of the committee), two External Supervisors and two Independent Supervisors. Mr. Zhang Jianbo, Mr. Zuo Qiang and Mr. Li Xiaoxia were elected as Employee Representative Supervisors of the Ninth Session of the Supervisory Committee through the democratic election by the Company's employee representative in June 2017. Mr. Zhai Yalin and Mr. Fan Qingyong were elected as External Supervisors, and Mr. Zheng Yunrui and Mr. Choi Ting Ki were elected as Independent Supervisors of the Company's Ninth Session of the Supervisory Committee at the 2016 annual general meeting held on 15 June 2017. On the same day, Mr. Zhang Jianbo was elected as the Chairperson of the Supervisory Committee at the first meeting of the committee.

The Supervisors are appointed for a fixed term of office and the term of office of each Supervisor including those who have resigned during the Reporting Period are set out in the section headed Directors, Supervisors, Senior Management and Employees on pages 21 to 39 of this annual report.

On 11 July 2017, Mr. Zhang Jianbo resigned as Employee Representative Supervisor and Chairperson of the Supervisory Committee. On 20 October 2017, the staff association of the Company through democratic election procedure elected Mr. Ma Yanhui as Employee Representative Supervisor of the Company. Mr. Ma was elected as Chairperson of the Supervisory Committee at the third meeting of the Ninth Session of the Supervisory Committee held on 25 October 2017.

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In 2017, the Supervisory Committee convened 5 meetings with a record of attendance as follows:

Name of Supervisor	Position	Attendance in Person/Number of Meetings	Attendance by Proxy/Number of Meetings
Zhang Jianbo	Employee Representative Supervisor and Chairperson	1/1	
Ma Yanhui	Employee Representative Supervisor and Chairperson	1/1	
Zuo Qiang	Employee Representative Supervisor	5/5	
Li Xiaoxia	Employee Representative Supervisor	5/5	
Zhai Yalin	External Supervisor	3/5	2/5
Fan Qingyong	External Supervisor	2/3	1/3
Zheng Yunrui	Independent Supervisor	4/5	1/5
Choi Ting Ki	Independent Supervisor	3/3	
Pan Fei	Independent Supervisor	2/2	

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

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Corporate Governance Report

(Prepared in accordance with the Hong Kong Listing Rules) (continued)

(5) Risk Management and Internal Controls

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

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

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

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

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

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

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

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

1. Implementation of Internal control

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

Since the implementation of the internal control system of the Company in 2004, the Company has strictly complied with the requirements of internal control regulations of the CSRC. Combined with corporate management and internal controls the Internal Control Manual was reviewed annually so as to improve the internal control business process, specifying responsibilities of different departments and positions in charge of the respective control processes, and urge staff to perform internal control responsibility. The 2017 version of the Internal Control Manual specifies 22 categories, 56 processes and a total of 1,566 control points.

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

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Corporate Governance Report

(Prepared in accordance with the Hong Kong Listing Rules) (continued)

2. Implementation of comprehensive risk management

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

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

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

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

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

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

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

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

For further details of the risk management and internal controls of the Company, please refer to the section headed **Internal Control** on pages 44 to 48 of this annual report.

Table of Contents**Corporate Governance Report****(Prepared in accordance with the Hong Kong Listing Rules)** (continued)**(6) Directors Responsibilities in relation to the Financial Statements**

The Directors acknowledge their responsibilities for preparing the financial statements of the Company for the year ended 31 December 2017.

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

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

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

The statements of the independent auditor of the Company – both international auditor and domestic auditor about their reporting responsibilities on the financial statements are set out in the respective Report of the International Auditor and Report of the PRC Auditor on pages 145 to 149 and pages 243 to 247, respectively of this annual report.

(7) Auditors Remuneration

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

Auditor	Service Category	Fees
		Paid/Payable
PricewaterhouseCoopers	Audit services	RMB 3,000,000
	Non-audit services	RMB 0
PricewaterhouseCoopers Zhong Tian LLP	Audit services	RMB 4,800,000
	Non-audit services	RMB 150,000

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(8) Company Secretary

Mr. Zhang Jianbo resigned as joint company secretary on 27 April 2017 and Mr. Guo Xiaojun, secretary of the Board, was appointed as joint company secretary on 15 June 2017. Ms. Siy Ling Lung of Tricor Services Limited, external service provider, was appointed as joint company secretary in place of Ms. Ng Sin Yee, Clare following Ms. Ng's resignation as joint company secretary on 26 October 2017. Ms. Siy's primary contact person in the Company is Mr. Guo Xiaojun.

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

(9) Shareholders Rights

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

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

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

1. Convening an Extraordinary General Meeting

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

2. Putting Forward Proposals at General Meeting

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

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Corporate Governance Report

(Prepared in accordance with the Hong Kong Listing Rules) (continued)

3. Putting Forward Enquiries to the Board

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

4. Contact Details

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

48 Jinyi Road

Jinshan District

Shanghai

The People's Republic of China

For the attention of Mr. Guo Xiaojun, Secretary to the Board

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

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(10) Investor Relations

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

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

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

In principle, the Company convenes results briefings every six months after the release of its annual and interim results. In 2017, the Company held two large-scale results briefings and press conferences in Hong Kong while several one-to-one meetings were held within and outside China. The Company has also welcomed hundreds of domestic and foreign investors to its headquarters, and replied to telephone queries and letters from investors, intermediaries and fund managers. In addition, the Directors and senior management also actively attended capital market meetings organized by securities research companies and investment banks.

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

During the Reporting Period, the Company has amended its Articles of Association at the first extraordinary general meeting in 2017 held on 2 August 2017. Details of the amendments are set out in the circular dated 29 June 2017 to the shareholders. An up to date version of the Company's Articles of Association is also available on the websites of the Hong Kong Stock Exchange, the Shanghai Stock Exchange and the Company.

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Report of the Directors

Section I Business Overview

1. Description of the principal business, operating model and industry in which the Company operated during the Reporting Period

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

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

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

2. Analysis of core competitiveness during the Reporting Period

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

The Company's major competitive advantages include quality, geographical location and its vertically integrated production. The Company has over 40 years of petrochemical production and management experience, and has accumulated extensive resources in the petrochemical industry, which has garnered multiple quality product awards from the central and local governments. Located at the core region of Yangtze River Delta, the most economically active region in China with a strong demand for petrochemical products, the Company built a comprehensive logistics system and supporting facilities to tap its geographic proximity with most of its clients and the convenient coastal and inland shipping. This gave it a competitive edge in terms of transportation costs and timely delivery. The Company has leveraged its advantages in integrated refinery and petrochemical capacity to actively strengthen product structure, while continuously improving products quality and variety. It has also improved production technology and boosted capacity of key upstream equipment to maximize the use and the efficiency in the utilisation of its corporate resources, and is therefore able to achieve strong and sustainable development.

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Section II Management Discussion and Analysis

(1) Management Discussion and Analysis

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

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

In 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, the Group 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.

Table of Contents**Report of the Directors (continued)****(i) Continuously tamping the foundation of production and operation**

In 2017, the Group continued to strengthen HSE management, made clear responsibilities of production safety for correspondent parties, carried out risk identification and control and activity "I Make Diagnosis for Safety", as well as continuously developed hidden danger troubleshooting activities in different ways and made rectification. In addition, it intensified the source control of environmental protection, developed source control pilot work of oily sewage and continued to promote the comprehensive environmental remediation of Jinshan area. Paying special attention to the equipment maintenance, the overhaul centered on 3# atmospheric and vacuum series and reconstruction of ethylene old area was the first large-scale centralized repair and transformation for oil refining, chemical engineering and downstream process units after sixth phase project. With careful arrangement, the Company was able to overcome troubles of high pressure on safety and environmental protection, large overhaul volume and overhaul difficulty and difficulty in balancing materials, enhanced process management and smoothly completed overhaul and realized normal establishment and stable operation. It strengthened production and operation management, intensified non-plan shutdown management and examination and enhanced maintenance management of key unit equipment, in which the frequency and duration of annual non-plan shutdown of main production facilities had separately declined by 14.29% and 62.73% than in last year. In 80 main technical and economic indicators under the corporate monitoring, 32 indicators were better than in last year with year-on-year progress rate of 40.00%; and 22 indicators reached advanced level of the industry with industry advanced rate of 27.50%.

In 2017, the Group operated facilities smoothly. Basically flat processing volume of crude oil and less processing business made increasing amount of product and commodity of the Group with total volume of commodities of 13,717.5 thousand tons, increasing 6.91% than in last year. Compared with last year, the Group processed 14,352.8 thousand tons of crude oil in 2017 (including 1,605.6 thousand tons of processing on given materials) with slight increase of 0.35%. In 2017, the Group's turnover was RMB92,013 million with a increase of 18.13% over the previous year. The product sales rate was 99.80% and the loan return rate was 100%. The product continued to keep high-quality.

(ii) Improvement in petroleum and petrochemical market and product price rising

In 2017, domestic petroleum and petrochemical market benefited from the overall price increase in commodity prices and improvement of supply and demand due to increased environmental protection supervision. The industry condition greatly improved, with increased price of petrochemical products and rebounded income and profit growth of the industry. As of 31 December 2017, weighted average prices (excluding tax) of synthetic fibre, resins and plastics, intermediate petrochemicals and petroleum products of the Group increased by 26.60%, 10.84%, 20.97% and 18.39% respectively than in last year.

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(iii) International crude oil prices showed an upward trend despite the fluctuations, while the annual average oil price increased, and the volume of refined crude oil has remained the same

In 2017, international crude oil prices showed a V-shaped trend. In the first half year, see-sawing between OPEC-led production reduction plan and increasing production of American crude oil led the fluctuation of crude oil prices. A series of geopolitical conflicts in the Middle East and North Africa had briefly supported oil price, but concerns on unmitigated global oversupply situation initiated a strong bearish mood, which caused oil price fell to the bottom at the end of June; in the last half year, the fundamentals of crude oil market showed tighter signs. As the global oil demand rose, a series of factors have caused the decline in global oil supply, such as the hurricane landing in the United States, closure of a series of pipelines in North Sea and Libya, as well as geopolitical tensions in Middle East. The scheduled extension of production reduction agreements of major oil-producing countries up to the end of 2018 also curbed supply and contributed to the increase in oil price. By the end of 2017, Brent crude oil prices rose by 17.67% over 2016, and American West Texas Intermediate (WTI) crude oil prices rose by 12.47% over 2016. The average price of WTI crude oil on American Commodities Exchange in 2017 was 50.92 US dollars per barrel, increasing 17.44% from 43.36 US dollars per barrel in 2016. Average price of Brent crude oil on the Intercontinental Exchange was 54.79 US dollars per barrel, increasing 22.99% from 44.55 US dollars per barrel in 2016. Average price of Dubai crude oil was 53.45 US dollars per barrel, increasing 27.47% from 41.93 US dollars per barrel in 2016.

