中國石化上海石油化工股份有限公司

# SINOPEC SHANGHAI PETROCHEMICAL COMPANY LIMITED

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

Stock code: 00338 Hong Kong 600688 Shanghai SHI New York

ANNUAL REPORT 2016

# Contents

## IMPORTANT MESSAGE

(1) The Board of Directors (the "Directors")(the "Board") and the Supervisory Committee of Sinopec Shanghai Petrochemical Company Limited (the "Company" or "SPC") as well as its Directors, supervisors and senior management warrant the truthfulness, accuracy and completeness of the information contained in this annual report, and warrant that there are no false representations or misleading statements contained in, or material omissions from, the 2016 annual report of the Company, and severally and jointly accept responsibility.

(2) Director(s) who has/have not attended the Board meeting for approving the 2016 annual report of the Company is/are:

| Name of Director | Position | Reasons for Absence | Name of Proxy |
|---|---|---|---|
| Gao Jinping | Vice Chairman | Business Engagement | Wang Zhiqing |
| Lei Dianwu | Director | Business Engagement | Zhang Yimin |
| Mo Zhenglin | Director | Business Engagement | Zhang Yimin |

(3) The financial statements for the year ended 31 December 2016 (the "Reporting Period"), prepared under the People's Republic of China ("PRC" or "China")'s Accounting Standards ("CAS") as well as the International Financial Reporting Standards ("IFRS"), was audited by PricewaterhouseCoopers Zhong Tian LLP and PricewaterhouseCoopers, respectively, and both firms have issued standard unqualified opinions on the financial report in their auditors' reports.

(4) Mr. Wang Zhiqing, Chairman, President and the responsible person of the Company; Mr. Zhou Meiyun, Vice President and Chief Financial Officer overseeing the accounting department; and Mr. Zhang Feng, person in charge of the Accounting Department (Accounting Chief) and Deputy Director of Finance Department hereby warrant the truthfulness and completeness of the financial statements contained in the 2016 annual report.

(5) Plan for Profit Appropriation or Capital Reserve Capitalisation reviewed by the Board

In 2016, the net profit attributable to equity shareholders of the Company amounted to RMB5,955,576,000 under CAS (net profit of RMB5,968,466,000 under IFRS). According to the 2016 profit distribution plan approved by the Board on 15 March 2017, the Board proposed to distribute a dividend of RMB0.25 per share (including tax) based on the total number of issued shares of the Company as on the record date of the Company. The 2016 profit distribution plan will be implemented subject to approval of the annual general meeting. The date and time of the Company's 2016 Annual General Meeting, and the arrangements regarding the moratorium on share registration and dividend distribution, and the dividend distribution date will be announced later.

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

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

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

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

(9) Major Risk Warning

Potential risks are elaborated in this report. Please refer to "Report of the Directors" for details of the potential risks arising from the future development of the Company.

(10) The 2016 Annual Report is published in both Chinese and English. In the event of any discrepancy between the Chinese and English versions, the Chinese version shall prevail.

# DEFINITIONS

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

| | |
|---|---|
| "Company" | Sinopec Shanghai Petrochemical Company Limited |
| "Board" | the board of directors of the Company |
| "Director(s)" | the Director(s) of the Company |
| "Supervisor(s)" | the Supervisor(s) of the Company |
| "Supervisory Committee" | the Supervisory Committee of the Company |
| "PRC" or "China" | the People's Republic of China |
| "Reporting Period" | the year ended 31 December 2016 |
| "Hong Kong Stock Exchange" | The Stock Exchange of Hong Kong Limited |
| "Shanghai Stock Exchange" | The Shanghai Stock Exchange |
| "Group" | the Company and its subsidiaries |
| "Sinopec Group" | China Petrochemical Corporation |
| "Sinopec Corp." | China Petroleum & Chemical Corporation |
| "Hong Kong Listing Rules" | The Rules Governing the Listing of Securities on the Hong Kong Stock Exchange |
| "Shanghai Listing Rules" | The Rules Governing the Listing of Securities on the Shanghai Stock Exchange |
| "Model Code for Securities Transactions" | the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Hong Kong Listing Rules |
| "Securities Law" | the PRC Securities Law |
| "Company Law" | the PRC Company Law |
| "CSRC" | China Securities Regulatory Commission |
| "Articles of Association" | the articles of association of the Company |
| "Hong Kong Stock Exchange website" | www.hkexnews.hk |
| "Shanghai Stock Exchange website" | www.sse.com.cn |
| "website of the Company " | www.spc.com.cn |
| "HSE" | Health, Safety and Environment |
| "COD" | Chemical Oxygen Demand |
| "EVA" | Ethylene Vinyl Acetate |
| "SFO" | the Securities and Futures Ordinance of Hong Kong (Chapter 571 of the Laws of Hong Kong) |
| "Corporate Governance Code" | the Corporate Governance Code set out in Appendix 14 to the Hong Kong Listing Rules |
| "Share Option Incentive Scheme" | the A Share Option Incentive Scheme of the Company |

# Company Profile

Sinopec Shanghai Petrochemical Company Limited is one of the largest petrochemical enterprises in the People's Republic of China based on sales in 2016. It is also one of the largest PRC producers of ethylene. Ethylene is one of the most important intermediate petrochemical products used in the production of synthetic fibres, resins and plastics.

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

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

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

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

# Financial Highlights

(Financial highlights prepared under IFRS)

| | For the year ended 31 December | | | | |
|---|---|---|---|---|---|
| Unit: RMB million | **2016** | 2015 | 2014 | 2013 | 2012 |
| Net sales | **65,936.5** | 67,037.2 | 92,725.0 | 105,503.2 | 87,217.3 |
| Profit/(loss) before taxation | **7,778.3** | 4,237.2 | (889.9) | 2,444.7 | (2,016.5) |
| Profit/(loss) after taxation | **5,981.5** | 3,310.4 | (675.8) | 2,065.5 | (1,505.1) |
| Profit/(loss) attributable to equity shareholders of the Company | **5,968.5** | 3,274.3 | (692.2) | 2,055.3 | (1,528.4) |
| Basic earnings/(loss) per share (RMB/Share) | **0.553** | 0.303 | (0.064) | 0.190 | (0.212) |
| Diluted earnings/(loss) per share (RMB/Share) | **0.552** | 0.303 | (0.064) | 0.190 | (0.212) |
| Basic and diluted earnings/(loss) per share (RMB/Share) (restated)* | **N/A** | N/A | N/A | N/A | (0.142) |
| As at 31 December: | | | | | |
| Total equity attributable to equity shareholders of the Company | **24,722.0** | 19,797.3 | 16,500.3 | 17,732.5 | 16,037.2 |
| Total assets | **33,945.6** | 27,820.6 | 30,905.6 | 36,636.8 | 36,462.5 |
| Total liabilities | **8,942.4** | 7,726.3 | 14,134.0 | 18,645.3 | 20,158.6 |

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

## (1) Major accounting data

Unit: RMB'000

| Major accounting data | **2016** | 2015 | Increase/ decrease compared to the previous year (%) | 2014 |
|---|---|---|---|---|
| Operating income | **77,894,285** | 80,803,422 | -3.60 | 102,182,861 |
| Total profit ("-" for loss) | **7,765,405** | 4,208,729 | 84.51 | -914,149 |
| Net profit attributable to equity shareholders of the Company ("-" for net loss) | **5,955,576** | 3,245,849 | 83.48 | -716,427 |
| Net profit attributable to equity shareholders of the Company excluding non-recurring items ("-" for net loss) | **5,921,988** | 3,130,327 | 89.18 | -806,028 |
| Net cash flow from operating activities ("-" for net outflow) | **7,210,957** | 5,143,397 | 40.20 | 4,039,919 |

| | **End of 2016** | End of 2015 | Increase/ decrease compared to the previous year (%) | End of 2014 |
|---|---|---|---|---|
| Net assets attributable to equity shareholders of the Company | **24,750,048** | 19,838,862 | 24.76 | 16,570,623 |
| Total assets | **34,123,693** | 28,022,171 | 21.77 | 31,145,983 |

## 2. Major financial indicators

| Major financial indicators | **2016** | 2015 | Increase/ decrease compared to the previous year (%) | 2014 |
|---|---|---|---|---|
| Basic earnings per share ("-" for loss) (RMB/Share) | **0.551** | 0.301 | 83.06 | -0.066 |
| Diluted earnings per share ("-" for loss) (RMB/Share) | **0.551** | 0.300 | 83.67 | -0.066 |
| Basic earnings per share excluding non-recurring items ("-" for loss) (RMB/Share) | **0.550** | 0.290 | 89.66 | -0.075 |
| Return on net assets (weighted average) (%)* | **26.383** | 17.831 | Increased by 8.552 percentage points | -4.165 |
| Return on net assets excluding non-recurring items (weighted average) (%)* | **26.254** | 17.251 | Increased by 9.003 percentage points | -4.686 |
| Net cash flow per share generated from operating activities ("-" for net outflow) (RMB/Share) | **0.668** | 0.476 | 40.34 | 0.374 |

| | **End of 2016** | End of 2015 | Increase/ decrease compared to the previous year (%) | End of 2014 |
|---|---|---|---|---|
| Net assets per share attributable to equity shareholders of the Company (RMB/Share)* | **2.292** | 1.837 | 24.77% | 1.534 |
| Liability-to-asset ratio (%) | **26.645** | 28.143 | Decreased by 1.498 percentage points | 45.926 |

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

## (3) Non-recurring items

Unit: RMB'000

| Non-recurring items | 2016 | 2015 | 2014 |
|---|---|---|---|
| Net loss from disposal of non-current assets("-" for loss) | **-42,031** | -9,393 | -33,966 |
| Employee reduction expenses | **-19,200** | -24,892 | -4,684 |
| Government grants recorded in profit and loss (excluding government grants pursuant to the State's unified standard sum and quota to closely related corporate business) | **154,631** | 160,116 | 182,829 |
| Income from external entrusted loans | **1,818** | 2,880 | 2,299 |
| Income from forward exchange contracts | **-** | 37,154 | - |
| Other non-operating income and expenses other than those mentioned above | **-47,281** | -10,280 | -25,357 |
| Effect attributable to minority interests (after tax) | **-1,714** | -1,525 | -1,240 |
| Income tax effect | **-12,635** | -38,538 | -30,280 |
| Total | **33,588** | 115,522 | 89,601 |

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

Unit: RMB'000

| | Net profit | | Net assets | |
|---|---|---|---|---|
| | The Reporting Period | Corresponding period of the previous year | At the end of the Reporting Period | At the beginning of the Reporting Period |
| Prepared under CAS | 5,968,583 | 3,281,952 | 25,031,318 | 20,135,900 |
| Prepared under IFRS | 5,981,473 | 3,310,411 | 25,003,235 | 20,094,320 |

For detailed differences between the financial statements prepared under CAS and IFRS, please refer to "Supplementary Information to the Financial Statements" prepared under CAS in this report.

(Financial highlights prepared under CAS)

## (5) Major financial data by quarters in 2016

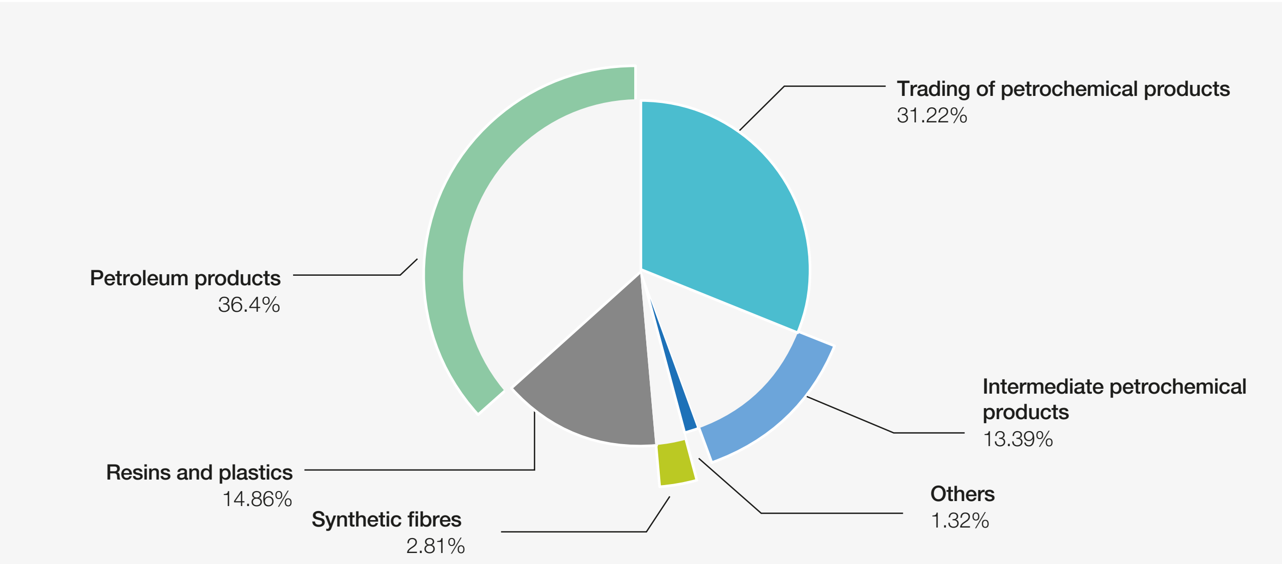
Unit: RMB'000

| | First Quarter (January to March) | Second Quarter (April to June) | Third Quarter (July to September) | Fourth Quarter (October to December) |
|---|---|---|---|---|
| Operating income | 16,564,814 | 20,428,377 | 17,591,471 | 23,309,623 |
| Net profit attributable to equity shareholders of the Company | 1,145,237 | 1,951,438 | 1,033,386 | 1,825,515 |
| Net profit attributable to equity shareholders of the Company excluding non-recurring items | 1,153,846 | 1,963,739 | 972,315 | 1,832,088 |
| Net cash flow generated from operating activities | 1,947,815 | 2,697,209 | 656,447 | 1,909,486 |

# Principal Products

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

The following table sets forth the net sales of the Group's major products in 2016 as a percentage of total net sales and their typical uses.




| Major products sold by the Company | % of 2016 net sales | Main use |
|---|---|---|
| **Manufactured products** | | |
| **Synthetic Fibres** | | |
| Polyester staple | **0.42** | Textiles and apparel |
| Acrylic staple | **2.23** | Cotton type fabrics, wool type fabrics |
| Others | **0.16** | |
| **Subtotal:** | **2.81** | |

| Major products sold by the Group | % of 2016 net sales | Main use |
|---|---|---|
| **Resins and Plastics** | | |
| Polyester chips | 2.45 | Polyester fibres, films and containers |
| PE pellets | 5.25 | Films, ground sheeting, wire and cable compound and other injection moulding products such as housewares and toys |
| PP pellets | 4.89 | Films or sheets, injection moulding products such as housewares, toys and household electrical appliances and automobile parts |
| PVA | 0.21 | PVA fibres, building coating materials and textile starch |
| Others | 2.06 | |
| **Subtotal:** | 14.86 | |
| **Intermediate Petrochemical Products** | | |
| Ethylene | 0.38 | Feedstock for PE, EG, PVC and other intermediate petrochemicals which can be further processed into resins and plastics and synthetic fibre |
| Ethylene Oxide | 1.55 | Intermediate for chemical and pharmaceutical industry, dyes, detergents and adjuvant |
| Benzene | 2.27 | Intermediate petrochemical products, styrene, plastics, explosives, dyes, detergents, epoxies and polyamide fibre |
| PX | 3.62 | Intermediate petrochemical, polyester |
| Butadiene | 1.17 | Synthetic rubber and plastics |
| Ethylene Glycol | 1.70 | Fine chemicals |
| Others | 2.70 | |
| **Subtotal:** | 13.39 | |
| **Petroleum Products** | | |
| Gasoline | 15.80 | Transportation fuels |
| Diesel | 13.02 | Transportation and agricultural machinery fuels |
| Jet fuel | 2.33 | Transportation fuels |
| Others | 5.25 | |
| **Subtotal:** | 36.40 | |
| **Trading of petrochemical products** | 31.22 | **Import and export trade of petrochemical products (purchased from domestic and overseas suppliers)** |
| **Others** | 1.32 | |
| **TOTAL:** | 100 | |

