SINOPEC SHANGHAI PETROCHEMICAL CO LTD
Form 20-F
April 27, 2018
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 20-F

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

OR

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

For the fiscal year ended December 31, 2017

OR

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

OR

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

Date of event requiring this shell company report

For the transition period from to

Commission file number 1-12158

(Exact name of Registrant as specified in its charter)

Sinopec Shanghai Petrochemical Company Limited

(Translation of Registrant s name into English)

The People s Republic of China

(Jurisdiction of incorporation or organization)

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

(Address of principal executive offices)

Mr. Guo Xiaojun

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

The People s Republic of China

Tel: +86 (21) 57943143

Fax: +86 (21) 57940050

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

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

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

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

None

(Title of Class)

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

None

(Title of Class)

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

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

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

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

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

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

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

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

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

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

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

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

U.S. GAAP International Financial Reporting Standards as issued Other by the International Accounting Standards Board

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

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

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

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

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

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

- amount and nature of future development;
- future prices of and demand for our products;
- future earnings and cash flow;
- capital expansion programs;
- future plans and capital expenditures;
- expansion and other development trends of the petrochemical industry;
- expected production or processing capacities, including expected Rated Capacities and primary distillation capacities, of units or facilities not yet in operation;
- expansion and growth of our business and operations; and
- our prospective operational and financial information.

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

- fluctuations in crude oil and natural gas prices;
- fluctuations in prices of our products;
- failures or delays in achieving production from development projects;

potential acquisitions and other business opportunities;

continued availability of capital and financing;

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

other risks and factors beyond our control.

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

EXCHANGE RATES

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

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

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CERTAIN TERMS AND CONVENTIONS

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

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

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

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

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

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

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

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

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

All references to tons are to metric tons.

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

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PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISORS.

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE.

Not applicable.

ITEM 3. KEY INFORMATION.

A. Selected Financial Data.

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

Selected Consolidated Financial Data

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

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

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

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

(c) Earnings per ADS are calculated on the basis that one ADS is equivalent to 100 H Shares.

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

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

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

Dividends

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

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

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

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

Exchange Rates

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

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

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

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

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

	Average Noon Buying Rate[1] (RMB per U.S.$)
2013	6.1412
2014	6.1701
2015	6.2869
2016	6.6549
2017	6.7350

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

B. Capitalization and Indebtedness.

Not applicable.

C. Reasons for the Offer and Use of Proceeds.

Not applicable.

D. Risk Factors.

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

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

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

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

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

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

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

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

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

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

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

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

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

- the imposition of pollution charge for the discharge of waste substances;
- the levy of payments and fines for damages for serious environmental offenses;

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

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

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

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

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

- debt service costs on foreign currency-denominated debt;
- purchases of imported equipment;
- payment of any cash dividends declared in respect of the H shares and the ADSs; and
- import of crude oil and other materials.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- mandating distribution channels for our fuel products;

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

- assessing taxes and fees payable;

- setting import and export quotas and procedures; and

- setting safety, environmental and quality standards.

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

Our development plans may require regulatory approval.

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

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

We could face increasing competition in China.

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

We face increasing foreign competition in our lines of business.

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

- has reduced tariffs on imported petrochemicals products that compete with ours;
- increased levels of permitted foreign investment in the domestic petrochemicals industry, allowing foreign investors to own 100% of a domestic petrochemicals company from December 11, 2004;
- has gradually relaxed restrictions on the import of crude oil by non-state-owned companies;
- has granted foreign-owned companies the right to import petrochemical products; and
- has permitted foreign-owned companies to distribute and market fuel products in both retail and wholesale markets in China.

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

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

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

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

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

Interpretation and enforcement of Chinese laws and regulations is uncertain.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

- actual or anticipated fluctuations in our quarterly results of operations;
- changes in financial estimates by securities research analysts;
- conditions in petroleum and petrochemical markets;
- changes in the operating performance or market valuations of other petroleum and petrochemical companies;
- announcements by us or our competitors of new products, acquisitions, strategic partnerships, joint ventures or capital commitments;
- fluctuations of exchange rates between RMB and the U.S. dollar; and
- general economic or political conditions in China or elsewhere in the world.

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

ITEM 4. INFORMATION ON THE COMPANY.

A. History and Development of the Company

General Information

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

Our Predecessor

Our predecessor, Shanghai Petrochemical Complex (the Complex), was founded in 1972 as one of the first large scale Chinese petrochemical enterprises using advanced imported technology and equipment. Prior to June 29, 1993, the Complex was wholly-owned by Sinopec Group, at the time a ministerial level enterprise (before its restructuring in 1998, Sinopec). The Complex s location was chosen because of accessibility by water and land transportation to Shanghai, a major industrial city of China, and the availability of reclaimable land. The Complex was initially under the administration of the Ministry of Textile Industry and in 1983 was placed under the administration of Sinopec.