As of 31 December 2017, the Group totally processed 14,352,800 tons of crude oil (including 1,605,600 tons of processing on given materials), increasing 50 thousand tons than in last year with slightly increase of 0.35%. In 2017, the average unit cost of processing crude oil (proprietary part) by the Group was RMB2,581.35 per ton (RMB1,979.58/ton in 2016) with an increase of 30.40%. The total costs for crude oil processing of the Group in 2017 was RMB32,904 million with an increase of 41.89% than RMB23,190 million in last year, which accounted for 45.45% of the total sales cost.

Table of Contents**Report of the Directors (continued)****(iv) Continuous optimization of operation and cost reduction**

In 2017, the Group continued to optimize its production and operation, and costs reduction to strive to expand its margin. It tracked and studied the trend of international crude oil price, accurately grasped the pace of crude oil procurement, controlled reasonable crude oil inventory, strengthened storage and transportation management of crude oil and reduced the cost of crude oil. Also, it actively strived for the optimal allocation of refined oil, optimized gasoline blending by measures of optimization and adjustment of catalytic device operation and outsourcing processing of low octane components to try to improve the gasoline production and high-grade gasoline ratio. The annual gasoline production was 3,166.1 thousand tons with a year-on-year increase of 9.98%, including high-grade gasoline ratio of 28.96% and diesel to gasoline ratio of 1.22, which declined 0.13 than in 2016. It continued to adhere to the dynamic optimization mechanism, focused on optimization of ethylene, reforming residual oil hydrogenation and raw materials of hydro cracking unit as well as adjusted unit operation and product structure. The Group optimized the hydrogen system and reduced costs of hydrogen using and hydrogen production. It continued to optimize the inventory structure with RMB8,135.5 thousand of annual changing generation for utilization of overstock materials. In addition, it actively carried out storage in supplier to gradually establish a cooperative mechanism with suppliers with RMB73.68 million of reserves scale in suppliers. It continued to carry out activities of cost target management among all staff for strict control of all key costs.

(v) Further progress made in energy conservation and emission reduction

In 2017, the Group continued to implement various energy conservation and emission reduction measures in accordance with relevant requirements of the state for energy conservation and emission reduction, and fully completed the energy conservation and emission reduction targets issued by the government. In 2017, the accumulated comprehensive energy consumption of the Company was 6,905 thousand tons of standard coal and the comprehensive energy consumption of ten-thousand-Yuan output value was 0.769 tons of standard coal (unchanged price in 2010), which decreased by 1.03% than 0.777 tons of standard coal/ten thousand Yuan in last year. Compared with the last year, the annual COD emissions decreased by 4.06%, ammonia nitrogen emissions by 1.97%, sulfur dioxide emissions by 22.97%, nitrogen oxide emissions by 17.66% and volatile organic compounds VOCs emissions by 16.87%. The control rate of wastewater excretion and controlled exhaust gas excretion reached 100% and the proper disposal rate of hazardous waste was also 100%. The average thermal efficiency of heating furnace was 92.54%, up 0.14 percentage points compared to the last year.

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(vi) Enhancing market development and service

In 2017, the Group made great efforts to promote technology research and development for new products, industrial development and high-volume production and market development for high value-added product, and constantly expanded the application range of PE pipeline materials, polyester and acrylic fibre products to expand sales volume. The production and marketing of carbon fibre was remarkable; the production of precursor was basically up to the standard; and the carbon fibre sheet realized the first large-area application in infrastructure field (overpass reinforcement project). The continuous sucker rod made of carbon fibre was used in 106 wells in Shengli Oilfield with 120,000 meters of carbon rod used. All technical indices reached the international advanced level, which initially achieved the phased target of wide-range application. It actively explored foreign markets of plastic and chemical fibre products. For the first time, the Group exported 45 tons of pipe black material to New Zealand and sold 200 tons of raw liquid dyed acrylic fibre to Syria. It also exported 1,119 tons of acrylic fibre products to India, Iran and Vietnam successfully; and 57.9 thousand tons of polyester chips, polyester staple fibre to Indonesia, Malaysia and other countries. With the purpose of winning market with services and creating values with services, the Group expanded accreditation project of technician from plastic and polyester products to acrylic products. The Group further optimized the service mechanism of production, marketing and research, speeded up the development of new products, improved the sales of new products, and constantly improved the Company's innovation ability and competitiveness. The annual output of new products was 260,600 tons, with 23.21% of high value-added chemical fibre products. Focused on development of high value-added refining new product, it completed No. 30 asphalt test and produced 21.6 thousand tons of hot-laid asphalt regenerant.

Table of Contents**Report of the Directors (continued)****(vii) Steady implementation of project construction, R&D and IT projects**

In 2017, the Group further improved the 13th Five-Year Plan for the corporate development, which specified development priorities on seven aspects, such as integration of deepening and refining, promotion of green and low-carbon application of energy, chemical transformation and digitalization and industrialization, etc. It continued to promote the 300-thousand-ton/year alkylation project and ultra low emissions and energy saving renovation project of cogeneration unit. It completed projects of transformation of exhaust emission to reach the standard of 2#/3#/4# sulfur unit, transformation of low-nitrogen combustion of 2# olefin cracking furnace in olefin part, and transformation of ultra low emission of 1#/2#/6# furnaces. It also completed projects of closed rectification of fuel assembly yard in thermoelectric department and hidden danger management of oil pipelines from Shanghai Petrochemical to Chenshan product pipeline. The investment completed in the whole year was RMB1,417 million. It accelerated the implementation of completed technology development of PAN(Polyacrylonitril)-based carbon fibre, RLG(catalytic hydrogenation of diesel conversion) technology development and industrial application test and other scientific research projects for LCO(light cycle oil) hydro cracking production of high-octane rating gasoline components. It took in-depth implementation of digitalization and industrialization, in which operation and management system, the development of customer service information system, maintenance charge management system of oil refining plate and construction of advanced control system of 1# ethylene glycol unit had passed acceptance. The Group had promoted the construction of intelligent plant. Three projects, including three-dimensional training of large units, intelligent material management and optimization of aromatic hydrocarbon joint device, had passed evaluation. The Ministry of Industry and Information Technology of PRC had chosen the Company as the demonstration enterprise for outstanding work on digitalization and industrialization integration.

(viii) Further enhancement of corporate management

In 2017, the Group actively carried out work of corporate governance structure, scientific and technological system and improvement of talent development mechanism. It launched optimization and adjustment of organizations, developed pilots of simplified and efficient management mode in chemical department as well as completed work in the first stage of corporate centralized water management. The number of middle-level organizations of the Company declined to 39 from 44. It continued to improve the performance appraisal system to promote management optimization and performance improvement. It transformed in pilot of three talent systems, including completing talent development system of position and ability, completing performance appraisal system of employee and expanding flexible channels and methods for talent introduction.

As of 31 December, 2017, the Group had 727 people of net attrition (including voluntary separations and retirees), accounting for 6.56% of total 11,088 staff registered at the beginning of the year.

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2. Accounting judgements and estimates

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

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

(i) Impairments for long-term assets

Assets that have an indefinite useful life must be evaluated 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 recovered. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of sales or usable value. In determining the usable value, expected cash flows generated by the asset or the asset group are discounted to their present value. The 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 sales amount, sales price and operating costs.

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Report of the Directors (continued)

(ii) Depreciation

Property, plant and equipment depreciate on a straight-line basis over the estimated useful lives of the assets after taking into account the estimated residual value. The management reviews the estimated useful lives of the assets on a regular basis in order to determine the amount of depreciation expenses to be recorded during each Reporting Period. The estimated useful lives are based on the Group's historical experience with similar assets, taking into account the anticipated technological changes. The depreciation expenses for future periods will be adjusted if there are significant changes from previous estimates.

(iii) Allowance for diminution in value of inventories

If the costs of inventories exceed their net realizable values, an allowance for diminution in value of inventories is recognized. Net realizable value represents the estimated sales price in the ordinary course of business, less the estimated costs of production and the estimated costs necessary to complete the sale. The management bases the estimates on all available information, including the current market prices of the finished goods and raw materials, and historical operating costs. If the actual sales prices are lower or the costs of production are higher than the estimation, the actual allowance for diminution in value of inventories will be higher than the estimation.

(iv) Recognition of deferred tax assets

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

Deferred tax assets are recognized in respect of temporary deductible differences and the carrying forward of unused tax losses. Management recognizes 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, the management assesses whether previously unrecognized deferred tax assets should be recognized. The Group 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, management assesses the carrying amount of deferred tax assets that are recognized 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 utilized.

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In making the assessment of whether it is probable the Group will realize or utilize 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 RMB477 million. Based on the estimated forecast and historical experience, the management believes that it is probable that the Group will generate sufficient taxable income before the unused tax losses expire.

3. Comparison and analysis of results of the Company's operations (Prepared under IFRS)**3.1 Summary**

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

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

Table of Contents**Report of the Directors** (continued)

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

	For the years ended 31 December					
	2017		2016		2015	
	RMB million	% of net sales	RMB million	% of net sales	RMB million	% of net sales
Synthetic fibres						
Net sales	2,005.3	2.5	1,855.5	2.8	2,328.2	3.5
Cost of sales and expenses	(2,480.6)	(3.1)	(2,464.4)	(3.7)	(2,684.6)	(4.0)
Segment (loss) from operations	(475.3)	(0.6)	(608.9)	(0.9)	(356.4)	(0.5)
Resins and plastics						
Net sales	10,218.4	12.9	9,797.6	14.9	9,992.2	14.9
Cost of sales and expenses	(8,862.5)	(11.2)	(8,160.0)	(12.4)	(8,773.6)	(13.1)
Segment profit from operations	1,355.9	1.7	1,637.6	2.5	1,218.6	1.8
Intermediate petrochemicals products						
Net sales	10,070.2	12.7	8,827.6	13.4	9,332.0	13.9
Cost of sales and expenses	(7,864.1)	(9.9)	(7,017.6)	(10.6)	(8,375.2)	(12.5)
Segment profit from operations	2,206.1	2.8	1,810.0	2.7	956.8	1.4
Petroleum products						
Net sales	32,400.6	40.9	24,002.6	36.4	30,802.0	45.9
Cost of sales and expenses	(29,280.6)	(37.0)	(20,189.6)	(30.6)	(28,939.7)	(43.1)
Segment profit from operations	3,120.0	3.9	3,813.0	5.8	1,862.3	2.8
Trading of petrochemical products						
Net sales	23,697.3	29.9	20,585.4	31.2	13,718.2	20.5
Cost of sales and expenses	(23,636.7)	(29.8)	(20,534.2)	(31.1)	(13,703.0)	(20.5)
Segment profit from operations	60.6	0.1	51.2	0.1	15.2	0.0
Others						
Net sales	826.5	1.1	867.8	1.3	864.6	1.3
Cost of sales and expenses	(691.9)	0.9	(792.8)	(1.2)	(652.2)	(1.0)
Segment profit from operations	134.6	0.2	75.0	0.1	212.4	0.3