# Changes in Share Capital of Ordinary Shares and Shareholders

## (1) Changes in share capital of ordinary shares during the Reporting Period

### 1. Changes in share capital of ordinary shares during the Reporting Period

Unit: Shares

| Type of shares | Beginning of the Reporting Period: Number of shares | Beginning of the Reporting Period: Percentage (%) | Increase/decrease (+, -) during the Reporting Period: Number of new shares issued | Number of bonus shares | Number of shares capitalised from reserves | Others | Subtotal | End of the Reporting Period: Number of shares | End of the Reporting Period: Percentage (%) |
|---|---|---|---|---|---|---|---|---|---|
| 1. Unlisted circulating shares | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| (1) Shares of Promoters including: | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Shares held by the State | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| (2) Shares of fund-raising legal person | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 2. Shares with trading restrictions | 4,380,000,000 A shares | 40.56 | 0 | 0 | 0 | -4,380,000,000 A shares | -4,380,000,000 A shares | 0 | 0 |
| (1) Shares held by state-owned legal person | 4,380,000,000 A shares | 40.56 | 0 | 0 | 0 | -4,380,000,000 A shares | -4,380,000,000 A shares | 0 | 0 |
| (2) Shares held by other domestic investors | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 3. Listed circulating shares | 6,420,000,000 A shares or H shares | 59.44 | 0 | 0 | 0 | +4,380,000,000 A shares | +4,380,000,000 A shares | 10,800,000,000 A shares or H shares | 100 |
| (1) RMB-denominated ordinary shares | 2,925,000,000 A shares | 27.08 | 0 | 0 | 0 | +4,380,000,000 A shares | +4,380,000,000 A shares | 7,305,000,000 A shares | 67.64 |
| (2) Overseas listed foreign shares | 3,495,000,000 H shares | 32.36 | 0 | 0 | 0 | 0 | 0 | 3,495,000,000 H shares | 32.36 |
| Total | 10,800,000,000 A shares or H shares | 100 | 0 | 0 | 0 | 0 | 0 | 10,800,000,000 A shares or H shares | 100 |

### 2. Changes in shares with trading restrictions during the Reporting Period

Unit: Shares

| Name of shareholders | Number of shares with trading restrictions at the beginning of the year | Number of shares with trading restrictions released during the year | Increase in number of shares with trading restrictions during the year | Number of shares with trading restrictions at the end of the year | Reason for restriction | Date of release of trading restrictions |
|---|---|---|---|---|---|---|
| China Petroleum & Chemical Corporation | 4,380,000,000 A shares | 4,380,000,000 A shares | 0 | 0 | Undertaking in shareholding restructuring | 22/08/2016 |
| Total | 4,380,000,000 A shares | 4,380,000,000 A shares | 0 | 0 | / | / |

## (2) Issue of shares

### 1. Issue of shares during the Reporting Period

During the Reporting Period, the Group did not issue any securities.

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

There were no changes in the Company's total number of shares, shareholding structure and the Company's assets and liabilities position due to bonus issue of shares or share placements during the Reporting Period.

### 3. Employees shares

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

## (3) Shareholders and de facto controller

### 1. Total number of shareholders

| | |
|---|---|
| Number of shareholders of ordinary shares as at the end of the Reporting Period | 121,214 |
| Number of shareholders of ordinary shares as at the end of the month immediately preceding the publication date of the annual report | 114,205 |

## 2. Shareholding of the top ten shareholders as at the end of the Reporting Period

Unit: Shares

| Shareholding of the top ten shareholders | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | | | | | Pledged/frozen | | | |
| Name of shareholders (In full) | Class of shares | Increase/ decrease of shareholding during the Reporting Period (Shares) | Number of shares held at the end of the Reporting Period (Shares) | Percentage of shareholding (%) | Number of shares held with trading restrictions (Shares) | Status of shares | Number of shares | Nature of shareholders |
| China Petroleum & Chemical Corporation | A shares | 0 | 5,460,000,000 | 50.56 | 0 | None | 0 | State-owned legal person |
| HKSCC (Nominees) Limited | H shares | 1,600,000 | 3,454,966,321 | 31.99 | 0 | Unknown | – | Overseas legal person |
| China Securities Finance Corporation Limited | A shares | 37,317,811 | 332,103,090 | 3.08 | 0 | None | 0 | Others |
| Central Huijin Investment Ltd. | A shares | 0 | 67,655,800 | 0.63 | 0 | None | 0 | Others |
| China Life Insurance Company Limited-Dividend-Individual-Dividend-005L-FH002 Shanghai | A shares | Unknown | 32,572,140 | 0.30 | 0 | None | 0 | Others |
| Shanghai Kangli Industry and Trade Co., Ltd | A shares | 960,000 | 22,375,300 | 0.21 | 0 | None | 0 | Others |
| Bank of China Limited – China New Economy Flexible Allocation Hybrid Start-up Securities Investment Fund | A shares | 0 | 19,645,656 | 0.18 | 0 | None | 0 | Others |
| Abu Dhabi Investment Authority | A shares | Unknown | 18,755,639 | 0.17 | 0 | None | 0 | Others |
| NSSF Combination 412 | A shares | 1,677,992 | 17,412,997 | 0.16 | 0 | None | 0 | Others |
| NSSF Combination 414 | A shares | Unknown | 14,999,808 | 0.14 | 0 | None | 0 | Others |
| Note on connected relations or acting in concert of the above shareholders | Among the above-mentioned shareholders, China Petroleum & Chemical Corporation, a State-owned legal person, does not have any connected relationship with the other shareholders, and does not constitute an act-in-concert party under the Administrative Measures on Acquisition of Listed Companies. Among the above-mentioned shareholders, HKSCC (Nominees) Limited is a nominee. Apart from the above, the Company is not aware of any connected relations among the other shareholders, or whether any other shareholder constitutes an act-in-concert party under the Administrative Measures on Acquisition of Listed Companies. | | | | | | | |

## (4) Details of the controlling shareholder and the de facto controller

### (i). Details of the controlling shareholder

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

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

## (4) Details of the controlling shareholder and the de facto controller *(continued)*

### (ii). Details of the de facto controller

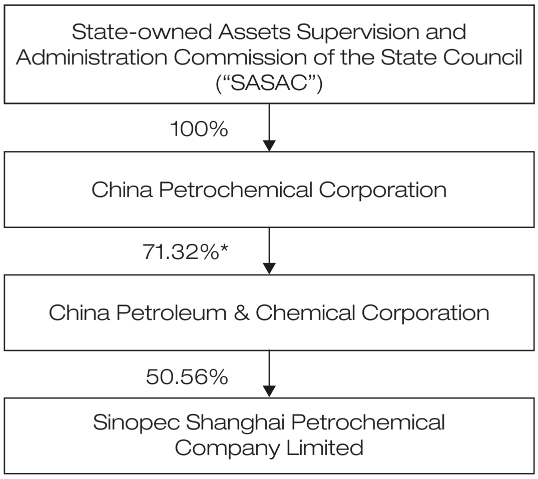
| | |
|---|---|
| Name | China Petrochemical Corporation |
| Responsible person or legal representative | Wang Yupu |
| Date of incorporation | 24 July 1998 |
| Major businesses operations | According to Sinopec Group's restructuring in 2000, China Petrochemical Corporation injected its main petrochemical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

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

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

## (4) Details of the controlling shareholder and the de facto controller *(continued)*

**(iii). Diagram of the ownership and controlling relationship between the Company and the controlling shareholder and the de facto controller**




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

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

As at 31 December 2016, HKSCC (Nominees) Limited held 3,454,966,321 H shares of the Company, representing 31.99% of the total number of issued shares of the Company.

## (6) Public float

Based on the public information available to the Board, as at 15 March 2017, the Company had a public float which is in compliance with the minimum requirement under the Hong Kong Listing Rules.

## (7) Interests and short positions of the substantial shareholders of the Company in shares and underlying shares of the Company

As at 31 December 2016, so far as was known to the Directors or chief executive of the Company, the interests and short positions in the shares and underlying shares of the Company's substantial shareholders (including those who are entitled to exercise or control the exercise of 5% or more of the voting power at any general meeting of the Company but excluding the Directors, chief executive and Supervisors) who are required to disclose their interests pursuant to Divisions 2 and 3 of Part XV of the SFO or as recorded in the register of interests required to be kept under section 336 of the SFO were as set out below:

### Interests in ordinary shares of the Company

| Name of shareholders | Interests held or deemed as held (shares) | Note | Percentage of total issued shares (%) | Percentage of total issued H shares (%) | Capacity |
|---|---|---|---|---|---|
| China Petroleum & Chemical Corporation | 5,460,000,000 A shares (L) Promoter legal person shares | | 50.56 | — | Beneficial owner |
| BlackRock, Inc. | 217,219,026 H shares (L) | (1) | 2.01 | 6.22 | Interests of controlled corporation |
| | 228,000 H shares (S) | (2) | 0.002 | 0.06 | Interests of controlled corporation |

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

Notes:

(1) Of the H shares (long position) held by BlackRock, Inc., 4,381,400 H shares (long position) were held through cash settled unlisted derivatives.

(2) All the 228,000 H shares (short position) held by BlackRock, Inc., were held through cash settled unlisted derivatives.

Save as disclosed above, as at 31 December 2016, the Directors have not been notified by any person (other than the Directors, chief executive and Supervisors) who had interests or short positions in the shares and underlying shares of the Company which would fall to be disclosed to the Company pursuant to Divisions 2 & 3 of Part XV of the SFO or as recorded in the register of interests required to be kept by the Company under Section 336 of the SFO.

# Directors, Supervisors, Senior Management and Employees

## 1. Changes in shareholdings and remuneration

**Changes in shareholdings and remuneration of Directors, Supervisors and senior management who hold the position currently or left the office during the Reporting Period**

| Name | Position | Sex | Age | Date of commencement of service term | Date of end of service term | Number of shares held at the beginning of the Reporting Period | Number of shares held at the end of the Reporting Period | Change in number of shares during the Reporting Period | Reason of change | Total remuneration received from the Company during the Reporting Period (before taxation) (RMB' ten thousand) | Whether received remuneration from connected person(s) of the Company |
|---|---|---|---|---|---|---|---|---|---|---|---|
| Wang Zhiqing | Chairman, President & Executive Director | M | 54 | June 2014 | June 2017 | 0 | 0 | 0 | – | 78.14 | No |
| Wu Haijun | Vice Chairman & Executive Director | M | 54 | June 2014 | June 2017 | 0 | 0 | 0 | – | 0 | Yes |
| Gao Jinping | Vice Chairman,Vice President & Executive Director | M | 50 | June 2014 | June 2017 | 0 | 0 | 0 | – | 78.05 | No |
| Ye Guohua* | Executive Director,Vice President & Chief Financial Officer | M | 48 | June 2014 | January 2017 | 0 | 0 | 0 | – | 68.30 | No |
| Jin Qiang | Executive Director & Vice President | M | 51 | June 2014 | June 2017 | 0 | 0 | 0 | – | 74.70 | No |
| Guo Xiaojun | Executive Director & Vice President | M | 47 | June 2014 | June 2017 | 0 | 0 | 0 | – | 67.69 | No |
| Lei Dianwu | Non-executive Director | M | 54 | June 2014 | June 2017 | 0 | 0 | 0 | – | 0 | Yes |
| Mo Zhenglin | Non-executive Director | M | 52 | June 2014 | June 2017 | 0 | 0 | 0 | – | 0 | Yes |
| Choi Ting Ki | Independent Non-executive Director | M | 62 | June 2014 | June 2017 | 0 | 0 | 0 | – | 15 | No |
| Zhang Yimin | Independent Non-executive Director | M | 62 | June 2014 | June 2017 | 0 | 0 | 0 | – | 15 | No |
| Liu Yunhong | Independent Non-executive Director | M | 40 | June 2015 | June 2017 | 0 | 0 | 0 | – | 15 | No |
| Du Weifeng | Independent Non-executive Director | M | 40 | June 2015 | June 2017 | 0 | 0 | 0 | – | 15 | No |
| Zuo Qiang | Supervisor | M | 54 | June 2014 | June 2017 | 0 | 0 | 0 | – | 42.98 | No |
| Li Xiaoxia | Supervisor | F | 47 | June 2014 | June 2017 | 0 | 0 | 0 | – | 39.13 | No |
| Zhai Yalin | Supervisor | M | 52 | June 2014 | June 2017 | 0 | 0 | 0 | – | 0 | Yes |
| Zheng Yunrui | Independent Supervisor | M | 51 | December 2014 | June 2017 | 0 | 0 | 0 | – | 0 | No |
| Pan Fei | Independent Supervisor | M | 60 | June 2015 | June 2017 | 0 | 0 | 0 | – | 0 | No |
| Zhang Jianbo | Secretary to the Board of Directors, Joint Company Secretary | M | 54 | March 2016 | June 2017 | 0 | 0 | 0 | – | 31.84 | No |
| Jin Wenmin | Vice President | M | 51 | September 2016 | June 2017 | 0 | 0 | 0 | – | 8.55 | No |
| Zhou Meiyun | Vice President & Chief Financial Officer | M | 47 | February 2017 | June 2017 | – | – | – | – | 0 | No |
| Kuang Yuxiang | Former Chairman of the Supervisory Committee | M | 54 | April 2015 | July 2016 | 0 | 0 | 0 | – | 47.12 | No |
| Wang Liqun | Former Supervisor | M | 59 | June 2014 | February 2016 | 0 | 0 | 0 | – | 0 | Yes |
| Total | / | / | / | / | / | 0 | 0 | 0 | / | 596.5 | / |

* On 26 January 2017, Mr. Ye Guohua requested to resign from his positions as Executive Director, Vice President and Chief Financial Officer due to a new working arrangement. Mr. Ye's resignation took effect upon the submission of the resignation letter to the Board of the Company on 26 January 2017.