Construction Projects

The Complex and we, as its successor, have completed six major stages of construction. The first stage of construction (1972-1976) included reclamation of land and the installation of 18 production units. The second stage of construction (1980-1986) increased the Complex s capacity for processing crude oil and doubled its capacity for synthetic fiber production. The third stage of construction (1987-1992) primarily consisted of the installation of a 300,000 ton Rated Capacity ethylene unit, an additional crude oil refining unit and other units for the production of petrochemical products. The third stage of construction completed our transition from a synthetic fiber producer to a highly integrated producer of a wide variety of petrochemical products. The fourth stage of construction (2000-2002) mainly included the 700,000 ton Ethylene Expansion Project and Coal-Fired Power Plant Expansion Project. The fifth stage of construction (2003-2009) was mainly designed to optimize our structure and realize sustainable development, and mainly included 3,300,000t/a diesel hydrogenation unit, 1,200,000t/a delayed coking unit and other projects implemented for removing bottlenecks in refinery, the building of new 600,000t/a PX hydrocarbon complex unit, 150,000t/a C5 segregation unit, 380,000t/a ethane unit, *etc.*

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

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

Our Initial Public Offering and Listing

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

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

Domestic Share Reform

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

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

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

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

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

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Description of Principal Capital Expenditures and Divestitures

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

B. Business Overview

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

- synthetic fibers,
- resins and plastics,
- intermediate petrochemicals, and
- petroleum products.

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

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

Net Sales of RMB67,037.2 million in 2015

Synthetic fibers	3.47%
Resins and plastics	14.91%
Intermediate petrochemicals	13.92%
Petroleum products	45.95%
Trading of petrochemical products	20.46%
Others	1.29%
Total	100.00%

Net Sales of RMB65,936.5 million in 2016

Synthetic fibers	2.81%
Resins and plastics	14.86%
Intermediate petrochemicals	13.39%
Petroleum products	36.40%
Trading of petrochemical products	31.22%
Others	1.32%
Total	100.00%

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Net Sales of RMB79,218.3 million in 2017

Synthetic fibers	2.53%
Resins and plastics	12.90%
Intermediate petrochemicals	12.71%
Petroleum products	40.90%
Trading of petrochemical products	29.91%
Others	1.05%
Total	100.00%

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

2015 Net Sales by Region (%)

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

2016 Net Sales by Region (%)

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

2017 Net Sales by Region (%)

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

Business Strategy

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

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

- Strengthening efforts in safety and environmental protection works
- Strengthening the production and operation management
- Intensifying the progress of system optimization and cost/expenditure reduction
- Fostering project construction, technological advancement and information technology
- Further enhancement of internal management

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Principal Products

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

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

	Production			Sales		
Products	**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 Note 1	**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 Note 1	**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 Note 2	**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 Note 2	**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%	44.02	45.40	-3.04%
Polyester Pellet Note 2	**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%

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

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

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

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

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

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

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

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

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Product	Industry segment	Primary upstream raw material	Transport/storage method	Primary downstream application fields	Key price-influencing factors
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
Ethylene	Intermediate petrochemicals	Naphtha	Road transportation, pipeline transportation, shipping/storage tank	Polypropylene, ethylene glycol, polyvinyl chloride and other raw material for further processing of intermediate petrochemical products such as resins, plastics and synthetic fibers	International crude oil price, supply-demand balance

Polypropylene	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
Polypropylene	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, ethylene glycol	Road transportation, shipping and rail transportation/ warehousing	Polyester fiber or film, container	Raw material price and market supply-demand condition
Acrylics	Synthetic fibers	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 fibers	Polyester	Road transportation, shipping and rail transportation/ warehousing	Texture, apparel	Raw material price and market supply-demand condition

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Production Processes

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

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Intermediate Petrochemicals

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

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

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

Resins and Plastics and Synthetic Fibers

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

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

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

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

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

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

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

Raw Materials

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

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

Crude Oil

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

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

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

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

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

In 2017, our crude oil was sourced as follows:

Domestic offshore crude oil	0.97%
Imported crude oil	99.03%
Total:	100.00%

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

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

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

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

Until March 2001 the Chinese government implemented a unified pricing system for crude oil. Each month, the National Development and Reform Commission (NDRC) established an indicative price for each grade of domestic onshore crude oil based on comparable international market prices, inclusive of any duties that would have been imposed had the oil been imported. The actual price for domestic onshore oil would be such indicative price plus a surcharge. This surcharge was determined by China National Petroleum Corporation and Sinopec Group to reflect any transportation and other miscellaneous costs that would have been incurred in having the oil delivered to various refineries. Beginning March 2001, NDRC ceased publishing an indicative price. Instead, the indicative price for domestic onshore oil has been calculated and determined directly by China National Petroleum Corporation and Sinopec Group based on the principles and methods formerly applied by NDRC.

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

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

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

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

Coal

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

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

Other Raw Materials

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

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

Sales and Marketing

Distribution

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

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

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

Product breakdown

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

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

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

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

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

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

Major Suppliers and Customers

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

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

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

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Product Pricing

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

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

Competition

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

Our Competitive Advantages

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

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

The Domestic Competitive Environment

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

Foreign Competition and the World Trade Organization

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

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

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

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

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

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

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

Our Competitive Position

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

Synthetic Fibers

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

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

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

Sources: Zhuochuang Information (www.chem99.com).

Resins and Plastics

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

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

Sources: Zhuochuang Information (www.chem99.com).

Intermediate Petrochemicals

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

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

Sources: Zhuochuang Information (www.chem99.com).

Petroleum Products

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

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

Investments

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

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

Environmental Protection

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

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

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

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

Insurance

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

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

Cyber Security

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

Government Regulations

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

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

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

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

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

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

	Volume (thousand tons)	% of total	Amount (RMB billion)	% of total
Iran	452.68	3.56	1.12	3.39
Others	12,268.79	96.44	31.94	96.61
Total	12,721.47	100.00	33.06	100.00

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

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

C. Organizational Structure.

Our Subsidiaries

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

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

Sinopec Corp.

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

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

Subsidiaries

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

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

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

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