Total						
Net sales	79,218.3	100.0	65,936.5	100.0	67,037.2	100.0
Cost of sales and expenses	(72,816.4)	(91.9)	(59,158.6)	(89.7)	(63,128.3)	(94.2)
Profit from operations	6,401.9	8.1	6,777.9	10.3	3,908.9	5.8
Net finance income/(costs)	207.3	0.3	83.7	0.1	(243.8)	(0.4)
Investment income						
Share of profit of associates and jointly controlled entities	1,243.7	1.6	916.8	1.4	572.1	0.9
Profit before tax	7,852.9	10.0	7,778.3	11.8	4,237.2	6.3
Income tax	(1,698.7)	(2.2)	(1,796.8)	(2.7)	(926.8)	(1.4)
Profit for the year	6,154.2	7.8	5,981.5	9.1	3,310.4	4.9
Attributable to						
Equity shareholders of the Company	6,143.2	7.8	5,968.5	9.1	3,274.3	4.8
Non-controlling shareholders	11.0	0.0	13.0	0.0	36.1	0.1
Profit for the year	6,154.2	7.8	5,981.5	9.1	3,310.4	4.9

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3.2 Comparison and analysis

Comparison between the year ended 31 December 2017 and the year ended 31 December 2016 is as follows:

3.2.A Operating results

(1) Net Sales

In 2017, net sales of the Group amounted to RMB79,218.3 million, representing an increase of 20.14% from RMB65,936.5 million over the previous year. For the year ended 31 December 2017, the weighted average prices (exclude tax) of the Group's synthetic fibres, resins and plastics, intermediate petrochemical products and petroleum products increased by 26.60%, 10.84%, 20.97% and 18.39% over the previous year, respectively.

(i) Synthetic fibres

In 2017, the Group's net sales for synthetic fibres amounted to RMB2,005.3 million, representing an increase of 8.07% compared with RMB1,855.5 million in the previous year. The increase in sales was mainly due to the increase of sales price as a result of the increase in the costs 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 fibres 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 fibre, the main product of synthetic fibres of the Group, increased by 17.13%, and the weighted average sales price of polyester fibre increased by 21.75% over the previous year. Sales of acrylic fibre and polyester fibre accounted for 83.52% and 8.57% of the total sales of synthetic fibres, respectively.

Net sales of synthetic fibre products accounted for 2.5% of the Group's total net sales in 2017, down by 0.3 percentage point as compared to the previous year.

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Report of the Directors (continued)

(ii) Resins and plastics

The Group's net sales of resins and plastics amounted to RMB10,218.4 million in 2017, representing an increase of 4.30% as compared with RMB9,797.6 million over the previous year. 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. The sales volume of resins and plastics decreased 5.91% year-on-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.

Net sales of resins and plastics accounted for 12.9% of the Group's total net sales in 2017, down by 2.0 percentage points as compared to the the previous year.

(iii) Intermediate petrochemicals products

The Group's net sales of intermediate petrochemical products amounted to RMB10,070.2 million in 2017, representing an increase of 14.08% as compared with 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% year-on-year. The sales volume decreased 5.7% year-on-year. 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.

Net sales of intermediate petrochemical products accounted for 12.7% of the Group's total net sales in 2017, representing a decrease of 0.7 percentage point as compared with the previous year.

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(iv) Petroleum products

The Group's net sales of petroleum products amounted to RMB32,400.6 million in 2017, representing an increase of 34.99% as compared with RMB24,002.6 million in the previous year, which was mainly attributable to the increase in prices of refined oil in China driven by the increase in world 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 last year.

Net sales of petroleum products accounted for 40.9% of the Group's total net sales in 2017, representing an increase of 4.5 percentage points compared with the previous year.

(v) Trading of petrochemical products

In 2017, the net sales of trading of petrochemical products amounted to RMB23,697.3 million, representing an increase of 15.12% from RMB20,585.4 million over the previous year. The increase is mainly due to the significant growth in sales of Shanghai Jinmao International Trading Company Limited, a subsidiary of the Company, during year.

Net sales of trading of petrochemical products accounted for 29.9% of the Group's total net sales in 2017, representing a decrease of 1.3 percentage points as compared with the previous year.

(vi) Others

The Group's net sales of others amounted to RMB826.5 million in 2017, representing a decrease of 4.76% from RMB867.8 million over the previous year.

Net sales of other products accounted for 1.1% of the Group's total net sales in 2017, representing a decrease of 0.2 percentage point as compared with the previous year.

(2) Cost of sales and operating expenses

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

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Report of the Directors (continued)

Cost of sales and operating expenses of the Group increased by 23.09% from RMB59,158.6 million in 2016 to RMB72,816.4 million in 2017. The cost of sales operating expenses involving synthetic fibres, 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 an increase of 0.66%, 8.61%, 12.06%, 45.03%, 15.11%, and a decrease of 12.73% compared to the last year, respectively.

The Group's cost of sales and operating expenses of synthetic fibres, resins and plastics, intermediate petrochemicals, petroleum and trading of petrochemical products increased as compared with the previous year, 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

The Group's cost of sales amounted to RMB72,398.3 million in 2017, up 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 due to the growth in unit price of crude oil for the Reporting Period.

Selling and administrative expenses

The Group's selling and administrative expenses amounted to RMB535.3 million in 2017, representing a decrease of 1.98% as compared with RMB546.1 million for the previous year, mainly due to the termination of river administrative fees from April 2017, resulting in a decrease in administrative expenses.

Other operating income

The Group's other operating income amounted to RMB119.0 million in 2017, representing a decrease of 39.69% compared with 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.

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Other operating expenses

The Group's other operating expenses were RMB21.4 million in 2017, representing a decrease of 11.93% compared with RMB24.3 million in the previous year. This was mainly due to the parent company's resettlement subsidy expenditure for the current year decreased by RMB2.4 million compared with 2016, resulting in a decrease in other operating expenses.

(3) Profit from operations

The Group's profit from operations amounted to RMB6,401.9 million in 2017, representing a decrease of RMB376.0 million as compared with a profit from operations of 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 falling 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 fibres

In 2017, the Group's operating loss for synthetic fibres amounted to RMB475.3 million, representing a decrease of RMB133.6 million compared with the operating loss of RMB608.9 million in the previous year. The decrease was mainly due to a 14.63% decrease in the sales volume of synthetic fibres this year compared to the same period of 2016, resulting in a reduction in losses of synthetic fibres this year.

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Report of the Directors (continued)

(ii) Resins and plastics

In 2017, the Group's operating profit for resins and plastics amounted to RMB1,355.9 million, representing a decrease of RMB281.7 million from the operating profit of 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 insignificant 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 petrochemical products

In 2017, the Group's operating profit for intermediate petrochemical products amounted to RMB2,206.1 million, representing an increase of RMB396.1 million as compared with RMB1,810.0 million in the previous year. This 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 last year.

(iv) Petroleum products

In 2017, the Group's operating profit for petroleum products amounted to RMB3,120.0 million, representing a decrease of RMB693.0 million as compared with the operating profit of RMB3,813.0 million in 2016. Such decrease in operating profit 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

In 2017, the Group's operating profit for trading of petrochemical products amounted to RMB60.6 million, representing an increase of RMB9.4 million as compared with RMB51.2 million for the previous year. This 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 last year.

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(vi) Others

In 2017, the Group's operating profit of other products amounted to RMB134.6 million, representing an increase of 79.47% compared with RMB75.0 million in the previous year. This 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 last year.

(4) Net finance income/(expenses)

The Group's net finance income was RMB207.3 million in 2017, representing an increase of RMB123.6 million as compared with the net finance expenses of RMB83.7 million in 2016. This was mainly due to a significant increase in bank deposits by the Group during the Reporting Period, which in turn drove an increase of RMB131.1 million in interest income. In addition, interest expenses increased for 2017 to RMB61.0 million from RMB53.6 million in 2016.

(5) Profit before taxation

The Group's profit before taxation was RMB7,852.9 million in 2017, representing an increase of RMB74.6 million as compared with the profit before taxation of RMB7,778.3 million in the previous year.

(6) Income tax

The Group's income tax expense amounted to RMB1,698.7 million in 2017, while the Group's income tax expense was RMB1,796.8 million in the previous year. This was mainly due to the tax impact of tax-free investment income by the Group amounted to RMB307.5 million, which increased RMB81.7 million from RMB225.8 million in 2016. As a result, the income tax payable by the Company for the current period decreased accordingly.

In accordance with the Enterprise Income Tax Law of the People's Republic of China (as amended) which became effective from 1 January 2008, the income tax rate applicable to the Group in 2017 was 25% (2016: 25%).

(7) Profit for the year

The Group's profit after tax for the year was RMB6,154.2 million, representing an increase of RMB172.7 million as compared with profit after tax of RMB5,981.5 million for the previous year.

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Report of the Directors (continued)

3.2.B Liquidity and capital sources

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

(1) Capital sources

(i) Net cash flow generated from operating activities

The Group's net cash inflows from operating activities amounted to RMB7,060.8 million in 2017, representing a decrease in cash inflows of RMB121.0 million as compared with net cash inflows of RMB7,181.8 million in the previous year. The Group recorded profit from operation during the Reporting Period, 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 the previous year. The Group 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.

(ii) Borrowings

The total borrowings of the Group at the end of 2017 amounted to RMB606.2 million, representing an increase of RMB59.7 million as compared with the end of the previous year, mainly due to short-term borrowings increased by RMB59.7 million.

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

Table of Contents**(2) Gearing ratio**

As of 31 December 2017, the Group's gearing ratio was 27.71% (2016: 26.34%). The ratio is calculated using this formula: total liabilities/total assets multiply by 100%.

3.2.C Research and development, patents and licenses

The Group includes a number of technology development units, including the Petrochemical Research Institute, the Plastics Research Institute, the Polyester Fibre Research Institute, the Acrylic Fibre Research Institute and the Environmental Protection Research Institute. These units are responsible for the research and development of new technology, new products, new production processes and equipment, as well as environmental protection. The Group's research and development expenditures for the years ended 2015, 2016 and 2017 were RMB87.6 million, RMB102.1 million and RMB36.7 million, respectively. The decrease in research and development expenditures over the year was mainly attributable to the decrease in the consumption of raw materials and ancillary materials for research purpose as well as costs of travel.

The Group was not, in any material aspect, dependent on any patents, licenses, industrial, commercial or financial contracts, or new production processes.

3.2.D Off-Balance Sheet Arrangements

Please refer to note 33 to the financial statements prepared under IFRS in the full text of this annual report for details of the Group's capital commitments. The Group did not provide any guarantee to external parties during the Reporting Period.