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

### Directors:

**Wang Zhiqing**, aged 54, is an Executive Director, Chairman, President and Deputy Secretary of the Communist Party Committee of the Company. Mr. Wang started his career in 1983 and has held various positions, including Deputy Leader of the preparatory team for the chemical fibre plant of Luoyang Petrochemical Complex, Deputy Chief Engineer of Luoyang Petrochemical Complex cum Officer-in-Charge of the preparatory team for the complex's chemical fibre plant, and then Deputy Chief Engineer of the complex cum Director of the chemical fibre plant. Mr. Wang was Chief Engineer of Luoyang Petrochemical Complex from June 1999 to December 2001, Vice President cum Chief Engineer of SINOPEC Luoyang Company from February 2000 to December 2001, Manager of SINOPEC Luoyang Company from December 2001 to October 2006, Leader of the preparatory team for a Sinopec refinery project in Guangxi from July 2005 to May 2007, manager of SINOPEC Jiujiang Company from October 2006 to December 2008, President of SINOPEC Jiujiang Company from December 2008 to July 2010, President and Deputy Secretary of the Communist Party Committee of the Company since July 2010, and Executive Director of the Company since December 2010. He was Vice Chairman of the Company from December 2010 to June 2013 and Director and Chairman of Shanghai SECCO from February 2011 to March 2015. Mr. Wang was appointed Chairman of the Company in June 2013, and was appointed Vice Chairman of Shanghai SECCO in March 2015. He graduated from the East China Petroleum Institute with a bachelor's degree in engineering in 1983, majoring in refinery engineering, and graduated from China University of Petroleum (East China) with a doctorate's degree in engineering in 2006, majoring in chemical engineering and technology. In addition, he graduated from The Open University of Hong Kong and China Europe International Business School with a master's degree in business administration in 2001 and 2013, respectively. He is a professor-grade senior engineer by professional title.

**Wu Haijun**, aged 54, is an Executive Director and Vice Chairman of the Company, and a Director, President and Secretary of the Communist Party Committee of Shanghai SECCO. Mr. Wu joined the Shanghai Petrochemical Complex (the "Complex") in 1984 and has held various positions, including Deputy Director and Director of the Company's No.2 Chemical Plant, as well as manager of the Chemical Division. He was Vice President of the Company from May 1999 to March 2006 and Director of the Company from June 2004 to June 2006. Mr. Wu was manager and Secretary of the Communist Party Committee of the Chemical Sales Branch of Sinopec Corp. from December 2005 to March 2008. From December 2005 to April 2010, he was Director of the Chemical Business Department of Sinopec Corp. In April 2010, he was appointed as a Director of Shanghai SECCO. From April 2010 to February 2011, Mr. Wu was President of Shanghai SECCO. In April 2010, he was appointed Secretary of the Communist Party Committee of Shanghai SECCO and in June 2010 he was appointed Director and Vice Chairman of the Company. From February 2011 to March 2015, he acted as Vice President of Shanghai SECCO, and was appointed President of Shanghai SECCO in March 2015. Mr. Wu graduated from the East China Institute of Chemical Technology in 1984, majoring in chemical engineering, and obtained a bachelor's degree in engineering. In 1997, he obtained a master's degree in business administration from the China Europe International Business School. He is a senior engineer by professional title.

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

**Gao Jinping**, aged 50, is an Executive Director, Vice Chairman, Secretary of the Communist Party Committee and Vice President of the Company. Mr. Gao joined the Complex in 1990 and has held various positions, including Deputy Secretary of the Communist Youth League of the Company, Deputy Secretary of the Communist Party Committee of the Experimental Plant and Chemical Division of the Company, and Director of the Propaganda Department of the Company. Mr. Gao was Deputy Secretary of the Communist Party Committee from May 2003 to March 2013, Chairman of the Labour Union of the Company from May 2003 to November 2013, and was a director of the Company from June 2004 to June 2006. Mr. Gao was the Secretary of the Communist Party Discipline Supervisory Committee of the Company from April 2006 to March 2013, and was Supervisor and Chairman of the Supervisory Committee of the Company from June 2006 to April 2013. He has been Secretary of the Communist Party Committee of the Company since March 2013, as well as Vice President of the Company since April 2013. In June 2013, Mr. Gao was appointed as an Executive Director of the Company. In June 2014, Mr. Gao was appointed as Vice Chairman of the Company. Mr. Gao graduated from the Food Processing Faculty of Shanghai Aquatic Products University with a major in cooling and cold storage technology and obtained a bachelor's degree in engineering in 1990. In 2001, he completed his post-graduate studies in business administration in the aspect of industrial economics at Shanghai Academy of Social Sciences. He holds professor-grade senior professional technical qualification.

**Jin Qiang**, aged 51, is an Executive Director and Vice President of the Company. Mr. Jin joined Zhenhai General Petrochemical Works in 1986 and has held various positions, including Deputy Chief of the Utilities Department, Deputy Director and Director of the Machinery and Power Division of SINOPEC Zhenhai Refining & Chemical Co., Ltd., and Director of the Machinery and Power Division of SINOPEC Zhenhai Refining & Chemical Company. Mr. Jin was Deputy Chief Engineer of SINOPEC Zhenhai Refining & Chemical Company from March 2007 to October 2011, and was appointed Vice President of the Company in October 2011. In June 2014, Mr Jin was appointed Executive Director of the Company. Mr. Jin graduated from the East China Institute of Chemical Technology in 1986 majoring in chemical machinery, and graduated from the Graduate School of Central Party School in 2007 majoring in economic management. He is a professor-grade senior engineer by professional title.

**Guo Xiaojun**, aged 47, is an Executive Director and Vice President of the Company. Mr. Guo joined the Complex in 1991. He has held various positions, including Director of the Polyolefin Integrated Plant in the Plastics Division, Deputy Chief Engineer in the Plastics Division, Deputy to the Manager, Deputy Manager and Manager cum Deputy Secretary of the Communist Party Committee of the Company. He was Deputy Chief Engineer and Director of the Production Department of the Company from March 2011 to April 2013 and has served as Vice President of the Company since April 2013. In June 2014, Mr. Guo was appointed Executive Director of the Company. He graduated from the East China University of Science and Technology in 1991 with a bachelor's degree in engineering, majoring in basic organic chemical engineering and obtained a master's degree majoring in chemical engineering from the East China University of Science and Technology in April 2008. He is a senior engineer by professional title.

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

**Lei Dianwu**, aged 54, is a Non-executive Director of the Company, Secretary to the board of directors, Chief Economist, Assistant to the President of Sinopec Group, and Vice President of Sinopec Corp., the controlling shareholder of the Company. From June 2005, Mr. Lei has served as Non-executive Director of the Company. Mr. Lei has held various positions, including Deputy Director of Planning Division and Director of the Preparation Office of the Joint Venture of Yangzi Petrochemical Company, and Vice President and manager of the Production Division of Yangzi BASF Stylene Company Limited. He acted as Deputy Manager of Yangzi Petrochemical Company and Deputy Director of its Joint Venture Office, Director of the Development and Planning Division of China Dong Lian Petrochemical Limited Liabilities Company, Deputy General Manager of Yangzi Petrochemical Limited Liabilities Company and Deputy Director of the Development and Planning Division of Sinopec Corp. From March 2001 to August 2013, he was Director of Development and Planning Division of Sinopec Corp. Mr. Lei was appointed Assistant to the President of Sinopec Group in March 2009, and Vice President of Sinopec Corp. in May 2009, and Chief Economist of Sinopec Group in August 2013. From October 2015, Mr. Lei has acted as the Secretary to the board of directors of Sinopec Group. Mr. Lei has rich experience in enterprise planning and investment development management. In 1984, Mr. Lei graduated from the East China Petroleum Institute majoring in basic organic chemicals and obtained a bachelor's degree in engineering. He is a senior engineer by professional title.

**Mo Zhenglin**, aged 52, is a Non-Executive Director of the Company, Deputy Director and Chief Accountant of the Chemical Division of Sinopec Corp., and Director of Shanghai SECCO. In June 2014 Mr. Mo was appointed as Non-executive Director of the Company. Mr. Mo began his career in August 1986 and has held various positions, including Deputy Director of the Finance Department and Head of the Accounting Department of Beijing Yanshan Petrochemical Corporation and Chief Accountant and Director of the Finance Department of its Refinery Division, and Deputy Chief Accountant of SINOPEC Beijing Yanshan Company and Chief Accountant of its Refinery Division. He served as Director of Beijing Yanshan Petrochemical Company Limited and Chief Accountant of SINOPEC Beijing Yanshan Company from April 2002 to August 2008. Mr. Mo has been Chief Accountant of the Chemical Division of Sinopec Corp. since August 2008, and Director of Shanghai SECCO since November 2008. In March 2015, he was appointed Deputy Director of the Chemical Division of Sinopec Corp. Mr. Mo obtained a bachelor's degree in management from Zhongnan University of Economics in 1986, majoring in finance and accounting. He is a senior accountant by professional title.

**Choi Ting Ki**, aged 62, is an Independent Non-executive Director of the Company and a Fellow of the Hong Kong Institute of Certified Public Accountants. Mr. Choi has been an Independent Non-executive Director of the Company since June 2011. Mr. Choi has been an independent non-executive director of Yangtzekiang Garment Limited (listed on the Main Board of the Hong Kong Stock Exchange, stock code: 00294) and YGM Trading Limited (listed on the Main Board of the Hong Kong Stock Exchange, stock code: 00375) since December 2012. Mr. Choi graduated from the Department of Accounting, Hong Kong Polytechnic in 1978. He joined KPMG in the same year and has held various positions, including Partner of the audit department of KPMG Hong Kong Office, Executive Partner of KPMG Shanghai Office, Principal Partner of KPMG Huazhen Shanghai Office as well as Principal Partner of KPMG Huazhen in Eastern and Western China. Mr. Choi retired from KPMG Huazhen in April 2010.

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

**Zhang Yimin**, aged 62, is an Independent Non-executive Director of the Company and a Professor of Economics and Finance at the China Europe International Business School. He has been an Independent Non-Executive Director of the Company since October 2013. Mr. Zhang has been an independent director of Shanghai Huayi Group Corporation Ltd. (listed on the Shanghai Stock Exchange, stock code: 600623) since April 2015. Mr. Zhang obtained a doctorate's degree majoring in finance and political studies at the Business School of the University of British Columbia, Canada, and has held various positions, including a Post-doctoral Fellow at the Business School of the University of British Columbia, Canada, Assistant Professor at the Business School of the University of New Brunswick, Canada, and Associate Professor of Economics and Finance Department at the City University of Hong Kong. He was appointed as Professor of the China Europe International Business School in September 2004. His major area of research is in operations, financing and industrial economic studies. He possesses a wealth of professional expertise and experience.

**Liu Yunhong**, aged 40, is an Independent Non-executive Director of the Company, Assistant to General Manager of Hwabao Securities Co. Ltd. and General Manager of Investment Banking Department of Hwabao Securities Co. Ltd. He is also the Deputy Head of the Institute of International M&A and Investment, Renmin University of China. He has been an Independent Non-executive Director of the Company since June 2015. Mr. Liu is an independent director of Guangdong HEC Technology Holding Co., Ltd. (listed on the Shanghai Stock Exchange, stock code: 600673) and Shanghai Aerospace Automobile Electromechanical Co., Ltd. (listed on the Shanghai Stock Exchange, stock code: 600151). From June 2008 to August 2010, Mr. Liu has been the Head of Legal and Compliance Division of Guotai Asset Management Co., Ltd. From October 2008 to August 2010, Mr. Liu conducted post-doctoral research in economics at Guanghua School of Management, Peking University and was conferred as an assistant professor and master postgraduate instructor. From October 2010 to July 2012, he worked for fund product development and supervision of listed companies at the Shanghai Stock Exchange. From August 2012 to September 2013, Mr. Liu was General Manager of Investment Banking Department of Aerospace Securities Co., Ltd. Since October 2013, Mr. Liu has been the General Manager of the Institutional Business Department of Hwabao Securities Co. Ltd. Since May and September 2015, Mr. Liu has been the General Manager of the Investment Banking Department and Assistant to General Manager of Hwabao Securities Co. Ltd., respectively. Since May 2014, Mr. Liu has been Deputy Head of the Institute of International M&A and Investment, Renmin University of China. Mr. Liu obtained a doctorate's degree in law from Renmin University of China, majoring in civil and commercial Law in 2008. Mr. Liu is a research fellow by professional title.

**Du Weifeng**, aged 40, is an Independent Non-executive Director of the Company and a Partner of Beijing JunZeJun (Shanghai) Law Offices. He has served as the Company's Independent Non-executive Director since June 2015. Mr. Du began his career in July 1998. He has held various positions, including Clerk and Assistant Judge of Shanghai Pudong New Area People's Court and worked as a lawyer at Watson & Band Law Offices in Shanghai and at Wintell & Co Law Firm in Shanghai. He has been a Partner of the Shanghai branch of Beijing JunZeJun Law Offices since February 2009. With extensive experience as a lawyer, Mr. Du is the designated lawyer of some banks' headquarters, Shanghai branches, Shanghai branch of the state-owned asset management companies and private asset management companies. Mr. Du obtained a bachelor's degree in Commercial Law from Shanghai University in July 1998, and a master's degree in commercial law from Bristol University in September 2005. He also obtained a master's degree in business administration from China Europe International Business School in 2013.

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

### Supervisors:

**Zuo Qiang**, aged 54, is a Supervisor, Deputy Chief of Political Work, Deputy Secretary of Discipline Inspection Commission, Director of the Supervisory Office, Director of Supervisory Committee Office and Chief Legal Counsel of the Company. Mr. Zuo joined the Complex in 1981 and has held various positions, including archivist of the Command Division for the construction of Phase II of No. 1 Chemical Plant of the Complex, Head of Archives at the ethylene plant, Secretary of the Youth League Committee of the ethylene plant, Secretary of the Youth League Committee of the Refining and Chemical Division of the Complex, Secretary of the Youth League Committee of the Refining and Chemical Division of the Company, Secretary of the General Branch of the Communist Party Committee of Ethylene Plant No. 1 of the Refining and Chemical Division of the Company, and Deputy Director of the Supervisory Office of the Company and the Secretary of the Corporate Discipline Supervisory Committee of the Company. In April 2011, he was appointed Director of the Supervisory Office of the Company, and has been serving as Supervisor and Director of Supervisory Committee Office of the Company since June 2011, and Deputy Secretary of the Discipline Inspection Commission of the Company since October 2011. In February 2016, he was appointed the Deputy Chief of Political Work of the Company. He has served as Chief Legal Counsel of the Company since February 2017. Mr. Zuo graduated from the Correspondence College of the Communist Party Committee School of the Central Committee in 1993 majoring in party & administrative management. He has senior professional technical qualification.

**Li Xiaoxia**, aged 47, is a Supervisor and Vice Chairman of the Labour Union of the Company. Ms. Li joined the Complex in 1991 and has held various positions, including Controller of the operation zone of the marine terminal of the Company, Assistant to the Workshop Director, Deputy Workshop Director and Deputy Section Chief of Storage and Transportation Area No. 2 of the Refining and Chemical Division, Deputy Secretary of the Youth League Committee of the Company, Secretary of Party General Branch for Staff Exchange and Relocation Centre, Secretary of the Communist Party Committee and Deputy Manager of the Refining Division of the Company. She was appointed as Supervisor of the Company in June 2011 and Vice Chairman of the Labour Union of the Company in December 2011. Ms. Li graduated from Liaoning University of Petroleum and Chemical Technology in 1991 majoring in petroleum and natural gas transportation. She has senior professional technical qualification.