3.2.E Contractual Obligations

The following table sets forth the Group's obligations to repay loan principal in future as at 31 December 2017:

	Payment due and payable by the following period as at 31 December 2017				
	Total	Within 1 year	After 1 year but within 2 years	After 2 years but within 5 years	Over 5 years
	(RMB 000)	(RMB 000)	(RMB 000)	(RMB 000)	(RMB 000)
Contractual obligations					
Short term borrowings	606,157	606,157			
Long term borrowings					
Total contractual obligations	606,157	606,157			

Table of Contents**Report of the Directors** (continued)**3.2.F Analysis of performance and results of in which the Company has controlling interests or investment interests during the Reporting Period**

As at 31 December 2017, the Company had more than 50% equity interest in the following principal subsidiaries:

Company name	Place of registration	Principal activities	Place for principal activities	Type of legal person	Percentage of equity held by the Company (%)	Percentage of equity held by the Group (%)	Registered capital (000)	Profit/(loss) for the year 2017 (RMB 000)
Shanghai Petrochemical Investment Development Company Limited (Shanghai Petrochemical Investment Development)	China	Investment management	China	Limited company	100		RMB 1,000,000	68,023
China Jinshan Associated Trading Corporation (Jinshan Associated Trading)	China	Import and export of petrochemical products and equipment	China	Limited company	67.33		RMB 25,000	19,090
Shanghai Jinchang Engineering Plastics Company Limited (Shanghai Jinchang)	China	Production of polypropylene compound products	China	Limited company		74.25	US\$ 9,154	16,810
Shanghai Golden Phillips Petrochemical Company Limited (Shanghai Golden Phillips)	China	Production of polypropylene products	China	Limited company		60	US\$ 50,000	-11,580
Zhejiang Jin Yong Acrylic Fibre Company Limited (Zhejiang Jin Yong)	China	Production of acrylic fibre products	China	Limited company	75		RMB 250,000	-188,611
Shanghai Golden Conti Petrochemical Company Limited	China	Production of petrochemical products	China	Limited company		100	RMB 545,776	-43,086

(Shanghai Golden
Conti)

Shanghai Jinmao International Trading Company Limited (Jinmao International)	China	Import and export of petrochemical products and equipment	China	Limited company	67.33	RMB	100,000	15,518
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* None of the subsidiaries have issued any debt securities.

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The Group's equity interests in its associates comprised an equity interest of 38.26%, amounting to RMB1,436.2 million, in Shanghai Chemical Industry Park Development Co., Ltd., a company incorporated in the PRC; and an equity interest of 20%, amounting to RMB2,644.5 million, in Shanghai SECCO Petrochemical Company Limited (Shanghai SECCO), a company incorporated in the PRC. The principal business of Shanghai Chemical Industry Park Development Co., Ltd. includes planning, developing and operating the Chemical Industry Park in Shanghai, while the principal business of Shanghai SECCO is the production and distribution of petrochemicals.

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

In 2017, as the cost of naphtha, a raw material, decreased dramatically and the gross profits of ethylene and other products increased, Shanghai SECCO recorded an operating income of RMB29,176.0 million, and its profit after tax reached RMB5,179.3 million, among which RMB1,035.9 million was attributed to the Company.

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

- a. In 2017, operational performance of Shanghai Investment Development increased by 202.79% year-on-year, mainly because the operating income of BSG, a company with 50% shares held by Shanghai Investment Development, recorded a significant increase, resulting an increase in operational performance of Shanghai Investment Development over the previous year.
- b. In 2017, operational performance of Shanghai Jinchang decreased by 51.35% year-on-year, mainly because the increasing price of polypropylene, a raw material, and the sluggish of downstream industries, resulting in a remarkable decrease in operational performance.
- c. In 2017, operational performance of Shanghai Golden Phillips decreased by 7,905.88% year-on-year, mainly due to the sharp increase in the price of ethylene, an upstream raw material as compared with 2016, which resulted in a substantial decline in profit.
- d. In 2017, operational performance of Zhejiang Jin decreased by 236.57% year-on-year, mainly because Zhejiang Jin has withdrawn retirement welfare fee for the year, which resulted in significant decrease in net profit.
- e. In 2017, operational performance of Shanghai Golden Conti increased by 43.91% year-on-year, mainly because Shanghai Golden Conti has substantially reduced its scale of production, which significantly decreased the loss for the year as compared to 2016, resulting a remarkable increase in operational performance in 2017 as compared

to the previous year.

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Report of the Directors (continued)

3.2.G Major suppliers and customers

The Group's top five suppliers in 2017 were China International United Petroleum & Chemical Co., Ltd., Shanghai International Holding Co., Shengyuan Ji (Jiangsu) Industrial Co., Ltd., Shanghai SECCO and Marubeni Corporation. Total procurement costs involving these five suppliers, which amounted to RMB44,667.0 million, accounted for 66.33% of the total procurement costs of the Group 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 the Group for the year.

The Group's top five customers in 2017 were East China Branch of Sinopec Sales Company Limited, Hengli Petrochemical (Dalian) Co., Ltd., Shanghai 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 the Group's total turnover for the year. Sales to the Group's largest customer amounted to RMB39,804.0 million, representing 43.26% of the Group's total turnover 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. Shanghai SECCO is a subsidiary of Sinopec Corp., the controlling shareholder of the Company, and an associated company of the Company.

Table of Contents**(2) The principle operations of the Company during the Reporting Period Discussion and analysis of the Company's operations (Prepared under CAS)****1. Analysis of the Company's major businesses****(i) Analysis of changes in the Consolidated Income Statement and the Consolidated Cash Flow Statement**

Unit: RMB '000

Item	Amount for the year ended 31 December 2017	Amount for the year ended 31 December 2016	Increase/decrease (%)
Operating income	92,013,569	77,894,285	18.13%
Operating costs	69,656,977	55,743,306	24.96%
Selling and distribution expenses	510,199	493,289	3.43%
General and administrative expenses	2,550,610	2,683,310	-4.95%
Financial expenses (- for financial income)	-217,202	-55,830	289.04%
Net cash inflow generated from operating activities	7,078,482	7,210,957	Decrease inflow of 1.84%
Net cash inflow generated from investing activities (- for net outflow)	-2,400,702	-189,895	Increase outflow of 1,164.23%
Net cash inflow generated from financing activities (- for net outflow)	-2,607,447	-2,666,344	Decrease outflow of 2.21%
Research and development expenses	36,709	102,104	-64.05%

Table of Contents**Report of the Directors (continued)****Analysis of major changes in the Consolidated Income Statement**

Item	For the years ended		Increase/ decrease amount	Increase/ decrease (%)	Major reason for change	Unit: RMB 000
	2017	2016				
Taxes and surcharges	12,744,088	11,906,438	837,650	7.04%	Increase in operating income	
Financial expenses net (- for income)	-217,202	-55,830	-161,372	289.04%	Decrease in borrowings/increase in deposits	
Assets impairment loss	178,706	330,440	-151,734	-45.92%	Decrease of bad debts of other receivables	
Investment income	1,244,032	906,754	337,278	37.20%	Substantial increase in profits of Shanghai SECCO	
Operating profit	7,882,810	7,658,055	224,755	2.93%	Substantial increase in investment income	
Total profit	7,851,234	7,765,405	85,829	1.11%	Substantial increase in investment income	
Net profit	6,152,495	5,968,583	183,912	3.08%	Substantial increase in investment income	
Income tax expenses	1,698,739	1,796,822	-98,083	-5.46%	Profits maintain stable and tax-free investment income increased in 2017	

Analysis of major changes in the Cash Flow Statement

Item	For the years ended		Increase/ decrease amount	Increase/ decrease (%)	Major reason for change	Unit: RMB 000
	2017	2016				
Net cash inflow generated from operating activities (- for net outflow)	7,078,482	7,210,957	132,475	1.84%	No account to be offset this year	
Net cash inflow generated from investing activities (- for net outflow)	-2,400,702	-189,895	2,210,807	1,164.23%	Increase in cash outflow due to increase in fixed term deposit over 6 months	
Net cash inflow generated from financing activities (- for net outflow)	-2,607,447	-2,666,344	58,897	2.21%	Decrease in repayment of borrowings in 2017	

Table of Contents**(ii) Operating income****(1) Analysis of factors causing the changes in operating income**

The weighted average prices (exclude VAT) of the Group's synthetic fibres, resins and plastics, intermediate petrochemical products and petroleum products fell by 26.60%, 10.84%, 20.97% and 18.39%, respectively, bringing a higher operating income in 2017 compared with the previous year.

(2) Major customers

Please refer to 3.2.G of section II Management Discussion and Analysis of this chapter for details of major customers of the Group.

(iii) Operating costs**(1) Analysis of operating costs**

Operating costs of the Group amounted to RMB69,657.0 million in 2017, representing a increase of 24.96% as compared with RMB55,743.3 million in 2016, which was mainly due to a increase in the price of raw materials of the Group during the year.

The following table sets forth the details of the operating costs during the Reporting Period:

	For the year ended 31 December				Increase/ decrease (%)
	2017		2016		
	RMB million	% to total operating costs	RMB million	% to total operating costs	
Cost of raw materials					
Crude oil	32,904.9	47.24	23,190.5	41.60	41.89%
Ancillary materials	9,170.2	13.16	8,786.4	15.76	4.37%
Depreciation and amortisation	1,387.0	1.99	1,560.8	2.80	-11.14%
Staff costs	1,691.0	2.43	1,580.8	2.84	6.97%
Costs of trade	23,532.0	33.78	20,423.9	36.64	15.22%
Others	971.9	1.40	200.9	0.36	383.77%

Total	69,657.0	100.00	55,743.3	100.00	24.96%
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(2) Major suppliers

Please refer to 3.2.G of section II Management Discussion and Analysis of this chapter for details of major suppliers of the Group.

Table of Contents**Report of the Directors** (continued)**(iv) Expenses**

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

(v) Research and development (R&D) expenditure

	Unit: RMB 000
Expensed R&D expenditure during the Reporting Period	36,709
Capitalised R&D expenditure during the Reporting Period	0
Total	36,709
% of R&D expenditure to operating income	0.04
Number of R&D personnel	446
% of number of R&D personnel to total number of staff	4.36
% of capitalised R&D expenditures	48.6

Please refer to 3.2.C. of section II Management Discussion and Analysis of this chapter for details of R&D, patents and licences of the Group.

(vi) Cash flow

Please refer to Analysis of Changes in the Consolidated Income Statement and the Consolidated Cash Flow Statement set forth in the Discussion and Analysis of the Company's Operations for details of the changes in cash flow statement.