**Zhai Yalin**, aged 52, is an External Supervisor of the Company, Deputy Director of the Auditing Bureau of Sinopec Group, and Deputy Director of Auditing Department of Sinopec Corp. Mr. Zhai has been an External Supervisor of the Company since June 2008. Mr. Zhai started his career in 1986 and successively served as Deputy Head of the Head Office and Director of the Auditing Department of Qianguo Refinery, Deputy Director of the General Office of Sinopec Huaxia Auditing Company, Deputy Director of the General Administrative Office of the Auditing Bureau of China Petrochemical Corporation, Director of the General Administrative Office of the Auditing Bureau of Sinopec Group, and Director of the General Administrative Office of the Auditing Bureau of Sinopec Group (Auditing Department of Sinopec Corp.). Since December 2001, Mr. Zhai has concurrently held the posts of Deputy Director of the Auditing Bureau of Sinopec Group and Deputy Director of Auditing Department of Sinopec Corp. Mr. Zhai graduated from the Jilin Siping Normal College in 1986 and is a senior economist by professional title.

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

**Zheng Yunrui**, aged 51, is an Independent Supervisor of the Company and a professor in civil and commercial law at the Faculty of Law of the East China University of Political Science and Law in the PRC. He has served as the Company's Independent Supervisor since December 2014. Mr. Zheng is an independent director of Hangzhou Innover Technology Co., Ltd. (listed on the Shenzhen Stock Exchange, stock code: 002767), Yangzhou Chenhua New Material Co., Ltd. (listed on the Shenzhen Stock Exchange, stock code: 300610), and Shandong Jiangquan Industry Co., Ltd. (listed on the Shanghai Stock Exchange, stock code: 600212). Mr. Zheng graduated from the Shangrao Normal University in Jiangxi Province, majoring in English Language. Mr. Zheng obtained a master's degree in law and a doctorate's degree in law from the Faculty of Law of Peking University in July 1993 and July 1998, respectively. Mr. Zheng previously worked at the Education Bureau of Shangrao County, Jiangxi Province, Hainan Airport Limited, China Township Enterprise Investment and Development Company Limited and the Legal Affairs Office of the Shanghai Municipal People's Government. He has been teaching at East China University of Political Science and Law since August 2001. He was a visiting scholar at the Faculty of Law of National University of Singapore between July 2002 and December 2002. Mr. Zheng has been engaged in trials, teaching and research relating to civil law, property law, contract law, company law, insurance law, social insurance law and government procurement law. He is experienced in the legal affairs on corporate governance and has great academic achievements. He is also an arbitrator at the Arbitration Commission of Shenzhen, Shenyang, Xuzhou and Wuxi.

**Pan Fei**, aged 60, is an Independent Supervisor of the Company and a Professor of Accounting of the Accounting School at Shanghai University of Finance and Economics. He has served as the Company's Independent Supervisor since June 2015. Mr. Pan is an independent director of Universal Scientific Industrial (Shanghai) Co., Ltd. (listed on the Shanghai Stock Exchange, stock code: 601231), an independent non-executive director of China Hengshi Foundation Company Limited (listed on the Main Board of the Hong Kong Stock Exchange, stock code: 1197), an independent director and independent non-executive director of Orient Securities Company Limited (listed on both the Shanghai Stock Exchange and the Main Board of the Hong Kong Stock Exchange, stock code: 600958 and 3958, respectively). Mr. Pan began his career in 1983. He had been the Lecturer and Associate Professor at the Shanghai University of Finance and Economics. In 2000, he was appointed as Professor of Accounting of Shanghai Finance University. From 2000 to 2015, he served as the Associate Dean of the Accounting School at Shanghai University of Finance and Economics. Mr. Pan has extensive experience in teaching accounting, research and corporate consultation. Mr. Pan graduated from Shanghai University of Finance and Economics majoring in accounting in January 1983 and obtained a master's degree in accounting majoring in cost management accounting from the Shanghai University of Finance and Economics in January 1991. He has also obtained a doctorate's degree in accounting majoring in accounting theory from the Shanghai University of Finance and Economics.

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

### Senior Management:

**Zhang Jianbo**, aged 54, is Deputy Secretary of the Communist Party Committee, Secretary of the Communist Party Discipline Supervisory Committee, Chairman of the Labour Union, Secretary to the Board and Joint Company Secretary of the Company. Mr. Zhang started his career in 1985. He served as Deputy Director of Enterprise Leadership Management Office of the Education Department of Sinopec Group, Deputy Director of Appraised and Appointment Management Office of Human Resources Department of Sinopec Corp. and Director of the Supervisory Office of the Human Resources Department of Sinopec Group. Mr. Zhang was appointed Deputy Secretary of the Communist Party Committee of the Company in August 2013. He was Secretary of the Committee Party Discipline Supervisory Committee from August 2013 to March 2015 and was appointed as Chairman of the Labour Union in November 2013. Mr. Zhang was the Chairman of the Supervisory Committee of the Company from November 2013 to March 2015. Mr. Zhang served as the Chief Legal Counsel of the Company from July 2014 to February 2016, and was appointed the Secretary to the Board and Joint Company Secretary of the Company in March 2016. Mr. Zhang graduated from the Jianghan Petroleum Institute (now known as Yangtze University) and obtained a bachelor's degree in engineering in 1985. He holds professor-grade senior professional technical qualification.

**Jin Wenmin**, aged 51, is Vice President of the Company. Mr. Jin joined the Complex in 1985 and served as the Secretary of the Communist Party Committee of the Company's No.1 Oil Refining Device of Refining Unit, Head of Butadiene Device, Manager of the storage and transportation, branch company, manager and Deputy Secretary of the Communist Party Committee of Storage and Transportation Department, manager and Deputy Secretary of the Communist Party Committee of Oil Refining Department etc. From April 2013 to February 2017, Mr. Jin was appointed as Head of Production Department of the Company. From May 2013 to August 2016, Mr. Jin was appointed as Assistant to the President of the Company and was appointed as Vice President of the Company in September 2016. Mr. Jin graduated from the Shanghai Second Polytechnic University in July 2003, majoring in business administration. He is a senior engineer by professional title.

**Zhou Meiyun**, aged 47, is Vice President and Chief Financial Officer of the Company. Mr. Zhou joined the Complex in 1991 and has held various positions, including Officer, Assistant to Manager, Deputy Manager and Manager of the Finance Department of the Company. He was appointed Manager of the Finance Department of Shanghai SECCO in May 2011 and Vice President and Chief Financial Officer of the Company in February 2017. Mr. Zhou graduated from the Shanghai University of Finance and Economics in 1991 majoring in accounting, and obtained a master's degree in economics from the Huazhong University of Science and Technology majoring in western economics in 1997. He is a senior accountant by professional title.

## (3) Share options held by the Directors, Supervisors and senior management during the Reporting Period

Unit: Shares

| Name | Position | Number of A shares share options held at the beginning of the Reporting Period | Number of A shares share options granted during the Reporting Period | Number of A shares share options exercisable during the Reporting Period | Number of A shares share options exercised during the Reporting Period | Number of A shares share options cancelled or lapsed during the Reporting Period | Number of A shares share options held at the end of the Reporting Period |
|---|---|---|---|---|---|---|---|
| Wang Zhiqing | Executive Director, Chairman and President | 500,000 | 0 | 0 | 0 | 0 | 500,000 |
| Gao Jinping | Executive Director, Vice Chairman and Vice President | 500,000 | 0 | 0 | 0 | 0 | 500,000 |
| Ye Guohua* | Executive Director, Vice President and Chief Financial Officer | 430,000 | 0 | 0 | 0 | 0 | 430,000 |
| Jin Qiang | Executive Director and Vice President | 430,000 | 0 | 0 | 0 | 0 | 430,000 |
| Guo Xiaojun | Executive Director and Vice President | 430,000 | 0 | 0 | 0 | 0 | 430,000 |
| Jin Wenmin | Vice President | 250,000 | 0 | 0 | 0 | 0 | 250,000 |
| Total | / | 2,540,000 | | | | | 2,540,000 |

* Mr. Ye Guohua submitted his resignation to the Company on 26 January 2017. According to the relevant terms of the Share Option Incentive Scheme, share options granted to Mr. Ye have lapsed.

## (4) Positions held in the Company's shareholders during the Reporting Period

| Name | Name of shareholder | Position held | Commencement of term of service | End of term of service |
|---|---|---|---|---|
| Lei Dianwu | Sinopec Corp. | Vice President | May 2015 | May 2018 |
| Mo Zhenglin | Sinopec Corp. | Chief Accountant and Deputy Director of the Chemical Division | May 2015 | May 2018 |
| Zhai Yalin | Sinopec Corp. | Deputy Director of the Audit Department | May 2015 | May 2018 |
| Wang Liqun* | Sinopec Corp. | Deputy Director of the Supervisory Department | May 2015 | May 2018 |

* Mr. Wang Liqun resigned as Supervisor of the Company on 23 February 2016.

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

| Name | Name of other company | Position held | Commencement of term of service | End of term of service |
|---|---|---|---|---|
| Wang Zhiqing | Shanghai SECCO | Vice Chairman | March 2015 | March 2019 |
| Wu Haijun | Shanghai SECCO | Director, President and Secretary of the Communist Party Committee | March 2015 | March 2019 |
| Mo Zhenglin | Shanghai SECCO | Director | March 2015 | March 2019 |

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

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

| | |
|---|---|
| Procedures for determining the remuneration of Directors, Supervisors and senior management | Allowances for Independent Non-executive Directors are determined by the Board, and are submitted to Shareholders Meeting for consideration and approval. Remuneration of the other Directors, Supervisors and senior management are determined in accordance with the *Remuneration System for Directors, Supervisors and Senior Management* approved at the 2002 annual general meeting.<br>For details of the remuneration of the Directors and Supervisors of the Company, please refer to Note 11 and Note 35 to the consolidated financial statements prepared under IFRS. |
| Basis for determining the remuneration of Directors, Supervisors and senior management | The remuneration of Directors, Supervisors and senior management of the Company is determined on the principles of "efficiency, motivation and fairness" and in accordance with the *Remuneration System for Directors, Supervisors and Senior Management*. |
| Remuneration paid to Directors, Supervisors and senior management | Please refer to item (1) "Changes in shareholdings and remuneration" of this Chapter. |
| Total remuneration received by all Directors, Supervisors and senior management for the Reporting Period | RMB5.965 million |
| The five highest paid individuals | Please refer to notes 11(i) and 35(i) to the consolidated financial statements prepared under IFRS. The five individuals are the Directors and Supervisors of the Company. |
| Pension scheme | Please refer to Notes 2.25 and 29(e) to the consolidated financial statements prepared under IFRS. |

## (7) Changes in Directors, Supervisors and senior management during the Reporting period

| Name | Position held | Change | Reason |
|---|---|---|---|
| Wang Liqun | Supervisor | Resigned | Personal |
| Zhang Jianbo | Secretary to the Board and Joint Company Secretary | Appointed | – |
| Kuang Yuxiang | Supervisor and Chairman of the Supervisory Committee | Resigned | Personal |
| Ye Guohua* | Vice President | Appointed | – |
| Jin Wenmin | Vice President | Appointed | – |

* On 26 January 2017, Mr. Ye Guohua requested to resign from his positions as an Executive Director, Vice President and Chief Financial Officer due to a new working arrangement. Mr. Ye's resignation took effect upon the submission of the resignation letter to the Board on 26 January 2017. Mr. Zhou Meiyun was appointed as Vice President and Chief Financial Officer of the Company on 8 February 2017.

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

As at 31 December 2016, the interests and short positions of the Directors, chief executive and Supervisors of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or to be recorded in the register of interests required to be kept under Section 352 of the SFO; or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions set out in Appendix 10 to the Hong Kong Listing Rules were as follows:

**Interests in the shares and underlying shares of the Company:**

| Name | Position held | Number of underlying shares pursuant to A shares share options held according to the Share Option Incentive Scheme (Shares) | Percentage of the total issued shares (%) | Percentage of the total issued H shares (%) | Capacity |
|---|---|---|---|---|---|
| Wang Zhiqing | Executive Director, Chairman and President | 500,000 (L) | 0.005 | – | Beneficial owner |
| Gao Jinping | Executive Director, Vice Chairman and Vice President | 500,000 (L) | 0.005 | – | Beneficial owner |
| Ye Guohua* | Executive Director, Vice President and Chief Financial Officer | 430,000 (L) | 0.004 | – | Beneficial owner |
| Jin Qiang | Executive Director and Vice President | 430,000 (L) | 0.004 | – | Beneficial owner |
| Guo Xiaojun | Executive Director and Vice President | 430,000 (L) | 0.004 | – | Beneficial owner |
| Jin Wenmin | Vice President | 250,000 (L) | 0.002 | – | Beneficial owner |

(L): Long position

* Mr. Ye Guohua resigned as the Executive Director, Vice President and Chief Financial Officer of the Company on 26 January 2017. According to the relevant terms of the Share Option Incentive Scheme, share options granted to Mr. Ye have lapsed.

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

Save as disclosed above, as at 31 December 2016, to the knowledge of the Directors, chief executive and Supervisors of the Company, none of the Directors, chief executive or Supervisors of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or its associated corporations which were required to be disclosed or recorded pursuant to the SFO and the Hong Kong Listing Rules as mentioned above.

## (9) Changes in Directors' and Supervisors' information

Save as disclosed in the 2016 interim report, there are no changes in Directors' and Supervisors' information pursuant to Rules 13.51B(1) of the Hong Kong Listing Rules during the Reporting Period.

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

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

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

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

## (11) Directors' rights to acquire shares or debentures

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

## (12) Compliance of Model Code for Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code for Securities Transactions") as set out in Appendix 10 to the Hong Kong Listing Rules to regulate securities transactions of the Directors and Supervisors. After making specific enquiries with all the Directors and Supervisors and having obtained written confirmations from each Director and Supervisor, the Company has not identified any Director or Supervisor who has not fully comply with the Model Code for Securities Transactions during the Reporting Period.

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

## (13) Management contracts

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

## (14) Permitted indemnity provision

Appropriate Directors' liability insurance has been arranged to indemnify the Directors for liabilities arising out of corporate activities.

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

Nil.

## (16) Employees

### 1. Employees of the Group

| | Number (Person) |
|---|---|
| Number of employees of the Company | 10,986 |
| Number of employees of the subsidiaries | 102 |
| Total number of employees of the Group | 11,088 |
| Number of retired workers whose retirement costs are borne by the Group | 17,451 |
| Professionals | |
| Category of professionals | |
| Production personnel | 6,602 |
| Sales staff | 89 |
| Technical staff | 3,161 |
| Financial staff | 102 |
| Administrative staff | 1,134 |
| Total | 11,088 |
| Education level | |
| Educational attainment | |
| College graduate and below | 8,396 |
| Undergraduate | 2,517 |
| Post-graduate | 175 |
| Total | 11,088 |

## (16) Employees *(continued)*

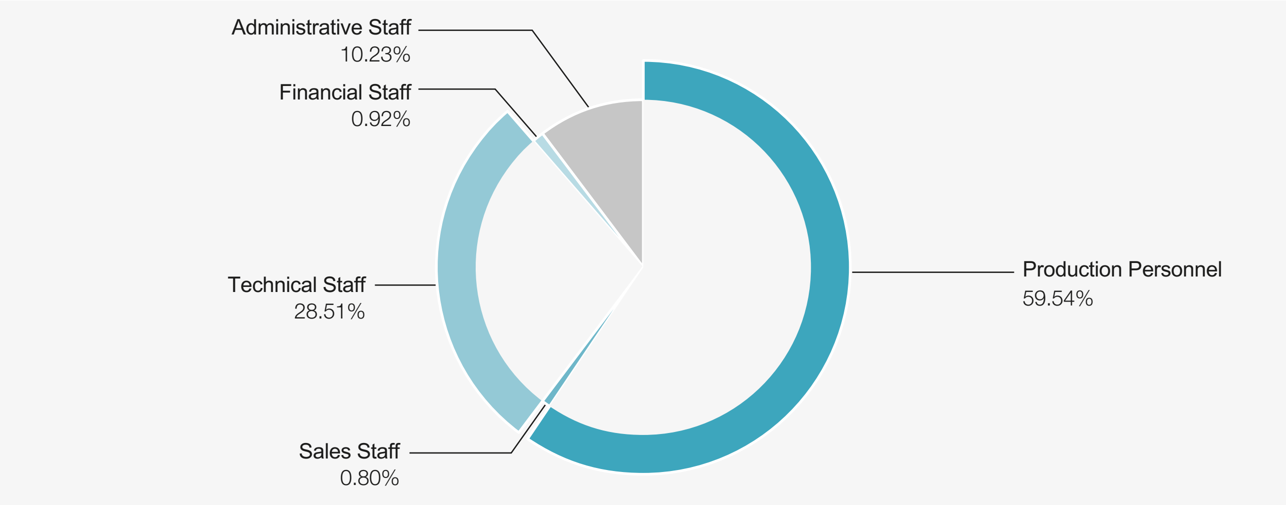
### 2. Remuneration policy

Remuneration packages of the Company's staff include salary and allowances, which are determined in accordance with the position, performance, experience and market pay trends. Employees of the Company are also eligible for medical insurance, retirement and other benefits. The Company has established the Share Option Incentive Scheme to motivate the key employees. In accordance with the relevant regulations of the PRC, the Company also participates in the social security scheme implemented by the relevant government authorities, and makes contribution for the employees in proportion to their monthly salary.

### 3. Training programs

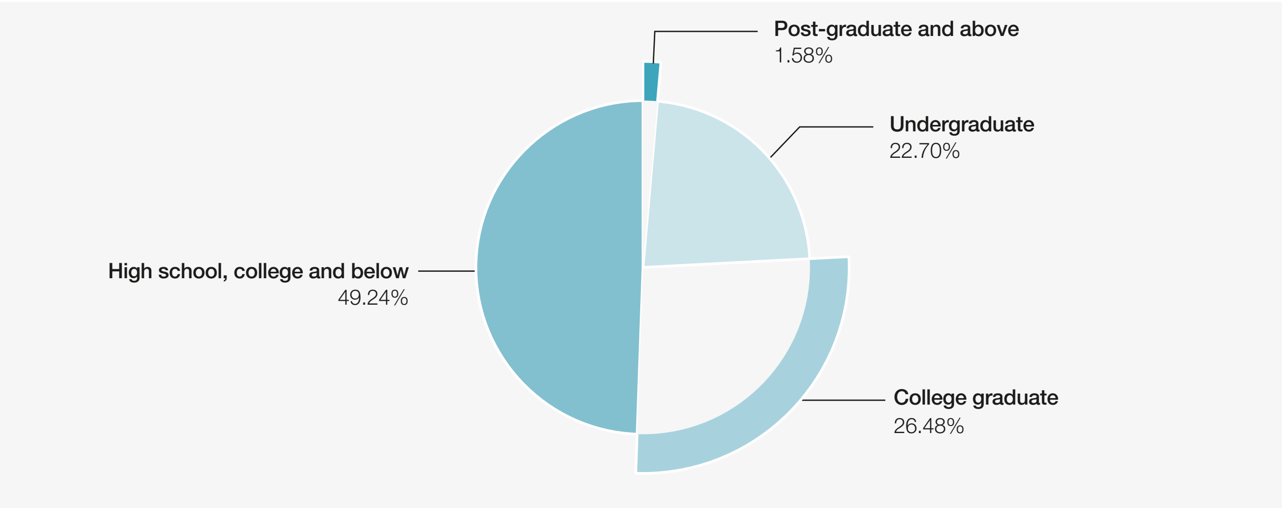
According to the human resources core of "streamlining the structure, enhancing the quality and strengthening the foundation" and with the mission of "facilitating the employee development and strengthening the team foundation", the Company improves the training of management and talent growth, enhances the focus area and the effectiveness of the training so as to upgrade the quality of the employees and to develop the Company into a nationwide leading and world class petrochemicals enterprise.

### 4. Professional structure chart



## (16) Employees *(continued)*

### 5. Level of education chart




### 6. Outsourcing services

The total remuneration paid for outsourcing services of the Company during the Reporting Period was RMB98,930,060.

## (1) Notes for corporate governance and insider registration management

### (1) Corporate governance

In 2016, the Company strictly complied with the regulatory legislation such as Company Law, Securities Law and the Corporate Governance Principles for Listed Companies issued by the CSRC, as well as the relevant provisions and requirements of the Shanghai Stock Exchange, the Hong Kong Stock Exchange and the New York Stock Exchange. It continued to improve its corporate governance structure, developed its corporate system, standardized the corporate operations and enhanced its overall corporate image.

Improving governance policies: During the Reporting Period, in accordance with the requirements of the relevant laws and regulations of the places where the Company's shares are listed, the Company amended and improved the Company's Articles of Association and its appendices which were considered and approved at the Company's 2015 annual general meeting. The Company also amended and improved the Company's "Internal Control Manual" (2016 Edition).

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

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

## (1) Notes for corporate governance and insider registration management *(continued)*

### (2) Registration and management of persons with access to inside information

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

## (2) Brief introduction of general meeting

| Session of the meeting | Convening date | Title of the motions | Status of the resolutions | Designated websites for publication of resolutions | Date of publication of resolutions |
|---|---|---|---|---|---|
| The Company's 2015 annual general meeting | 15 June 2016 | 1. 2015 Work Report of the Board of the Company<br>2. 2015 Work Report of the Supervisory Committee of the Company<br>3. 2015 Audited Financial Statements of the Company<br>4. 2015 Profit Distribution Plan of the Company<br>5. 2016 Financial Budget Report of the Company<br>6. The re-appointment of PricewaterhouseCoopers Zhong Tian LLP and PricewaterhouseCoopers as the domestic and international auditors, respectively, of the Company for the year 2016, and authorization to the Board to fix their remunerations.<br>7. The resolution on amendments to the articles of association of the Company and appendices thereto proposed by the Board, and authorization to the secretary to the Board to, on behalf of the Company, handle all relevant matters in relation to such amendments regarding any applications, approvals, disclosure, registrations and filings (including wording amendments as requested by the regulatory authorities). | Passed | Websites of the Shanghai Stock Exchange, the Hong Kong Stock Exchange and the Company | 16 June 2016 |

## (2) The brief introduction of annual general meeting *(continued)*

| Session of the meeting | Convening date | Title of the motions | Status of the resolutions | Designated websites for publication of resolutions | Date of publication of resolutions |
|---|---|---|---|---|---|
| The Company's first 2016 extraordinary general meeting | 18 October 2016 | 1. To review and approve the "Mutual Product Supply and Sale Services Framework Agreement" (2017-2019) and the continuing connected transactions contemplated thereunder (the "On-going Connected Transactions", same below), and the annual caps on the respective continuing connected transactions for each of the three years ending 31 December 2017, 31 December 2018 and 31 December 2019. To approve and confirm generally and unconditionally that all directors of the Company are authorized to do things and act necessary or desirable to implement and give effect to any of the matters relating to, or incidental to, the "Mutual Product Supply and Sales Services Framework Agreement", and to make changes thereto which may in his or her opinion be necessary or desirable.<br>2. To review and approve the "Comprehensive Services Framework Agreement" (2017-2019) and the continuing connected transactions contemplated thereunder, and the annual caps on the respective continuing connected transactions for each of the three years ending 31 December 2017, 31 December 2018 and 31 December 2019. To approve and confirm generally and unconditionally that all directors of the Company are authorized to do things and act necessary or desirable to implement and give effect to any of the matters relating to, or incidental to, the "Comprehensive Services Framework Agreement", and to make changes thereto which may in his or her opinion be necessary or desirable. | Passed | Websites of the Shanghai Stock Exchange, the Hong Kong Stock Exchange and the Company | 19 October 2016 |

## (3) Performance of duties by the directors

### 1. Directors' attendance at the Board meetings and general meetings

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

| | |
|---|---|
| Number of Board meetings held during the year | 6 |
| including: number of meetings held on site | 2 |
| number of meetings held by correspondence | 4 |
| number of meetings held on site and by correspondence concurrently | 0 |

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

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

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

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

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

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

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

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

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

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

The Remuneration System for the senior management was considered and approved at the 2002 annual general meeting of the Company on 18 June 2003. In 2016, the Company continued to implement this system as the basis of appraising and rewarding the Company's senior management.

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

# Internal Control

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

### Statement of responsibility for internal control

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

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

The Board has evaluated the internal controls pertinent to financial reporting in accordance with the requirements under the Basic Standards for Enterprise Internal Control, and is of the view that such internal control was effective in the year 2016.

### Establishment of internal control system

| | |
|---|---|
| Overall plan of internal control establishment | Since 2004, the Company has established and implemented a comprehensive internal control system which covers aspects such as production, operations, finance, investment, human resources and information disclosure, and amends the Internal Control Manual annually in accordance with domestic and overseas regulatory requirements, risk prevention needs and recommendations by external auditors on internal control review.<br><br>The Company's internal control system has been established primarily for the following basic objectives: (a) to standardize the enterprise's business operation, prevent operational and managerial risks, ensure that financial statements and relevant information are truthful and complete, improve operational efficiency and effectiveness, and facilitate the achievement of the Company's development strategy; (b) to plug loopholes and eliminate potential hazards so as to prevent, detect and correct mistakes and fraudulent acts in a timely manner, thereby ensuring that the Company's assets are secure and integral; and (c) to ensure that the relevant state laws and regulations, the Articles of Association and internal rules and regulations are thoroughly enforced so as to fulfill the regulatory requirements for listed companies in both domestic and overseas capital markets. |

## (1) Statement of Responsibility for Internal Control and the Establishment of the Internal Control System *(continued)*

| | |
|---|---|
| Work plan on establishing and improving the internal control system and implementation thereof | The Internal Control Manual (2016 Edition) comprises 22 categories, 56 operation process and sets out 1,562 control points and 354 authorization control indicators. The scope of control covers the major areas of the Company's production, operations and development, as well as the key procedures of relevant business such as financial management, accounting and auditing, procurement of resources, product sales, capital expenditures, human resources and information management. The scope of control also includes reviewing the sufficiency of the Company's resources of accounting, financial management and reporting functions as well as employee qualifications and experience and the adequacy of the training courses attended by the employees and the relevant budget.<br><br>In 2016, the Company conscientiously enforced the Internal Control Manual approved by the Board, and conducted self-assessment, walk-through test on procedures and integrated inspection on internal control in accordance with the relevant rules and regulations. PricewaterhouseCoopers Zhong Tian LLP, external auditor of the Company also reviewed the status of the Company's internal control. The management of the Company considers that the internal control of the Company was effective during the Reporting Period. |

## (1) Statement of Responsibility for Internal Control and the Establishment of the Internal Control System *(continued)*

| | |
|---|---|
| Establishment of the department inspecting and supervising internal control | The Company has established an internal control task force, with the President and the Chief Financial Officer as its chief and deputy chief, respectively. As the leading organ of the Company's overall internal control system, the guidance group is mainly responsible for approving interim amendments to the Internal Control Manual during the year, considering updates to the Internal Control Manual, reviewing the annual self-assessment report on internal control, handling and rectifying issues identified during an internal control inspection and reporting major issues to the Board for consideration and approval.<br><br>An internal control office was established under the internal control task force as the department in charge of internal control inspection and supervision. This office is responsible for directing or organizing daily inspections and evaluation, organizing annual comprehensive inspections and evaluation of the Company, organizing specific inspections and evaluation as needed, supervising and rectifying, drafting assessment proposals and reporting them to the internal control task force, and submitting regular reports on internal control inspection and supervision to the Audit Committee of the Board.<br><br>The Company has established an internal control supervisor working network consisting of 45 members. These internal control supervisors, representing their respective departments, and administrative heads of second-tier units, conduct internal control work and activities within their respective supervisory scope and functionally report to the internal control office of the Company. |

## (1) Statement of Responsibility for Internal Control and the Establishment of the Internal Control System *(continued)*

| | |
|---|---|
| The Board's work arrangements for internal control | Through the Audit Committee set up under the Board, the Board reviews reports on the establishment of the internal control system of the Company and the findings of the implementation and inspection of the internal control on a regular basis. The Board also considers and publishes a self-assessment report on the internal control of the Company on an annual basis, and considers and approves the revised Internal Control Manual of the Company annually.<br><br>PricewaterhouseCoopers, the Company's external auditor, issued an auditor's report on internal control over financial reporting according to the "Sarbanes-Oxley Act". PricewaterhouseCoopers Zhong Tian LLP, the Company's external auditor, issued an auditor's report on internal control over financial reporting according to "Audit Guidelines for Enterprise Internal Control" in 2016. |
| Improvements in the internal control system in relation to financial audit | The Company took the lead for the assessment of the rules and regulations and fully assessed the compliance and effectiveness of each system. A total of 135 amendments were made, 16 systems were added and 7 systems were abolished. |
| Deficiencies in internal control and the relevant rectification | The Company conducted a self-assessment on its internal control work in 2016. The results of the assessment are: no material deficiencies were detected in the design or implementation of the internal control of the Company from 1 January 2016 to 31 December 2016. |

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

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

## (3) Auditor's report on internal control

The Company has engaged PricewaterhouseCoopers Zhong Tian LLP to conduct an audit on the effectiveness of the internal control over financial reporting of the Company for the year ended 31 December 2016 pursuant to the requirements of the Audit Guidelines for Enterprise Internal Control and an auditor's report on internal control has been issued.

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

The Company's Information Disclosure Management System (2012 Revised Version) sets out specific regulations for the accountability of major errors in the disclosure of information in its annual reports. During the Reporting Period, there were no major errors in the disclosure of information in the Company's annual report, which required amendments to major accounting errors, supplements to material omission of information or amendments to results forecasts.