Table of Contents**2. Analysis of business operations by industry, product or geographical location****(i) Principal operations by industry or product**

Unit: RMB 000

By industry	Operating income	Operating costs	Gross profit/(loss) margin (%)	Increase/decrease of operating income as compared to the previous year	Increase/decrease of operating costs as compared to the previous year	Increase/decrease of gross profit margin as compared to the previous year (percentage point)
Synthetic fibres	2,061,765	2,249,150	-9.09%	7.65%	17.09%	Decreased by 8.08 percentage points
Resins and plastics	10,473,020	8,106,474	22.60%	3.97%	12.31%	Decreased by 5.47 percentage points
Intermediate petrochemical products	10,353,618	7,075,890	31.66%	13.63%	18.03%	Decreased by 2.55 percentage points
Petroleum products ^(Note)	44,521,443	27,991,976	37.13%	26.26%	43.05%	Decreased by 7.55 percentage points
Trading of petrochemical products	23,713,035	23,531,983	0.76%	15.13%	15.22%	Decreased by 0.08 percentage points
Others	440,242	329,154	25.23%	6.43%	39.90%	Decreased by 17.88 percentage points

Note: Gross profit margin is calculated according to the price of petroleum products, which includes consumption tax. Gross profit margin of petroleum products after deducting consumption tax amounted to 12.63%.

Table of Contents**Report of the Directors (continued)****(ii) Operating income by geographical location**

Geographical location	Unit: RMB 000	
	Operating income	Increase/decrease of operating income compared with the previous year (%)
Eastern China	72,597,493	21.53
Other regions in China	5,570,198	-10.96
Exports	13,845,878	16.33

3. Analysis of assets and liabilities

Item	As at 31 December 2017		As at 31 December 2016		Change of amount on 31 December 2017 compared to 31 December 2016 (%)	Major reason of the change
	Amount	% of total assets	Amount	% of total assets		
Inventories	6,597,598	16.67	6,159,473	18.05	7.11	Increase in unit price of inventory balance
Short-term borrowings	606,157	1.53	546,432	1.6	10.93	Increase in the short-term loans of the trading subsidiary Jinmao International
Accounts payable	5,573,281	14.07	5,082,470	14.89	9.66	Increase in the raw material prices this year

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4. Others

(1) Directors, Supervisors, senior management and employees

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

(2) Purchase, sale and investment

Save and except as disclosed in this annual report, there was no material purchase or sale of the Group's subsidiaries, associates or joint ventures or any other material investments in 2017.

(3) Pledge of assets

As at 31 December 2017, no fixed assets was pledged by the Group (31 December 2016: Nil).

(4) Material events after the Reporting Period

After the end of the Reporting Period, the Board did not find any material events that have impact on the Group except for the below matter.

At the sixth meeting of the Ninth Session of the Board of the Company held on 8 January 2018, Resolution in respect of adjustment to the participants list and the number of share options of the A Shares Share Option Incentive Scheme of Sinopec Shanghai and Resolution in respect of determination of the exercise date and fulfillment of exercise conditions for the second exercisable period of share options initially granted under the A Shares Share Option Incentive Scheme of Sinopec Shanghai were considered and passed. The A shares share options granted to 4 participants that have not been exercised lapsed due to their resignation and other reasons. The A shares share options granted but not exercised in the second exercisable period to 2 participants lapsed due to their failing to pass the performance assessment in 2016. The A shares share options held by 8 participants have lapsed after adjustment at the third meeting of the Ninth Session of the Board of the Company held on 23 August 2017, due to internal job transfer. A total of 820,700 A shares share options lapsed after the adjustment. 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 and was fully exercised. The Company completed the registration of the newly issued A shares of 9,636,900 on 14 February 2018, after which the number of the Company's issued shares increased to 10,823,813,500 shares. As at the date of this annual report, the number of issued shares of the Company is 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.

Table of Contents**Report of the Directors** (continued)**5. Financial assets and financial liabilities held in foreign currencies**

As at 31 December 2017, bank deposits denominated in foreign currencies held by the Group were equivalent to RMB247,548,000.

6. Investment of the Company**(i) Entrusted wealth management and entrusted loans****(1) Entrusted wealth management**

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

(2) Entrusted loans

Amount of entrusted loan	Entrusted loan start date	Entrusted loan termination date	Sources of funds	Flows of funds	Compensation method	Annualized rate of return	Expected income	Actual income	Actual recovery of funds
12,000	22/01/2017	22/01/2018	Shanghai Golden Phillips Petrochemical Company Limited	Supplementary operations	Based on the terms of the loan contract	1.75%	21.00	26.33	The loan was all recovered on 22 January 2018

Note: The above-mentioned entrusted loans are loans provided by Shanghai Golden Phillips Petrochemical Company Limited, a subsidiary of the Group, to the shareholders in proportion to their shareholdings.

(ii) Analysis of the companies in which the Company has controlling interests or investment interests

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

Table of Contents**(iii) Non-fundraising projects**

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

Major Project	Total amount of project investment RMB 000	Amount of project investment during the Reporting Period RMB 000	Project progress as at 31 December 2017
Gasoline upgrade project involving an alkylation plant with a capacity of 300,000 tons/year	4.83	0.08	Preliminary design
Shanghai Petrochemical's renovation project involving cogeneration units meeting emission standards	2.89	1.74	Under Construction
Shanghai Petrochemical's project involving third circuit's incoming power lines with a supply capacity of 220KV	2.41	1.13	Under Construction
Renovation project involving low nitrogen combustion in olefin cracking furnace No. 2	1.21	0.80	Under Construction
Thermoelectric Department's rectification project involving an airtight fuel storage yard	1.00	0.76	Under Construction
Thermoelectric Department's renovation project involving furnaces Nos. 3 and 4 meeting emission standards	0.99	0.30	Under Construction

Note: In addition to the major capital expenditure items disclosed in the above table, the total capital expenditure of other sporadic projects of the Company is RMB936 million.

The Group's capital expenditures for 2018 is estimated at approximately RMB1,200.0 million.

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Report of the Directors (continued)

(3) Discussion and Analysis on Future Development of the Company

1. Industry competition and development trends

In 2018, the world economy is expected to continue its recovery momentum, but the contributions from the conventional industries to economic growth will weaken and the effect of commodity price rises will subside as well. With the economic recovery, the pace of normalization of monetary policies in various countries around the world will be accelerated and the risk resistance capability of the financial markets will be further strengthened. In particular, the implementation of the tax reform policy in the US will 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 will see growth accelerating generally, while emerging and developing economies will 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 will 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 will further grow as the world economy continues to recover, while OPEC will continue to implement the agreement to limit production. However, the rebound in oil prices will 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 will 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 will 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 will 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 will also bring about a new round of development opportunities for the Company.

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2. Development strategies of the Company

The Company has been focusing on its goal of establishing a refining and petrochemical enterprise which is

Top-notch domestically, First-class globally . Taking into account of the current development and future trend of the global petrochemical industry, as well as the development trend of the oil and chemical products market domestically, especially in eastern China, we define our development strategy as follows: giving consideration to both cost-leadership and differentiation, paying equal attention to scale and specialty, laying special emphasis on cost-leadership and scaling up upstream, and on high value-added and refined products downstream, the Company aims to improve its competitiveness by bringing into full play its rather extensive product chain, product diversification and proximity to the market. In view of this development strategy, the Company has adopted the development concept of expanding the refinery business, taking the lead in the petrochemical industry, and implementing the integration of refinery and petrochemical segments , and has leveraged on the approach of resource optimization and development planning targeted at enterprises in Shanghai region in order to further consolidate the three existing processing chains, i.e. the refining chain, the olefin chain and the aromatic chain. The Company has also created a new development model of integrated refinery and petrochemical by using the concept of molecular refinery and molecular petrochemical to further enhance its economic returns.

3. Business plans

In 2018, the Group will continue to adopt a market-oriented and benefit-centred approach, step up safe and green development as well as the management of production and operation, optimize resources allocation and tone up structural adjustment, striving to maximize the overall value.

The Company plans to process 14,350,000 tons of crude oil in 2018, to produce 8,680,000 tons of refined oil, 780,000 tons of ethylene, 685,000 tons of paraxylene, 850,000 tons of polyolefin, 670,000 tons of synthetic fibre monomers, 460,000 tons of synthetic fibre polymers and 200,000 tons of synthetic fibres.

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Report of the Directors (continued)

To achieve its business objectives in 2018, the Group will work hard in the following areas:

(1) Strengthening efforts in safety and environmental protection works

The Group will proceed with the establishment of a long-term mechanism for safe production; carry out a process safety management system on a trial basis to raise the level of intrinsic safety and environmental protection; further strengthen the management of operating licences, direct operating sections as well as accidents and incidents; revise the methods for managing and assessing contractors, and establish and improve a public safety management system and mechanism by carrying out comprehensive management of the safety of dangerous chemicals as scheduled, improving risk identification and control as well as plugging the loopholes in safety management. The business license for dangerous chemicals will be renewed when it expires to make sure the Group is operating in accordance with the law. Focusing on air pollution control, the Group will speed up VOCs emission reductions and carry out full coverage of leak, detection and repair (LDAR) work and the control of unorganized emissions to make sure LDAR covers 800,000 points. It will step up the assessment of the operation of environmental facilities, the onsite environmental management, the automatic monitoring of data on pollutants as well as the pursuit of accountability for environmental issues. It will proceed with the project involving the comprehensive environmental improvement in Jinshan, the action plan for environmental protection in Shanghai and the establishment of a library for VOCs characteristic spectra in Shanghai's petrochemical park, to make sure that boundary-layer VOCs to be below 150 microgram/sq.m by 2020, and will stabilize at below 100 microgram/sq.m by 2023.

(2) Strengthening the production and operation management

The Group will continue to concentrate on the management of unscheduled shutdowns of production facilities as well as the management and assessment of plan execution capability to make sure the level of economic indicators improve significantly. Focus will be placed on completing the overhaul of main facilities such as the shutdown of ethylene new zone 2# for overhauling, shutdown of RDS-B series for catalyst replacement and medium pressure hydrogenation as well as reorganization of 3#. Based on the requirements for the quality upgrade of refined oil products, the quality of gasoline and diesel will be upgraded to the post-national VI standards for production, blending and delivery from factory, and the operation and management of the flare gas system will be reinforced. The Group will start the research on a mechanical integrity management system, deepen the machine contracting system, refine general surveys on special projects, troubleshoot potential risks, step up anti-corrosion management, enhance the intrinsic safety of equipment and further carry out energy conservation and emission reduction to meet the requirements for a green, low-carbon environment.

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(3) Intensifying the progress of system optimization and cost/expenditure reduction

The Group will continue focus on the procurement of crude oil by striving to purchase suitable new oil varieties, besides the main oil varieties from Basrah and Saudi Arabia in the Middle East, when a right opportunity arises to control the inventory of crude oil in a rational manner. It will continue to optimize the composition of raw materials and products, increase the production of petrochemical raw materials and jet fuel, further reduce the ratio of diesel to gasoline, continuously increase the proportion of high-grade gasoline, carry out a research on the issue regarding the production of composition oil in ethanol gasoline and the solutions to MTBE(Methyl Tert-Butyl Ether), and strive to expand the export of refined oil products. It will continue to optimize ethylene and aromatics raw materials, wax oil and residue oil processing routes as well as hydrogen and fuel systems; carry out in-depth optimization of regional resources to facilitate mutual supply of raw materials and regional integrated development to increase market share and product expandability; strengthen cost budget management and process control; and on the basis of improving cost management and control, focus on the utilization of overseas low-cost funds, duty-free business in the diesel export trade, invitation and submission of tenders for materials procurement as well as demand planning management so as to make sure the efficiency of these funds is maximized.

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Report of the Directors (continued)

(4) Fostering project construction, technological advancement and information technology

The Group will improve the 13th Five-year development plan by carrying out project construction in a proactive manner to make sure the following projects are started, carried out or completed at each node: refined oil quality upgrade; environmental measures for airtight decoking at delayed coking plant 2#; renovation works on low-nitrogen combustion at olefin cracking furnace 2#; ultra-low emissions from Thermoelectric Department's furnaces 3#4#; Storage and Transportation Department's light oil storage tank, recovery of gasoline from trestles and high-sulfur flare system optimization and renovation; third circuit's incoming power lines with a supply capacity of 220KV; and PAN-based carbon fiber project (Phase II) with an annual output of 1,500 tons. The Group will accelerate the development and application of key technologies in carbon fiber and its composites and in functional polymer membrane materials, concentrate on the mass production and marketing of nine new products with a high added value such as foamed polypropylene and polyester exclusive for use in composite yarns. A breakthrough was made at this stage in the transformation and research of seven new products such as hexane polypropylene pipe materials and gel dyed acrylic. The Group will accelerate the construction of intelligent factories; comprehensively popularize the application of an information integrated platform during production process; develop and build an intelligent display platform for geographic information, a central database and a platform for the industrial internet of things on a trial basis; improve the establishment and application of an APC(Advanced Process Control) system; and complete the operation, inspection and acceptance of residue oil hydrogenation and APC project for 4PE plant. The Group will steadily proceed with such projects as plan optimization (benefit calculation and marginal contribution analysis), LIMS (Laboratory Information Management System) upgrade and three-dimensional training for large-scale units. It will continue to carry out the build-up of a cloud platform to further increase the efficiency of production, operation and management.

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(5) Further enhancement of internal management

The Group will steadily optimize and modify the Company's organizational structure; fully complete the specialized, centralized management of water services; organize staff to carry out the smoothening of internal business duties and processes of the Petrochemical Department; explore a new management model primarily featuring the establishment of a primary organization as the core, the functional management of the position system as an essential component and the flattened business process as the main characteristic. It will continue to optimize the management of the Company, with a focus placed on carrying out the integrated operation of production, sales and research based on the effective market demand for new products, and on optimizing and improving the incentive and check-and-balance mechanisms in line with the production, sales and research processes. It will continue to deepen the reform of the scientific and technological system and the improvement of the fine petrochemical business mechanism, and explore the establishment of a market-oriented model for transformation of innovative achievements so as to create a favourable environment for mobilizing the enthusiasm and creativity of researchers. It will concentrate on the training and planning of competent staff and broaden the channels of selecting competent people, striving to build a team that comprises highly qualified and capable members as well as a reasonable composition.

4. Risk exposure

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

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

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Report of the Directors (continued)

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

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

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

The petrochemical industry is a capital-intensive industry. The Group's ability to maintain and raise income, net income and cash flows is closely connected with ongoing capital expenditures. The Group's estimated capital expenditures is estimated to amount to approximately RMB1,200.0 million in 2018, which will be met by financing activities and by internal funding. The Group's effective capital expenditures may vary significantly due to the Group's ability to generate sufficient cash flows from operations, investments and other factors that are beyond control. Furthermore, there is no assurance as to the completion, cost or outcome of the Group's fund raising projects.

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

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

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

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

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

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Report of the Directors (continued)

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

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

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

Sinopec Corp., the controlling shareholder of the Company, owns 5,460,000,000 shares of the Company, which represents 50.49% of the total number of shares of the Company and gives it an absolute controlling position. Sinopec Corp. may, by using its controlling position, exercise influence over the Group's production operations, fund allocations, appointment or removal of senior staff and so forth, thereby adversely affecting the Group's production operations as well as minority shareholders' interests.

Table of Contents**Section III Analysis of Operating Information in Chemical Industry****(1) Basic information of the industry****1. Industry policy and changes**

Adhering to harmonious coexistence between human and nature is a basic strategy for insisting and developing socialism with Chinese characteristics in new era. Green and safe development is an eternal theme of petrochemical industry, an important content for optimization and upgrading of industrial structure and a crucial means to push forward supply-side structural reform. In 2017, China punched frequently on green upgrading and safe production in petrochemical industry.

Upon safe production, General Office of the State Council issued 13th Five-year Planning for Safe Production on 12 January 2017 to intensify control of high-risk process, dangerous substance and major hazard sources. On 14 November 2017, the State Administration of Work Safety issued Criterion (Trial) on Serious Production Safety Accident Potential to Production and Operation Unit of Chemical Engineering and Dangerous Chemicals to specify 20 items of criterion on serious production safety accident potential of dangerous chemicals.

On green upgrading, China issued *Six Action Plans for Green Development of Petrochemical Industry*, *Instructions on Green Development of Industry in Yangtze River Economic Zone*, *13th Five-year Control Work Program on Pollution of Volatile Organic Compound*, *Water Pollution Control Planning of Major River Basins (from 2016 to 2020)*, and *Instructions on Promoting Green Development of Petrochemical Industry* in order to complete green standard in the industry, build long-term mechanism of green development and promote green and sustainable development of petrochemical industry.

Also, the State guides safe production and green upgrading of petrochemical enterprises on insurance, environmental damage compensation and tax collection. On 22 May 2017, China Insurance Regulatory Commission (CIRC) formally issued and implemented *Guidance on Risk Assessment of Liability Insurance in Chemical Raw Materials and Chemical Manufacturing*; on 9 June 2017, Ministry of Environmental Protection and CIRC compiled and issued *Regulations on Obligatory Liabilities Insurance of Environmental Pollution (Exposure Draft)* by joint research; on 17 December 2017, Xinhua News Agency released *Reform Scheme of Compensation System for Eco-environmental Damage*, which regulated trial implementation of compensation system for eco-environmental damage from January 1, 2018. Tax Law for Environmental Protection of the People's Republic of China approved on December 25, 2016 shall be implemented on January 1, 2018, which is the first specific tax law for special reflection of green taxation and promotion of ecological civilization construction in China. Collection discharge license implemented for almost 40 years in China is changed into environmental protection taxation. The objects of tax collection are four categories of air pollutants, water pollutants, solid wastes and noise.

Table of Contents**Report of the Directors (continued)****2. Basic information of key industry segments and the Company's position in the industry**

With shock and adjustment of recent 3 years, petrochemical industry has bottomed out since 2017 and enters new stage of rapid development. According to data from State Statistics Bureau, the industrial economy operation obtained excellent performance in 2017, where major business of enterprise above designated size income RMB13.78 trillion with an increase of 15.7% than in last year; RMB846.2 billion of total profit with an increase of 51.9%; and RMB583.37 billion dollars of total volume of import and export trade with an increase of 22.1%. Among which, petroleum processing industry increased 14.4% and growing rate of profits in chemical industry reached 40.2%.

In 2017, Growth rate of total volume of national major chemical products was about 2.7%, which it declined 2.2% in last year, including 18,214,000 tons of ethylene with an increase of 2.4%, 8,335,000 tons of pure benzene with an increase of 3.7%, 45,288,000 tons of methyl alcohol with an increase of 7.1% and 150 million tons of synthetic materials with an increase of 6.6%.

Continuously deepening the adjustment of industrial structure and optimization of product structure was obvious. In chemical engineering industry, income and profits of synthetic materials, basic chemicals and specialty chemicals had a leading growth, which totally contributed to more than 80% of overall income and profits growth in chemical engineering, separately accounting for 26.9%, 32.0% and 21.7%; the consumption structure also showed positive change. In major chemical consumption, chemical fertilizer continuously declined; inorganic chemicals kept stable; while synthetic materials increased relatively faster.

The industrial energy efficiency increased. In first three quarters of 2017, total energy consumption of petroleum and chemical engineering industry was increased year-on-year 1.3%, which fell back 0.3% than in the same period of last year and was the lowest growth rate in same periods of history.

Export structure was optimized. Proportion of raw materials of organic chemistry and synthetic materials continuously increased in export. In 2017, in gross export of all industries, raw materials of organic chemistry accounted for 21.2% with an year-on-year increase of 1.0%; and synthetic materials accounted for 8.3% with an year-on-year increase of 0.6%. While the proportion of some traditional superior exported products continuously declined.

The Group is one of the largest refining-chemical integrated enterprises in the domestic market and production of ethylene, PX, ethylene glycol taking a share of around 4%-5% in the domestic market of similar products.

Table of Contents**(2) Products and production****1. Main operating model**

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

2. Main products

		Primary upstream	Transport/storage	Primary downstream	Key price-influencing
Product	Industry segment	raw 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
Benzene	Intermediate petrochemicals	Naphtha	Road transportation, shipping, rail transportation/ storage tank	Intermediate petrochemical products, styrene, plastic, explosive, dye, detergent, epoxy resin, chinlon	International crude oil price, market supply-demand condition
Ethylene Glycol	Intermediate petrochemicals	Naphtha	Road transportation/ storage tank	Fine Chemicals engineering	International crude oil price, market supply-demand condition

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

Polyester	Synthetic fibres	Polyester	Road transportation, shipping and rail transportation/ warehousing	Texture, apparel	Raw material price and market supply- demand condition
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Products	Production			Sales		
	2017 (10,000 tons)	2016 (10,000 tons)	Year-on-year change	2017 (10,000 tons)	2016 (10,000 tons)	Year-on-year change
Diesel ^{Note1}	386.38	388.22	-0.47%	338.87	280.70	20.72%
Gasoline	316.61	287.87	9.98%	317.15	285.01	11.28%
Jet Fuel ^{Note1}	157.41	159.83	-1.51%	75.13	55.91	34.38%
Paraxylene	63.29	67.06	-5.62%	41.32	46.60	-11.33%
Benzene ^{Note2}	34.06	37.27	-8.61%	31.97	35.91	-10.97%
Ethylene Glycol	41.11	36.14	13.75%	29.34	24.37	20.39%
Ethylene Oxide	14.64	14.84	-1.35%	14.25	14.59	-2.33%
Ethylene ^{Note2}	76.69	82.56	-7.11%	0.55	3.75	-85.33%
Polyethylene	47.13	53.10	-11.24%	46.25	53.51	-13.57%
Polypropylene	48.18	49.23	-2.13%	47.87	45.40	-3.04%
Polyester Pellet ^{Note2}	41.26	41.56	-0.72%	31.52	29.83	5.67%
Acrylic	13.19	14.05	-6.12%	13.26	14.06	-5.69%
Polyester Staple	4.58	6.47	-29.21%	3.93	6.08	-35.36%

Note 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 petrochemical products of the Group.