# Corporate Governance Report (Prepared in accordance with the Hong Kong Listing Rules)

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

## (1) Corporate Governance Practices

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

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

## (2) Securities Transactions by Directors and Supervisors

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

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

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

## (3) Board of Directors

### 1. Composition of the Board

The Board currently consists of 11 Directors, including 6 Executive Directors, 2 Non-executive Directors and 4 Independent Non-executive Directors, among whom there is one Chairman and two Vice-Chairmen. Details of the current Board composition are as follows:

*Executive Directors:*
Wang Zhiqing, *Chairman, President and member of the Nomination Committee*
Wu Haijun, *Vice Chairman*
Gao Jinping, *Vice Chairman and Vice President*
Jin Qiang, *Vice President*
Guo Xiaojun, *Vice President*

*Non-executive Directors:*
Lei Dianwu
Mo Zhenglin

*Independent Non-executive Directors:*
Choi Ting Ki, *Chairman of the Audit Committee*
Zhang Yimin, *Chairman of the Remuneration and Appraisal Committee and the Nomination Committee*
Liu Yunhong, *member of the Audit Committee*
Du Weifeng, *member of the Audit Committee, the Remuneration and Appraisal Committee and the Nomination Committee*

The biographical information of the Directors are set out in the section headed "Directors, Supervisors, Senior Management and Employees" on pages 20 to 36 of this annual report. None of the members of the Board is related to one another.

## 2. Attendance Records of Directors

The Board meets at least once per quarter. In 2016, the Eighth Session of the Board held six meetings. Most of the Directors entitled to attend the meetings had actively attended the six meetings held this year in person or by alternates. Before each Board meeting, the joint company secretary would consult each Director on matters to be tabled at the Board meeting. Any matters so raised by the Directors would be included in the agenda of the Board meeting. During the Reporting Period, notices and draft agenda of Board meetings were sent to all Directors at least 14 days before the date of the meeting.

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

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

| | Board Meeting | | Annual General Meeting | Extraordinary General Meeting |
|---|---|---|---|---|
| **Name of Director** | **Attendance in Person/Number of Meetings** | **Attendance by Alternate/Number of Meetings** | **Attendance/ Number of Meetings** | **Attendance/ Number of Meetings** |
| **Executive Directors:** | | | | |
| Wang Zhiqing | 6/6 | – | 1/1 | 1/1 |
| Wu Haijun | 5/6 | 1/6 | 1/1 | 1/1 |
| Gao Jinping | 6/6 | – | 1/1 | 1/1 |
| Ye Guohua | 5/6 | 1/6 | 1/1 | 1/1 |
| Jin Qiang | 6/6 | – | 1/1 | 0/1 |
| Guo Xiaojun | 5/6 | 1/6 | 1/1 | 1/1 |
| **Non-executive Directors:** | | | | |
| Lei Dianwu | 4/6 | 2/6 | 0/1 | 0/1 |
| Mo Zhenglin | 4/6 | 2/6 | 0/1 | 0/1 |
| **Independent Non-executive Directors:** | | | | |
| Choi Ting Ki | 6/6 | – | 1/1 | 1/1 |
| Zhang Yimin | 6/6 | – | 1/1 | 1/1 |
| Liu Yunhong | 5/6 | 1/6 | 1/1 | 1/1 |
| Du Weifeng | 6/6 | – | 1/1 | 1/1 |

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

## 3. Chairman and President (equivalent to Chief Executive Officer)

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

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

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

Mr. Wang Zhiqing serves as the Chairman and the President (equivalent to chief executive officer) of the Company. Mr. Wang Zhiqing has extensive experience in the management of petrochemicals production. He is the most suitable candidate to serve both the positions of the Chairman and the President of the Company. For the time being, the Company has not been able to identify another person who is in possession of better or similar competency and talent as Mr. Wang to serve either of the above positions.

## 4. Independent Non-executive Directors

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

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

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

## 5. Appointment and Re-election of Directors

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

## 6. Responsibilities of the Directors

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

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

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

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

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

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

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

### 7. Continuous Professional Development of Directors

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

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

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

All Directors should participate in continuous professional development to upgrade their expertise and skills and to refresh their knowledge to ensure that they perform their duties better in contributing to the Board. Each of the Directors has provided to the Company records of their participation in the relevant training in 2016. The Company has also committed to organizing training programs for its Directors. Internally-facilitated briefings for Directors would be arranged and reading material on relevant topics would be provided to Directors where appropriate.

During the Reporting Period, Mr. Wang Zhiqing, Mr. Gao Jinping, Mr. Ye Guohua, Mr. Jin Qiang and Mr. Guo Xiaojun had attended a training session which was organized by the Company on the key issues and case studies on the regulations with respect to the operations of listed companies. Mr. Jin Qiang had also participated in a training program on project management. Mr. Choi Ting Ki had attended two Hong Kong independent non-executive directors forums organized by KPMG. He had also attended a directors' training session on Environmental, Social and Governance Report organized by a listed issuer.

## (4) Board Committees

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

## 1. The Remuneration and Appraisal Committee

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

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

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

### (ii) Members of the Remuneration and Appraisal Committee

The Remuneration and Appraisal Committee of the Eighth Session of the Board comprised one Executive Director and two Independent Non-executive Directors throughout the Reporting Period.

Chairman: Zhang Yimin, Independent Non-executive Director

Members: Ye Guohua*, Executive Director
Du Weifeng, Independent Non-executive Director

* Mr. Ye Guohua resigned as Executive Director, Vice President and Chief Financial Officer on 26 January 2017. Following his resignation, Mr. Ye Guohua ceased to be a member of the Remuneration and Appraisal Committee on the same day. The Company is looking for a suitable candidate to fill the vacancy.

### (iii) Meetings of the Remuneration and Appraisal Committee

The Remuneration and Appraisal Committee convenes at least one meeting each year. In 2016, the Remuneration and Appraisal Committee held one meeting with a record of attendance as follows:

| Name of Director | Attendance in Person/ Number of Meetings | Attendance by Alternate/ Number of Meetings |
|---|---:|---:|
| Ye Guohua | 0/1 | 1/1 |
| Zhang Yimin | 1/1 | – |
| Du Weifeng | 1/1 | – |

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

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

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

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

During the Reporting Period, the Remuneration and Appraisal Committee reviewed the remuneration policy of the Directors and conducted annual appraisals with the Directors and the senior management. The committee also reviewed the remuneration structure of the Directors, Supervisors and senior management. The committee has also reviewed the implementation of the Share Option Incentive Scheme, the awardee list and quantity as well as the relevant management measures of incentive objects.

### 2. The Audit Committee

#### (i) Role and Functions of the Audit Committee

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

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

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

The Audit Committee of the Eighth Session of the Board comprised three Independent Non-executive Directors throughout the Reporting Period.

Chairman: Choi Ting Ki, Independent Non-executive Director

Members: Liu Yunhong, Independent Non-executive Director
Du Weifeng, Independent Non-executive Director

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

The Audit Committee convenes at least two meetings each year. In 2016, the Audit Committee held two meetings without the presence of the Executive Directors with a record of attendance as follows:

| Name of Director | Attendance in Person/ Number of Meetings | Attendance by Alternate/ Number of Meetings |
|---|---|---|
| Choi Ting Ki | 2/2 | – |
| Liu Yunhong | 1/2 | 1/2 |
| Du Weifeng | 2/2 | – |

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

During the Reporting Period, the Audit Committee reviewed the accounting principles and standards adopted by the Company, the interim and annual financial results and reports and significant issues on the financial reporting, operational and compliance controls, the effectiveness of the risk management and internal control systems, appointment of external auditors and relevant scope of works, continuing connected transactions of the Company.

## 3. The Nomination Committee

### (i) Role and Functions of the Nomination Committee

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

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

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

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

### (ii) Members of the Nomination Committee

The Nomination Committee of the Eighth Session of the Board comprised one Executive Director and two Independent Non-executive Directors throughout the Reporting Period.

Chairman: Wang Zhiqing, Executive Director (January 2016 to March 2016)
Zhang Yimin, Independent Non-executive Director (from March 2016)

Members: Wang Zhiqing, Executive Director (from March 2016)
Zhang Yimin, Independent Non-executive Director (January 2016 to March 2016)
Du Weifeng, Independent Non-executive Director

### (iii) Meetings of the Nomination Committee

The Nomination Committee convenes at least one meeting each year. In 2016, the Nomination Committee held two meetings during the Reporting Period. The attendance record of the meetings of the Nomination Committee is set out in the table below:

| Name of Director | Attendance in Person/ Number of Meetings | Attendance by Alternate/ Number of Meetings |
|---|---|---|
| Wang Zhiqing | 2/2 | – |
| Zhang Yimin | 2/2 | – |
| Du Weifeng | 2/2 | – |

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

During the Reporting Period, the Nomination Committee reviewed the structure and number of members and composition of the Board. The committee also nominated the candidates of secretary of the Board, joint company secretaries and vice presidents of the Company. It also assessed the independence of the Independent Non-executive Directors and considered that an appropriate balance of diversity perspectives of the Board is maintained and has not set any measurable objective implementing the Board diversity policy.

## 4. Corporate Governance Functions

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

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

## 5. Supervisory Committee

The Company's Eighth Session of the Supervisory Committee comprised seven members, including three Staff Supervisors (one of whom had served as Chairperson of the committee), two External Supervisors and two Independent Supervisors as at 1 January 2016. During the Reporting Period, Mr. Wang Liqun resigned as a Supervisor on 23 February 2016 while Mr. Kuang Yuxiang resigned as a Supervisor and Chairperson of the Supervisory Committee on 29 July 2016. The Supervisors are appointed for a fix term of office and the term of office of each Supervisor including those who have resigned during the Reporting Period are set out in the section headed "Directors, Supervisors, Senior Management and Employees" on pages 20 to 36 of this annual report.

In 2016, the Supervisory Committee convened 4 meetings with a record of attendance as follows:

| Name of Supervisor | Position | Attendance in Person/Number of Meetings | Attendance by Proxy/Number of Meetings |
|---|---|---|---|
| Kuang Yuxiang (Resigned on 29 July 2016) | Staff Supervisor and Chairperson | 2/2 | – |
| Zuo Qiang | Staff Supervisor | 4/4 | – |
| Li Xiaoxia | Staff Supervisor | 4/4 | – |
| Zhai Yalin | External Supervisor | 4/4 | – |
| Wang Liqun (Resigned on 23 February 2016) | External Supervisor | – | – |
| Zheng Yunrui | Independent Supervisor | 4/4 | – |
| Pan Fei | Independent Supervisor | 4/4 | – |

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

## (5) Risk Management and Internal Controls

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

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

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

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

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

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

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

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

## 1. Implementation of Internal control

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

Since the implementation of the internal control system of the Company in 2004, the Company has strictly complied with the requirements of internal control regulations of the CSRC. Combined with corporate management and internal controls the Internal Control Manual was reviewed annually so as to improve the internal control business process, specifying responsibilities of different departments and positions in charge of the respective control processes, and urge staff to perform internal control responsibility. The 2016 version of the Internal Control Manual specifies 22 categories, 56 processes and a total of 1,562 control points.

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

## 2. Implementation of comprehensive risk management

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

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

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

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

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

For further details of the risk management and internal controls of the Company, please refer to the section headed "Internal Control" on pages 42 to 46 of this annual report.

## (6) Directors' Responsibilities in relation to the Financial Statements

The Directors acknowledge their responsibilities for preparing the financial statements of the Company for the year ended 31 December 2016.

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

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

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

The statements of the independent auditor of the Company – both international auditor and domestic auditor about their reporting responsibilities on the financial statements are set out in the respective Report of the International Auditor and Report of the PRC Auditor on pages 133 to 137 and pages 225 to 229, respectively of this annual report.

## (7) Auditors' Remuneration

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

| Auditor | Service Category | Fees Paid/Payable |
|---|---|---|
| PricewaterhouseCoopers | – Audit services | RMB3,000,000 |
| | – Non-audit services | – |
| PricewaterhouseCoopers Zhong Tian LLP | – Audit services | RMB4,800,000 |
| | – Non-audit services | – |

## (8) Company Secretary

Mr. Zhang Jianbo, secretary of the Board, and Ms. Ng Sin Yee Clare of Tricor Services Limited, external service provider, were appointed as joint company secretaries of the Company on 16 March 2016 to fill the vacancy occasioned by the resignation of Mr. Tang Weizhong as company secretary on 23 October 2015. Ms. Ng's primary contact person in the Company is Mr. Zhang Jianbo.

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

## (9) Shareholders' Rights

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

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

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

### 1. Convening an Extraordinary General Meeting

Pursuant to Article 62 (3) of the Articles of Association, the Board shall convene an extraordinary general meeting within two months upon written requisition by the shareholders individually or jointly holding ten per cent. (10%) or more of the issued and outstanding voting shares of the Company.

### 2. Putting Forward Proposals at General Meeting

Pursuant to Article 64 of the Articles of Association, when the Company convenes a shareholders' general meeting, the Board, the Supervisory Committee and shareholders who individually or jointly hold shares with three per cent. (3%) or more of the total voting rights of the Company shall have the right to move motions in writing for shareholders' meetings. Shareholders who individually or jointly hold three per cent. (3%) or more of the shares of the Company may propose and submit in writing an extraordinary motion to the convener ten (10) days prior to the convening of the shareholders' general meeting. The convener shall issue a supplementary notice of the shareholders' general meeting within two (2) days upon receipt of such motion and shall make an announcement on the content of the extraordinary motion.

### 3. Putting Forward Enquiries to the Board

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

### 4. Contact Details

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

48 Jinyi Road, Jinshan District, Shanghai
The People's Republic of China

For the attention of Mr. Zhang Jianbo, Secretary of the Board

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

## (10) Investor Relations

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

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

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

In principle, the Company convenes results briefings every six months after the release of its annual and interim results. In 2016, the Company held two large-scale results briefings and press conferences in Hong Kong while several "one-to-one" meetings were held within and outside China. The Company has also welcomed hundreds of domestic and foreign investors to its headquarters, and replied to telephone queries and letters from investors, intermediaries and fund managers. In addition, the Directors and senior management also actively attended capital market meetings organized by securities research companies and investment banks.

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

During the Reporting Period, the Company has amended its Articles of Association at the 2015 annual general meeting held on 15 June 2016. Details of the amendments are set out in the circular dated 27 April 2016 to the shareholders. An up to date version of the Company's Articles of Association is also available on the websites of the Hong Kong Stock Exchange, the Shanghai Stock Exchange and the Company.

## Section I Business Overview

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

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

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

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

### 2. Analysis of core competitiveness during the Reporting Period

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

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

## Section II Management Discussion and Analysis

### (1) Management discussion and analysis

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

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

In 2016, the global economy continued its recovery, growing at a rate higher than that in 2015. Growth in developed economies was more subdued than expected while a positive recovery was seen in emerging markets and developing economies. The Chinese economy encountered a slower growth rate, with an annual GDP growth at 6.7%, down by 0.2 percentage point from 2015. Structural problems associated with the overcapacity of refining and petrochemical productions remained overwhelming and restrictions on resources, environmental protection and safety became more stringent. However, as compared with the significant drop of international oil prices during the year, the decline in prices for downstream refining and petrochemical products was less remarkable, which resulted in an increase in the gross profit of such products and a rise in the corporate returns.

The Group actively responded to the complex market conditions in 2016. Focusing on overall efficiency, the Group made great efforts in safety and environmental protection, optimizing operations, exploring new markets as well as cutting costs and expenses. As a result, a good performance was achieved in production and operations, and there was a significant increase in economic efficiency as compared to the previous year.

(i) *Production and operations remained safe and stable*

In 2016, the Group thoroughly analyzed and implemented a safety and production accountability system, stringently managed contractor qualifications, personnel training as well as the assessment of irregularities. Moreover, the Group actively promoted the hazard and operability study (HAZOP) analysis, and conducted in-depth investigation and elimination of hidden safety hazards. On top of that, there was an optimization and adjustment of the facilities inspection plan to strengthen on-site maintenance management. The overall production and operation was continuously improved. The frequency and duration of unscheduled annual shutdowns of major production facilities dropped by 30.00% and 16.11%, respectively from the previous year. Out of the 83 major technical and economic indicators covered in the Group's assessment, 41 of them achieved a better performance than last year, representing a year-on-year rate of progress of 49.40%, while 18 of them reached the advanced industry level, representing an advance ratio of 21.69%.

In 2016, the Group recorded a decline in the total processing capacity due to maintenance of major refining plants. The deduction of total processing capacity resulted in a decrease in actual production volume of the Group, which amounted to 12,830,600 tons, down by 7.47% from the previous year. During the year, the Group processed 14,302,800 tons of crude oil (including 2,588,000 tons of crude oil processed on a sub-contract basis), representing a year-on-year decrease of 3.33%. In 2016, the Group's turnover reached RMB77.843 billion, down by 3.6% over the previous year. Sales to output and receivables recovery ratio were 100.27% and 100% respectively. The product quality levels remained stable.

(ii) *Market demand for petroleum and petrochemical products fell, and their prices underwent a continuous decline*

With the Chinese economy under a continuing downward pressure and sluggish demand in 2016, the domestic petroleum and petrochemical market still had an overall poor performance. In the domestic market, the overcapacity in the refinery industry intensified. The growth in refined oil consumption slowed down while gasoline and jet fuel consumption maintained a sustainable growth and diesel consumption even recorded a negative growth. The continuous structural overcapacity of downstream bulk petrochemicals combined with market demand hovering at low levels resulted in the prolonged low price of petrochemical products. As of 31 December 2016, the weighted average prices (excluding tax) of the Group's synthetic fibres, resins and plastics, intermediate petrochemical products and petroleum products fell by 12.41%, 3.83%, 0.51% and 10.81%, respectively, over the previous year.

*(iii)* *International crude oil prices showed an upward trend despite the fluctuations, while the annual average oil price dropped, and the volume of refined cruel oil has decreased*

In 2016, international crude oil prices showed a rebound after a period of fluctuation. At the start of the year, the Chinese economy recorded sluggish growth, and together with the anticipation of increase in export of crude oil by Iran, etc. led to a dramatic drop in international crude oil price. There was a rebound of oil prices afterwards. Along with a shrinking production of shale oil in North America, events such as the armed attacks in Nigeria, large-scale forest fires in Canada, political turbulence in Libya and economic crisis in Venezuela led to a decreasing supply of crude oil from these countries. All these pushed a significant rise in oil prices. In the second half of the year, the oil prices mainly experienced fluctuation intervals while the OPEC agreement on reducing production acted as the key factor affecting oil prices. By the end of 2016, prices of Brent and US WTI crude oil rose 52% and 45% as compared with those as of the end of 2015. However, the average annual price of crude oil in 2016 dropped to the lowest since 2004. The average WTI crude oil price on the New York Mercantile Exchange in 2016 was US$43.36/barrel, representing a 10.97% decrease from the average price of US$48.70/barrel in 2015. The average price of Brent crude oil on the London Intercontinental Exchange was US$44.55/barrel, representing a decrease of 14.95% from US$52.38/barrel in 2015. The average price of crude oil in Dubai was US$41.93/barrel, down by 17.53% as compared with US$50.84/barrel in 2015.

For the year ended 31 December 2016, the Group processed a total of 14,302,800 tons of crude oil (including 2,588,000 tons of crude oil processed on a sub-contract basis), down by 492,500 tons, or 3.33%, over the previous year. In 2016, the average unit cost of crude oil processed by the Group (for its own account) was RMB1,979.58 per ton (2015: RMB2,533.46 per ton), down by 21.86% over the previous year. The Group's total costs of processing crude oil in 2016 was RMB23.190 billion, down by 28.41% as compared with RMB32.391 billion in the previous year, representing 41.60% of the total costs of sales.

*(iv) Continued efforts to intensify optimization and cost/expenditure reduction*

In 2016, the Group continued to implement its dynamic optimization mechanism and thoroughly improved the crude oil structure, equipment workload, raw materials and fuel structure as well as product structure and processing procedures. The Group endeavored to procure crude oil of high cost-effectiveness in order to lower procurement costs. Moreover, based on market and profitability forecasts, the Group suspended or limited the production of certain equipment, such as the 1# ethylene glycol, PVA, 1# polyester staple, polyester, acrylic and other plants. The Group also adopted measures such as using optimised hydrocracking unit for the input and output of materials in order to optimise the structure of the ethylene raw materials. The Group enhanced the output of atmospheric vacuum equipment, reduced diesel output and optimized and adjusted catalytic and cracking equipment, as well as increased gasoline production and ratio of high-grade gasoline. In addition, blending trial of V 98# gasoline was launched so as to achieve the production and sales of 98# gasoline. Annual ratio of diesel to gasoline was 1.35: 1. In terms of enhancing the competitiveness of product differentiation, the Group adopted a comprehensive quantity-price approach for higher value-added products including solution-dyed acrylic fibre and high-MFR polypropylene from hydrogen regulating method which resulted in a product differentiation rate of 81.02% for the year, representing an increase of 12 percentage points over last year, and a significant improvement in efficiency was recorded as compared with conventional products.

The Group adhered to a strict cost control principle as a crucial measure in response to market changes. In 2016, the Group strengthened its loss control on crude oil and effectively controlled the losses incurred during storage and transportation of crude oil. The fuel gas and hydrogen systems were optimized to effectively reduce costs associated with hydrogen and fuel gas respectively. To avoid exchange losses effectively, the Group monitored the changes in the Renminbi exchange rate. By taking the full advantage of various governmental preferential policies, the Group received tax deductions and special subsidies and at the same time intensified its efforts in cost control over major departments responsible for expenditure. Besides, tender management was strengthened so as to reduce operating costs while labour competition activities were also held in encouraging employees to strive for higher efficiency.

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

In 2016, the Group continued to carry out various measures in energy conservation and emission reduction in compliance with the relevant state requirements, thereby achieve all targets set by the government. During the year, the Company's overall level of energy consumption per RMB10,000 of product value was 0.777 ton of standard coal (at constant price as of 2010), down by 3.72% as compared with 0.807 ton of standard coal per RMB10,000 in 2015. As compared with the previous year, the total volume of chemical oxygen demand ("COD") discharged was down by 6.18%, while that of ammonia nitrogen, sulfur dioxide, nitrogen oxides and volatile organic compounds ("VOC") declined by 6.17%, 9.74%, 7.27% and 9.08%, respectively. At the same time, the compliance rate of waste water and controlled waste gas emissions reached 100%, and all hazardous waste was disposed of properly at 100%. The average heat efficiency of heaters declined by 0.05 percentage point to 92.40% over the previous year which was mainly attributable to load reduction that led to a decrease in heat efficiency. Following a review as an "All-China Environmentally Friendly Enterprise" (中華環境友好企業), the Group was awarded the title of "SINOPEC – Advanced Unit of Safety Production and Environmental Protection" (中國石化安全生產和環境保護先進單位).

(vi) *Marketing efforts showed significant results*

In 2016, the Group continued to focus on the development of sales through internet+ sales, export expansion, advancement of technical services and improvement in incentive mechanisms and achieved significant outcome in market development. In respect of sales through internet, the categories of online products increased from 69 of last year to 71, with an accumulative sales of over 30,000 tons, up 11% as compared with the previous year. Regarding export expansion, the Group actively explored overseas markets. About 500 tons of polyester products were sold to Malaysia, Korea, Turkey and other countries while acrylic fibres were exported to India and other countries, which achieved a breakthrough in bulk export business in respect of those products. Moreover, regarding the enhancement of technical services, the Group arranged additional technical engineers specialising in technical services relating to polyester products for the clients, and such engineers played a positive role in further rationalizing the relationship between production and marketing and also in providing solutions for downstream customers. As for the improvement in the appraisal mechanism, incentive assessments were applied to salespersons with their personal income directly linked to business volume which fully mobilized salespersons' initiative and activeness.

*(vii) Steady implementation of project construction, research and development ("R&D") and information technology ("IT") projects*

In 2016, the Group implemented quality enhancement and transformation of the No. 2 diesel hydrogenation plant, desulfurization revamps for furnaces No. 1 to No. 5 and No. 7 of the Thermal Power Division, a clean and waste water segregation system upgrading of the water circulating plants, and an oil tank odor control project of the Storage and Transportation Department. The Group carried out latent hazard management of the petroleum coke yard of the Thermal Power Division in light of environmental protection, the start-up boilers flue gas desulfurization and denitrification project in the Olefins Division, and the implementation of pipeline extension revamps from Pinghu Pond to Huanggu Pond Bridge in Jiaxing city. It went ahead with the export terminal facility expansion in Warehousing and Transportation Department, and accelerated the preparation work for revamps in cogeneration of low emission and energy saving project as well as the 300,000 tons/year alkylation project. The Group's annual investment amounted to RMB0.824 billion during the year. SCF35 (T300 level) carbon fibre from industrialization technology achieved breakthroughs as progress was accelerated since its fibre precursors solved the stability problem of liquid quality. The internal trial in connection with the industrial application of YS-9010 silver catalyst in No. 1 ethylene glycol/ethylene oxide device was completed. Moreover, with a strong emphasis on promoting integration of "digitalization and industrialization", smart manufacturing with "Internet+" as its theme, the Group actively drove its IT construction and advanced process control (APC) system for No. 3 crude and vacuum distillation unit while it integrated its statistical information management system through acceptance, customer service information system development, real-time database and LIMS (Laboratory Information Management System) data integration analysis. The Group had a trial run in smart pipeline promotion and initiated smart plant construction, which continuously improved the IT management standard of the Company.

*(viii) Further enhancement of corporate management*

In 2016, the Group further optimized its organizational structure and work standards, revised the management requirements, improved appraisal methods and incentivized its departments so as to maximize the overall efficiency of the Company. By team rationalization and work optimization, the number of teams was streamlined. Moreover, to further clarify responsibilities of each division, the Group achieved an overall optimization of core processes and developed a preliminary business IT platform. As a result of continued implementation of integrated accreditation work of the management system, the Group for the first time obtained certification in fulfilling energy management standards (能源管理體系認證). It actively adopted professional and centralized management of equipment while each production unit fully completed their responsibilities including on-site equipment, business and personnel management which resulted in steady and stable operations of the corporate management system.

As of 31 December 2016, the Group had reduced its headcount (net) by 1,071, including voluntary termination and staff retirements. This accounted for 8.81% of the total workforce of 12,159 on the payroll at the beginning of the year.

*(ix) Brief analysis of factors bringing operating results for the year into profits*

The main reasons for bringing the Group's operating results during the Reporting Period into profit were:

(1) The Group's costs of processing crude oil dropped drastically as compared to the same period last year. In addition, the decrease in the average sales price was lower than the decrease in the cost of raw materials, leading to a higher gross profit of products.

(2) The Group recorded a significant increase in investment income from an associates, namely Shanghai SECCO Petrochemical Company Limited ("Shanghai SECCO"), of which the profit was up by RMB306 million compared to the previous year.

(3) The Group further refined its management system and efforts to reduce cost and enhance efficiency. The Group's net finance cost was -RMB84 million in 2016, representing a decrease of RMB328 million as compared with the net finance cost of RMB244 million in 2015.

(4) The Group's labour cost decreased by RMB105 million as compared with the previous year.

## 2. Accounting judgments and estimates

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

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

*(i)* *Impairments for long-term assets*

Assets that have an indefinite useful life must be evaluated annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recovered. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of sales or the usable value. In determining the usable value, expected cash flows generated by the asset or the asset group are discounted to their present value. The management uses all readily available information in determining an amount that is a reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of sales amount, sales price and operating costs.

*(ii)* *Depreciation*

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

*(iii)* *Allowance for diminution in value of inventories*

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

*(iv)* *Recognition of deferred tax assets*

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

Deferred tax assets are recognized in respect of temporary deductible differences and the carrying forward of unused tax losses. Management recognizes deferred tax assets only to the extent that it is probable that future taxable profit will be available against the assets which can be realized or utilized. At the end of each Reporting Period, the management assesses whether previously unrecognized deferred tax assets should be recognized. The Group recognizes a previously unrecognized deferred tax asset to the extent that it is probable that future taxable profit will allow the deferred tax asset to be utilized. In addition, management assesses the carrying amount of deferred tax assets that are recognized at the end of each Reporting Period. The Group reduces the carrying amount of a deferred tax asset to the extent that it is no longer probable that sufficient taxable profit will be available for the deferred tax asset to be utilized.

In making the assessment of whether it is probable the Group will realize or utilize the deferred tax assets, management primarily relies on the generation of future taxable income to support the recognition of deferred tax assets. In order to fully utilize the deferred tax assets recognized at 31 December 2016, the Group would need to generate future taxable income of at least RMB412 million. Based on the estimated forecast and historical experience, the management believes that it is probable that the Group will generate sufficient taxable income before the unused tax losses expire.