3. R&D and Innovation

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

4. Production techniques and processes

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

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Table of Contents**5. Capacity and operation status**

Key production facilities (number of sets)	Designed capacity (tons)	Capacity utilization (%)
Crude oil distillation facility (2)	14,000,000	99.71
Hydrocracking facility (2)	3,000,000	92.30
Ethylene facility	700,000	107.29
* Aromatics facility (2)	835,000	97.09
PTA facility	400,000	82.99
Ethylene oxide/Ethylene glycol facility (2)	525,000	87.19
Catalytic cracking	3,500,000	101.50
Delayed coking (2)	2,200,000	96.71
** Diesel hydrogenation (2)	3,850,000	96.41
** Acrylonitrile facility	650,000	77.51
C-5 Separation (2)	205,000	95.53
*** Polyester facility (3)	550,000	91.33
**** Polyester staple fibre facility (2)	158,000	95.60
Polyester filament facility	21,000	87.12
Acrylics staple fibre facility (3)	141,000	113.19
Polyethylene facility (3)	408,000	96.88
Polypropylene facility (3)	400,000	100.06
Vinyl acetate facility	86,100	93.27

* No.1 PX facility (23.5 tons/year) was suspended for the whole year.

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

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

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

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

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Report of the Directors (continued)

(3) Raw material procurement

1. Basic information of major raw materials

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

Please refer to "Review of the Company's operations during the Reporting Period" in Section II Management Discussion and Analysis of this chapter for details of the crude oil procurement of the Company in 2017.

(4) Sales of products

1. Sales model

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

2. Pricing strategy and change in prices of major products

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

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

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

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

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

Sales Channel	Revenue	Unit: RMB 000
		Year-on-year increase/decrease in revenue (%)
Direct sales	58,740,961	3.74
Agency sales	32,822,162	58.20

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

The Company owns a power plant which provides power and steam resources mainly to the Company while the surplus is sold to external parties. In 2017, the Company sold 674 million kilowatt-hour of power, generating revenue of RMB427 million, and sold 614,000 giga joules of steam, generating revenue of RMB53.40 million.

(5) Environmental protection and safety**1. Major safety production accident of the Company during the Reporting Period**

Nil.

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

Environmental protection investment	Unit: RMB100 million
	Percentage of invested capital in operating revenue (%)
7.34	0.80

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Report of the Directors (continued)

Section IV Major Events

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

1. Cash dividend policy and its formulation, implementation or adjustment

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

1. The Company should place emphasis on delivering reasonable return on investments to the investors. The Company shall pay due attention to the opinions of minority shareholders through various channels when allocating its profits. The profits distribution policy of the Company shall be consistent and stable, taking into account the long-term interests of the Company, the overall interests of all shareholders and the Company's sustainable development.
2. The Company may distribute dividends in the following forms: cash, shares or other forms permitted by laws, administrative rules, regulations of competent authorities and regulatory provisions in the place where the Company's shares are listed. The Company shall give priority to the distribution of dividends in cash. The Company may make interim dividends distribution.
3. The Company shall distribute cash dividends when the Company's net profit and retained earnings, in separate financial statement, are positive and the Company has adequate cash inflows over the requirements of cash flows for its operation and sustainable development. The cash dividends per annum should not be less than thirty (30) percent of the net profit of the Company in the current year.
4. The Company may adjust its profits distribution policy referred to in sub-paragraphs (2) and (3) of this Article in case of war, natural disasters or other force majeure, or where changes to the external environment of the Company result in material impact on the production and operation of the Company, or where there are significant changes in the Company's own operations or financial conditions, or where the Company's board of directors considers it necessary. Independent directors shall issue independent opinions on the adjustment of the profits distribution policy whilst the board of directors shall discuss the rationality of such

adjustment in detail and form a resolution which shall be submitted to shareholders meeting for approval by way of special resolution. The convening of the shareholders meeting shall comply with regulatory provisions in the place where the Company's shares are listed.

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

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

In 2017, the net profit attributable to equity shareholders of the Company amounted to RMB6,141,558,000 under CAS (net profit of RMB6,143,222,000 under IFRS). According to the 2017 profit distribution plan approved by the Board on 20 March 2018, the Board proposed to distribute the Final Dividend based on the total number of issued shares of the Company as at the record date for distributing dividend. The 2017 profit distribution plan will be implemented subject to approval of AGM. The date and time of the AGM and book closure arrangement will be announced later. The notice of the AGM will be announced separately in accordance with the provisions of Articles of Association of the Company. The notice of the AGM, the accompanying circular and proxy form will be despatched to holders of H shares in accordance with Hong Kong Listing Rules.

Subject to the passing of the resolution by the shareholders of the Company at the AGM, the Final Dividend is expected to be distributed on or around Friday, 13 July 2018 to shareholders whose names appear on the register of members of the Company's H shares at the close of business on Tuesday, 26 June 2018. The Final Dividend is denominated and declared in Renminbi. The Final Dividend payable to the holders of the Company's A shares shall be paid in Renminbi while those payable to the holders of the Company's H shares shall be paid in Hong Kong dollars. The amount of Hong Kong dollars payable shall be calculated on the basis of the average closing exchange rates for Hong Kong dollars as announced by the Foreign Exchange Trading Centre of the PRC one calendar week prior to the approval of the Final Dividend at the AGM.

The Company is expected to close the register of members of the Company's H shares from Thursday, 21 June 2018 to Tuesday, 26 June 2018 (both days inclusive), during which period no transfer of H shares will be registered in order to confirm the shareholders' entitlement to receive the Final Dividend. The holders of the Company's H shares who wish to receive the Final Dividend should lodge the transfer documents and relevant share certificates with the Company's H shares share registrar, Hong Kong Registrars Limited, at Room 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong on or before 4:30 p.m. on Wednesday, 20 June 2018.

Table of Contents**Report of the Directors (continued)**

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

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

Year of dividend payment	Amount of bonus shares for every 10 shares (share)	Amount of dividend for every 10 shares (RMB) (including tax)	Amount of capitalization for every 10 shares (share)	Amount of cash dividend (including tax)	Unit: RMB '000	
					Net profit attributable to shareholders of the listed company in the consolidated statement for the year	Percentage of net profit attributable to shareholders of ordinary shares of the listed company in the consolidated statement (%)
2017	0	3.0	0	3,247,144.05	6,141,558	52.87
2016	0	2.5	0	2,700,000	5,955,576	45.34
2015	0	1	0	1,080,000	3,245,849	33.27

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(2) Fulfilment of undertakings

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

Undertakings about share reform

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

Sinopec Corp. shall continue to support the development of the Company upon the completion of the share reform scheme, and shall use the Company as a platform for the development of related businesses in the future.

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

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

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

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

Nil.

Table of Contents**Report of the Directors** (continued)**(4) Explanation on the reasons and impact for the Company's changes in accounting policies, accounting estimates, or correction of previous significant accounting errors**

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

The Group has first adopted the following standards for financial statements prepared according to International Financial Reporting Standards for the financial year started on 1 January 2017. The following standards had no major affect to the Company.

Amendments to IAS 7

Statement of Cash Flows

Amendment to IAS 12

Income Taxes

Amendment to IFRS 12

Disclosure of Interests in Other Entities

No other standards or interpretation revisions with major impact on the Group's combined financial statements was first effective for the financial year started on 1 January 2017.

(5) Appointment and dismissal of auditors

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

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

	Unit: RMB Yuan
	Current
Name of the domestic auditors	PricewaterhouseCoopers Zhong Tian LLP
Remuneration of the domestic auditors	4,950,000
Duration of audit of the domestic auditors	3 Years
Name of the international auditors	PricewaterhouseCoopers
Remuneration of the international auditors	3,000,000
Duration of audit of the international auditors	3 Years

(6) Material litigation or arbitration

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

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

Mr. Pan Fei, former independent non-executive Director, informed 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 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. The above information has been set out in the announcement dated 29 June 2017. On 7 July 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 2 August 2017.

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

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

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

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Report of the Directors (continued)

(9) Option Incentive Scheme

1. Share Option Incentive Scheme has been disclosed in relevant announcement without further updates or changes since implementation

Summary

The 18th meeting of the Eighth Session of the Board considered and passed the *Resolution on the adjustment of peer benchmark enterprises of the A Shares Share Option Incentive Scheme of the Company* .

The *Resolution on the adjustment of peer benchmark enterprises of the A Shares Share Option Incentive Scheme of the Company* was considered and passed at the 2016 annual general meeting.

The third meeting of the Ninth Session of the Board considered and passed the Resolution in respect of adjustment to the participants list and the number of share options of the A Shares Option Incentive Scheme of Sinopec Shanghai , the Resolution in respect of adjustment to the exercise price of share options initially granted under the A Shares Share Option Incentive Scheme of Sinopec Shanghai and *Resolution in respect of determination of the exercise date and fulfillment of exercise conditions for the first exercisable period of share initially granted under the A Shares Share Option Incentive Scheme of Sinopec Shanghai* .

Completion of the first exercisable period of the initial grant of share options

Index of enquiry

Published on 16 March 2017 in China Securities Journal, Shanghai Securities News, Securities Times and uploaded to the websites of the Shanghai Stock Exchange, the Hong Kong Stock Exchange and the Company.

Published on 16 June 2017 in China Securities Journal, Shanghai Securities News, Securities Times and uploaded to the websites of the Shanghai Stock Exchange, the Hong Kong Stock Exchange and the Company.

Published on 24 August 2017 in China Securities Journal, Shanghai Securities News, Securities Times and uploaded to the websites of the Shanghai Stock Exchange, the Hong Kong Stock Exchange and the Company.

Published on 29 September 2017 in China Securities Journal, Shanghai Securities News, Securities Times and uploaded to the websites of the Shanghai Stock Exchange and the Company.

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2. Summary of Share Option Incentive Scheme

a. Purpose of the scheme

The purpose of the Share Option Incentive Scheme is to further establish and improve its operational mechanism, establish and improve its incentive mechanism for members of the senior management, advocate the concept of sustainable development jointly achieved by the Company, its management team and key personnel, effectively incentivise its management team and key personnel, attract and retain talents, enhance its competitive position in the industry and its core competitiveness; and ensure the realisation of its development strategy and operational objectives.

b. Eligible participants of the scheme

The eligible participants shall include the Directors, senior management members and key business personnel of the Company who have direct contributions to the overall results and sustainable development of the Company or have outstanding contribution. The participants of the initial grant under the Share Option Incentive Scheme included Directors, senior management and key business personnel but excluding independent non-executive Directors, Supervisors and Directors who do not concurrently hold senior management positions in the Company, substantial shareholders holding more than 5% of the shares and the de facto controllers of the Company, and their spouse and immediate family members.

c. Underlying shares and incentive instrument

According to the Share Option Incentive Scheme, the underlying shares to be granted only involve the A shares issued by the Company. The Company will not issue any H shares upon the exercise of any option granted under the Share Option Incentive Scheme.

The incentive instrument of the Share Option Incentive Scheme is the granting of the share options. Within the exercisable period of the share options, each share option would entitle the holder to subscribe for one share of the Company's A shares at a pre-determined exercise price if the exercising conditions and arrangements are met.

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Report of the Directors (continued)

- d. Total number of securities for issue under the scheme and percentage of the issued share capital as at the date of the annual report

Under the Share Option Incentive Scheme, the total number of underlying shares to be granted shall not exceed 10% of the total share capital of the Company (10,800 million shares) nor exceed 10% of the total A-share capital of the Company (7,305 million shares). As at the annual report date, the total number of A shares share options granted but not exercised is 8,946,900, which is 0.08% of the total number of issued shares of the Company (10,823,813,500 shares). As at the date of this annual report, the total number of A share share options that can be granted under the Share Option Incentive Scheme is 691,740,000, which is 6.40% of the total number of issued shares of the Company (10,823,813,500 shares) as at the date of this annual report.

- e. Maximum entitlement of each participant under the scheme

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 Incentive 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. On each grant, the estimated benefit upon exercise of the share options shall not exceed 30% of his/her total emolument (including the estimated benefit to be granted to each grantee upon exercise of the share options) at the grant date.

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f. Exercisable period

The exercisable period for the share options shall be three years, commencing from the expiry of the two-year period after the date of grant (Grant Date). Details of the arrangements for the exercise of the share options under the Share Option Incentive Scheme are as follows:

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

If a participant is a Director or member of senior management of the Company, at least 20% of the total number of share options granted to him/her shall not be exercisable until such participant passes the appraisal during his/her term of office.

g. Vesting period

The vesting period for each grant under the Share Option Incentive Scheme shall not be less than two years.

- h. Amount, if any, payable on application or acceptance of the share option and the period within which payments or calls must be made or repayment of loans for such purposes must be made

Nil.

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Report of the Directors (continued)

i. Basis of determining the exercise price

A. The exercise price under the initial grant

The exercise price under the initial grant shall not be lower than the highest of the followings:

- I. 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 proposal of the Share Option Incentive Scheme, which was RMB3.29 per share;
- II. 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 proposal of the Share Option Incentive Scheme, which was RMB3.27 per share; and
- III. RMB4.20 per share. In June 2013, Sinopec Corp. undertook in the Company's share reform that it would propose to the Board a share option scheme which complied with the relevant systems of the SASAC and the CSRC, with an initial exercise price of the share options not lower than RMB6.43 per share (if there is occurrence of any ex-dividend event before the release of the draft share option scheme, the price should be adjusted accordingly). As the Company carried out its 2013 half-year cash dividend plan, capitalisation of capital funds and surplus reserves plan in December 2013, and 2013 annual cash dividend plan in July 2014, the aforesaid initial exercise price of the share options, i.e. no less than RMB6.43 per share, was adjusted to RMB4.20 per share.

Accordingly, the exercise price under the initial grant is RMB4.20 per share.

B. The exercise price under further grants

The exercise price under each proposed grant (other than the initial grant) shall be the higher of the followings:

- I. 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
- II. 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.

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C. Adjustment of the exercise price

If, during the period from the date of the announcement of the Share Option Incentive Scheme or the proposed grant until the expiration of the validity period of the share options, in the event of capitalisation of capital reserves, distribution of bonus shares, subdivision of shares, allotment of shares, reduction of shares, or payment of dividend, an adjustment to the exercise price shall be made in accordance with the relevant provisions of the Share Option Incentive Scheme.

j. Remaining life of the scheme

The Share Option Incentive Scheme has been effective since 23 December 2014 with a validity period of ten years up to 22 December 2024.

3. Share Option Incentive Scheme of the Company

(1) Date and number of the initial grant

Grant Date: 6 January 2015

Number of grantees: 214 persons

Number of share options granted: 38,760,000

(2) The status of the first exercise of share options under the initial grant

Exercise date: 29 August 2017

Number of exercisable share options: 14,212,500

Number of share options lapsed during the Reporting Period: 5,228,900

Number of share options exercised: 14,176,600

Date of completion of registration formalities for newly increased stocks: 27 September 2017

Number of people exercised the share options: 199

Exercise price: RMB3.85/share

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Report of the Directors (continued)

(3) Outstanding share options of Directors, chief executive and substantial shareholder as at the end of the Reporting Period

As at the end of the Reporting Period, the total number of outstanding A shares share options held by the four persons, including Vice Chairman and Vice President Mr. Gao Jinping, Director and Vice President Mr. Jin Qiang, Director, Vice President and Secretary to the Board Mr. Guo Xiaojun and Vice President Mr. Jin Wenmin were 966,000 A shares share options. Former Director, Vice President and Chief Financial Officer Mr. Ye Guohua resigned on 26 January 2017. Pursuant to the Share Option Incentive Scheme, the 430,000 A shares share options granted to him but not exercised have lapsed. Former Chairman and President Mr. Wang Zhiqing resigned on 4 December 2017. Pursuant to the Share Option Incentive Scheme, the 300,000 A shares share options granted to him but not exercised have lapsed. Please refer to part (3) Shares options held by the Directors, Supervisors and senior management during the Reporting Period on page 31 for details.

(4) Outstanding share options granted to employees other than the persons mentioned in item (3)

At the beginning of the Reporting Period, the total number of outstanding A shares share options held by the Company's key business personnel was 35,970,000.

During the Reporting Period, a total of 13,332,600 A shares share options had been exercised by the Company's key business personnel during the first exercisable period.

During the Reporting Period, a total of 4,498,900 A shares share options granted to the Company's key business personnel had been lapsed due to job transfer and resignation of the participants.

At the end of the Reporting Period, the number of outstanding A shares share options held by the Company's key business personnel was 18,138,500.

(5) Exercise price of the initial grant and exercise price adjustment

According to the principle disclosed by the Company on the determination of exercise price, the exercise price of the initial grant was RMB4.20 per share (in the event of dividends payment, capitalisation 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 15 June 2016, the 2015 annual profit distribution plan was considered and passed at the Company's 2015 annual general meeting, whereby cash dividend of RMB1.00 was paid for each 10 shares. On 15 June 2017, the 2016 annual profit distribution plan was considered and passed at the Company's 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.

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(6) Validity of and exercise arrangements for the initial grant

The share options shall be exercisable within five years from the date of the grant, subject to the exercise arrangements. For the related regulations, please refer to paragraph f. **Exercisable Period** above.

(7) Update on the Share Options Incentive Scheme up to the date of this annual report

At the sixth meeting of the Ninth Session of the Board of the Company held on 8 January 2018, Resolution in respect of adjustment to the participants list and the number of share options of the A Shares Share Option Incentive Scheme of Sinopec Shanghai and Resolution in respect of determination of the exercise date and fulfillment of exercise conditions for the second exercisable period of share options initially granted under the A Shares Share Option Incentive Scheme of Sinopec Shanghai were considered and passed. The A shares share options granted to 4 participants that have not been exercised lapsed due to their resignation and other reasons. The A shares share options granted but not exercised in the second exercisable period to 2 participants lapsed due to their failing to pass the performance assessment in 2016. The A shares share options held by 8 participants have lapsed after adjustment at the third meeting of the Ninth Session of the Board of the Company held on 23 August 2017, due to internal job transfer. A total of 820,700 A shares share options lapsed after the adjustment. 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 and was fully exercised. The Company completed the registration of the newly issued A shares of 9,636,900 on 14 February 2018, after which the number of the Company's issued shares increased to 10,823,813,500 shares. As at the date of this annual report, the number of issued shares of the Company is 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.

Save as disclosed herein and in the aforesaid relevant announcements, no A shares share options were granted pursuant to the Share Option Incentive Scheme or exercised by any grantees or cancelled or lapsed during the Reporting Period.

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Report of the Directors (continued)

(10) Major connected transactions

1. Connected transactions in relation to daily operations

During the Reporting Period, pursuant to the Mutual Product Supply and Sales Services Framework Agreement entered into with the controlling shareholder of the Company on 23 August 2016, Sinopec Corp., and the de facto controller, Sinopec Group, the Company purchased raw materials from Sinopec Group, Sinopec Corp. and their associates and sold petroleum products and petrochemicals and leased properties to Sinopec Corp. and its associates, and Sinopec Corp. and its associates provided agency sales services for petrochemical products to the Company. Pursuant to the Comprehensive Services Framework Agreement entered into with the Company's de facto controller Sinopec Group on 23 August 2016, the Company obtained construction and installation, engineering design, petrochemical industry insurance and financial services from Sinopec Group and its associates. The transactions under the abovementioned Mutual Product Supply and Sales Services Framework Agreement and the Comprehensive Services Framework Agreement constituted continuing connected transactions under Chapter 14A of the Hong Kong Listing Rules and constituted ongoing connected transactions under the Shanghai Listing Rules. The Company disclosed the two agreements and the respective continuing connected transactions (i.e. ongoing connected transactions, same below) under the agreements in an announcement dated 23 August 2016 and a circular dated 2 September 2016. These two agreements and the respective continuing connected transactions under the agreements together with the associated annual caps from 2017 to 2019 were considered and approved at the first extraordinary general meeting for 2016 held on 18 October 2016.

During the Reporting Period, the relevant continuing connected transactions were conducted in accordance with the terms of the Mutual Product Supply and Sales Services Framework Agreement and the Comprehensive Services Framework Agreement. The transaction amounts of the relevant connected transactions did not exceed the caps in relation to the respective continuing connected transactions approved at the first extraordinary general meeting for 2016.

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

		Unit: RMB 000		
		Percentage		
		of the		
		transaction		
		Transaction	amount of	
		amount	the same	
		during the	type of	
		Annual cap	Reporting	transaction
Connected transactions	Connected parties	for 2017	Period	(%)
Mutual Product Supply and Sales Services Framework Agreement				
Purchases of raw materials	Sinopec Group, Sinopec Corp. and their associates	63,257,000	43,3414,163	66.24%
Sales of petroleum products 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 products Sinopec	Sinopec Corp. and its associates	195,000	116,616	100.00%
Comprehensive Services Framework Agreement				
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 and its associates	200,000	5,147	1.92%

On 5 December 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 the Company's de facto controller 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. Related announcements were published on the official websites of the Shanghai Stock Exchange, the Hong Kong Stock Exchange and the Company, as well as on Shanghai Securities News and China Securities Journal on 25 November 2016. During the Reporting Period, the Company incurred leasing cost of RMB53,960,000.

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Report of the Directors (continued)

On 27 April 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 Shanghai SECCO held by BP Chemical East China Investment Company Limited (BP East China). Sinopec Corp. intended to acquire the above equity interests through