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

### *3.1 Summary*

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

| | For the year ended 31 December | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | **2016** | | | 2015 | | | 2014 | | |
| | **Sales volume ('000 tons)** | **Net sales (RMB million)** | **%** | Sales volume ('000 tons) | Net sales (RMB million) | % | Sales volume ('000 tons) | Net sales (RMB million) | %l |
| Synthetic fibres | **202.1** | **1,855.5** | **2.8** | 222.2 | 2,328.2 | 3.5 | 228.7 | 2,891.5 | 3.1 |
| Resins and plastics | **1,341.7** | **9,797.6** | **14.9** | 1,316.0 | 9,992.2 | 14.9 | 1,321.4 | 12,489.4 | 13.5 |
| Intermediate petrochemical products | **2,055.7** | **8,827.6** | **13.4** | 2,162.1 | 9,332.0 | 13.9 | 1,968.9 | 12,391.0 | 13.4 |
| Petroleum products | **8,097.9** | **24,002.6** | **36.4** | 9,268.9 | 30,802.0 | 45.9 | 9,305.3 | 49,259.5 | 53.1 |
| Trading of petrochemical products | **–** | **20,585.4** | **31.2** | – | 13,718.2 | 20.5 | – | 14,791.0 | 15.9 |
| Others | **–** | **867.8** | **1.3** | – | 864.6 | 1.3 | – | 902.6 | 1.0 |
| Total | **11,697.4** | **65,936.5** | **100.0** | 12,969.2 | 67,037.2 | 100.0 | 12,824.3 | 92,725.0 | 100.0 |

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

| | For the year ended 31 December | | | | | |
|---|---|---|---|---|---|---|
| | **2016** | | 2015 | | 2014 | |
| | **RMB million** | **% of net sales** | RMB million | % of net sales | RMB million | % of net sales |
| Synthetic fibres | | | | | | |
| Net sales | **1,855.5** | **2.8** | 2,328.2 | 3.5 | 2,891.5 | 3.1 |
| Cost of sales and expenses | **(2,464.4)** | **(3.7)** | (2,684.6) | (4.0) | (3,473.4) | (3.7) |
| Segment profit/(loss) from operations | **(608.9)** | **(0.9)** | (356.4) | (0.5) | (581.9) | (0.6) |
| Resins and plastics | | | | | | |
| Net sales | **9,797.6** | **14.9** | 9,992.2 | 14.9 | 12,489.4 | 13.5 |
| Cost of sales and expenses | **(8,160.0)** | **(12.4)** | (8,773.6) | (13.1) | (12,820.9) | (13.8) |
| Segment profit/(loss) from operations | **1,637.6** | **2.5** | 1,218.6 | 1.8 | (331.5) | (0.3) |
| Intermediate petrochemicals products | | | | | | |
| Net sales | **8,827.6** | **13.4** | 9,332.0 | 13.9 | 12,391.0 | 13.4 |
| Cost of sales and expenses | **(7,017.6)** | **(10.6)** | (8,375.2) | (12.5) | (12,259.2) | (13.2) |
| Segment profit from operations | **1,810.0** | **2.7** | 956.8 | 1.4 | 131.8 | 0.2 |
| Petroleum products | | | | | | |
| Net sales | **24,002.6** | **36.4** | 30,802.0 | 45.9 | 49,259.5 | 53.1 |
| Cost of sales and expenses | **(20,189.6)** | **(30.6)** | (28,939.7) | (43.1) | (49,288.8) | (53.2) |
| Segment profit/(loss) from operations | **3,813.0** | **5.8** | 1,862.3 | 2.8 | (29.3) | (0.1) |
| Trading of petrochemical products | | | | | | |
| Net sales | **20,585.4** | **31.2** | 13,718.2 | 20.5 | 14,791.0 | 15.9 |
| Cost of sales and expenses | **(20,534.2)** | **(31.1)** | (13,703.0) | (20.5) | (14,724.9) | (15.9) |
| Segment profit from operations | **51.2** | **0.1** | 15.2 | 0.0 | 66.1 | 0.0 |
| Others | | | | | | |
| Net sales | **867.8** | **1.3** | 864.6 | 1.3 | 902.6 | 1.0 |
| Cost of sales and expenses | **(792.8)** | **(1.2)** | (652.2) | (1.0) | (745.7) | (0.8) |
| Segment profit from operations | **75.0** | **0.1** | 212.4 | 0.3 | 156.9 | 0.2 |
| Total | | | | | | |
| Net sales | **65,936.5** | **100.0** | 67,037.2 | 100.0 | 92,725.0 | 100.0 |
| Cost of sales and expenses | **(59,158.6)** | **(89.7)** | (63,128.3) | (94.2) | (93,312.9) | (100.6) |
| Profit/(loss) from operations | **6,777.9** | **10.3** | 3,908.9 | 5.8 | (587.9) | (0.6) |
| Net finance income/(costs) | **83.7** | **0.1** | (243.8) | (0.4) | (359.7) | (0.4) |
| Investment income | **–** | **–** | – | – | – | – |
| Share of profit of associates and jointly controlled entities | **916.8** | **1.4** | 572.1 | 0.9 | 57.7 | 0.1 |
| Profit/(loss) before tax | **7,778.3** | **11.8** | 4,237.2 | 6.3 | (889.9) | (1.0) |
| Income tax | **(1,796.8)** | **(2.7)** | (926.8) | (1.4) | 214.1 | 0.2 |
| Profit/(loss) for the year | **5,981.5** | **9.1** | 3,310.4 | 4.9 | (675.8) | (0.7) |
| Attributable to | | | | | | |
| Equity shareholders of the Company | **5,968.5** | **9.0** | 3,274.3 | 4.8 | (692.2) | (0.7) |
| Non-controlling shareholders | **13.0** | **0.0** | 36.1 | 0.1 | 16.4 | 0.0 |
| Profit/(loss) for the year | **5,981.5** | **9.0** | 3,310.4 | 4.9 | (675.8) | (0.7) |

*3.2 Comparison and analysis*

Comparison between the year ended 31 December 2016 and the year ended 31 December 2015 is as follows:

### ***3.2.A Operating results***

*(1) Net sales*

In 2016, net sales of the Group amounted to RMB65,936.5 million, representing a decrease of 1.64% from RMB67,037.2 million over the previous year. For the year ended 31 December 2016, the weighted average prices (exclude tax) of the Group's synthetic fibres, resins and plastics, intermediate petrochemical products and petroleum products decreased by 12.41%, 3.83%, 0.51% and 10.81% over the previous year, respectively.

(i) Synthetic fibres

In 2016, the Group's net sales for synthetic fibres amounted to RMB1,855.5 million, representing a decrease of 20.30% compared with RMB2,328.2 million in the previous year. The decrease in sales was mainly due to the decrease of sales price as a result of the decrease in the costs of raw materials, and the continued sluggish downstream demand and under-performing initiatives in raw material procurement. Sales volume for synthetic fibres fell by 9.02% compared with the previous year, while weighted average sales price fell by 12.41%. In particular, the weighted average sales price of acrylic fibre, the main product of synthetic fibres of the Group, decreased by 13.15%, while the weighted average sales price of polyester fibre decreased by 5.99% over the previous year. Sales of acrylic fibre and polyester fibre accounted for 79.22% and 14.90% of the total sales of synthetic fibres, respectively.

Net sales of synthetic fibre products accounted for 2.8% of the Group's total net sales in 2016, down by 0.7 percentage point as compared to the previous year.

(ii) Resins and plastics

The Group's net sales of resins and plastics amounted to RMB9,797.6 million in 2016, representing a decrease of 1.95% as compared with RMB9,992.2 million over the previous year. The decrease in net sales was mainly attributable to the decrease in unit price of resin and plastics, driven by the decline in the costs of raw materials. The sales volume of resins and plastics increased 1.95% year-on-year, while the weighted average sales price fell by 3.83%. In particular, the weighted average sales price of polyethylene, polypropylene and polyester pellet decreased by 3.23%, 4.22% and 0.58%, respectively. Sales of polyethylene, polypropylene and polyester pellet accounted for 45.11%, 33.07% and 16.56% of the total sales of resins and plastics, respectively.

Net sales of resins and plastics accounted for 14.9% of the Group's total net sales in 2016, basically remained at the same level as the previous year.

(iii) Intermediate petrochemical products

The Group's net sales of intermediate petrochemical products amounted to RMB8,827.6 million in 2016, representing a decrease of 5.41% as compared with RMB9,332 million in 2015. This was mainly due to the decline in unit price of intermediate petrochemical products resulted from the decrease in costs of raw materials. The weighted average sales price decreased 0.51% year-on-year. The sales volume decreased 4.92% year-on-year. The two factors together drove down net sales. Sales of paraxylene, butadiene, ethylene oxide, benzene and glycol accounted for 27.01%, 8.76%, 11.58%, 16.99% and 12.7% of the total sales of intermediate petrochemical products, respectively.

Net sales of intermediate petrochemical products accounted for 13.4% of the Group's total net sales in 2016, representing a decrease of 0.5 percentage point as compared with the previous year.

(iv) Petroleum products

The Group's net sales of petroleum products amounted to RMB24,002.6 million in 2016, representing a decrease of 22.07% as compared with RMB30,802.0 million in the previous year, which was mainly attributable to the drop in prices of refined oil in China driven by the decline in world crude oil unit price. The weighted average sales price of major products decreased by 10.81%, while sales volume decreased by 12.63% as compared to last year.

Net sales of petroleum products accounted for 36.4% of the Group's total net sales in 2016, representing a decrease of 9.5 percentage points compared with the previous year.

(v) Trading of petrochemical products

In 2016, the net sales of trading of petrochemical products amounted to RMB20,585.4 million, representing an increase of 50.06% from RMB13,718.2 million over the previous year. The increase is mainly due to the significant growth in sales of Shanghai Jinmao International Trading Company Limited, a subsidiary of the Company, during the year.

Net sales of trading of petrochemical products accounted for 31.2% of the Group's total net sales in 2016, representing an increase of 10.7 percentage points as compared with the previous year.

(vi) Others

The Group's net sales of other products amounted to RMB867.8 million in 2016 representing a decrease of 0.37% as compared with RMB864.6 million in the previous year, which remained basically at the same level as the previous year.

Net sales of other products accounted for 1.3% of the Group's total net sales in 2016, which remained at the same level as the previous year.

*(2) Cost of sales and expenses*

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

Costs of sales and expenses of the Group decreased by 6.29% from RMB63,128.3 million in 2015 to RMB59,158.6 million in 2016. The costs of sales and expenses of synthetic fibres, resins and plastics, intermediate petrochemical products, petroleum products, trading of petrochemical products and others were RMB2,464.4 million, RMB8,160.0 million, RMB7,017.6 million, RMB20,189.6 million, RMB20,534.2 million and RMB792.9 million, representing a decrease of 8.20%, 6.99%, 16.21%, 30.24%, and an increase of 49.85% and 21.57%, respectively as compared with the previous year.

The Group's costs of sales and expenses of synthetic fibres, resins and plastics, intermediate petrochemical products and petroleum products decreased as compared with the previous year, primarily due to the decline in cost of raw materials driven by the drop in world crude oil unit price, which substantially lowered the costs of sales. The increase in the costs of sales and expenses of the trading of petrochemical products and others is mainly attributable to the increase in the trading volume and business in crude oil processed on a sub-contract basis.

– **Cost of sales**

The Group's costs of sales amounted to RMB58,731.7 million in 2016, down by 6.41% from RMB62,757.1 million in 2015. Costs of sales accounted for 89.07% of net sales for 2016. The decrease in costs of sales was due to the drop in unit price of crude oil during the Reporting Period.

– **Selling and administrative expenses**

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

– **Other operating income**

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

– **Other operating expenses**

The Group's other operating expenses were RMB24.3 million in 2016, representing a decrease of 28.32% as compared with RMB33.9 million in the previous year. This was mainly due to an increase of the loss of RMB34.0 million in the disposal of fixed assets and the reduction of foreign currency transactions by the Company, which resulted in a significant decline in exchange losses in 2016.

*(3) Profit from operations*

The Group's profit from operations amounted to RMB6,777.9 million in 2016, representing an increase of RMB2,869.0 million as compared with a profit from operations of RMB3,908.9 million in the previous year. The costs of all segments dropped generally as compared with those in last year as a result of the falling average annual price of international crude oil. Despite the subsequent decline in unit price of finished products, the unit purchase price of raw materials dropped to a larger extent than the unit price of finished products due to the impact brought by the production cycle and the increase in production value, leading to a significant growth in profit from operations as compared to last year.

(i) Synthetic fibres

In 2016, the Group's operating loss for synthetic fibres amounted to RMB608.9 million, representing an increase of RMB252.5 million as compared with the operating loss of RMB356.4 million in the previous year. The increase was mainly attributable to the continuous increase in the price of acrylonitrile which is the raw material for acrylic fibre products due to capacity fluctuation, which resulted in a surge in costs. The loss was further intensified by the reduction of the profit margin of synthetic fibres products under the sluggish downstream demand.

(ii) Resins and plastics

In 2016, the Group's operating profit for resins and plastics amounted to RMB1,637.6 million, representing an increase of RMB419.0 million from the operating profit of RMB1,218.6 million in the previous year. The increase in operating profit was mainly attributable to the significantly lower costs of raw materials driven down by the decrease in world crude oil price. The relatively stable market demand together with the stiff price of products, in particular polyethylene, led to a 6.99% decrease in cost of sales and expenses for the period.

(iii) Intermediate petrochemical products

In 2016, the Group's operating profit for intermediate petrochemical products amounted to RMB1,810.0 million, representing an increase of RMB853.2 million as compared with RMB956.8 million in the previous year. This was mainly attributable to a decrease of RMB504.4 million in net sales of intermediate petrochemicals, while the costs of sales and expenses for the same period were down by RMB1357.6 million, leading to a profit growth as compared to last year.

(iv) Petroleum products

In 2016, the Group's operating profit for petroleum products amounted to RMB3,813.0 million, representing an increase of RMB1,950.7 million as compared with the operating profit of RMB1,862.3 million in the previous year. Such operating profit was mainly attributable to the decrease of RMB6,799.4 million in net sales of petroleum products, while the costs of sales and expenses for the same period were down by RMB8,750.1 million, thus bringing profit for the year.

(v) Trading of petrochemical products

In 2016, the Company's operating profit for trading of petrochemical products amounted to RMB51.2 million, representing an increase of RMB36.0 million as compared with RMB15.2 million for the previous year. This was mainly attributable to an increase of RMB6,867.2 million in net sales of the trading business, while the costs of sales and expenses for the same period was up by RMB6,831.2 million, leading to a higher profit as compared to the previous year.

(vi) Others

In 2016, the Group's operating profit of other products amounted to RMB75.0 million, representing a decrease of 64.69% as compared with RMB212.4 million in the previous year. This was mainly attributable to an increase of RMB3.2 million in net sales of other products, while costs of sales and expenses for the same period increased by RMB140.7 million, which led to a drop in profit as compared to last year.

*(4) Net finance income/(costs)*

The Group's net finance income was RMB83.7 million in 2016, representing a decrease of RMB327.5 million as compared with the net finance expenses of RMB243.8 million in 2015. This was mainly due to the repayment of longterm borrowings and certain short term borrowings by the Group during the Reporting Period, which lowered the interest expense for 2016 to RMB53.6 million from RMB211.9 million for 2015. Further, during the year, bank deposits increased substantially leading to increase of RMB84.2 million in interest income.

*(5) Profit before tax*

The Group's profit before taxation was RMB7,778.3 million in 2016, representing an increase of RMB3,541.1 million as compared with the profit before taxation of RMB4,237.2 million in the previous year.

*(6) Income tax*

The Group's income tax expense amounted to RMB1,796.8 million in 2016, while the Group's income tax expense was RMB926.8 million in the previous year. As a result of profit increase in 2016, income tax payable by the Company for the current period was increased accordingly.

In accordance with the revised *Enterprise Income Tax Law of China* which became effective from 1 January 2008, the income tax rate applicable to the Group in 2016 was 25% (2015: 25%).

*(7) Profit for the year*

The Group's profit after tax for the year was RMB5,981.5 million, representing an increase of RMB2,671.1 million as compared with profit after tax of RMB3,310.4 million for the previous year.

### *3.2.B Liquidity and capital sources*

The Group's primary sources of fund are operating cash inflows and loans from unaffiliated banks. The Group's primary uses of fund are cost of sales, other operating expenses and capital expenditure.

*(1) Capital Sources*

(i) Net cash flow generated from operating activities

The Group's net cash inflows from operating activities amounted to RMB7,181.8 million in 2016, representing an increase in cash inflows of RMB2,249.0 million as compared with net cash inflows of RMB4,932.8 million in the previous year. The Group recorded profit from operation during the Reporting Period. Net cash inflows from profit before tax after deducting investment revenue, depreciation and amortization and assets depreciation, was RMB7,288.0 million representing an increase of RMB2,435.9 million as compared with net cash inflows of RMB4,852.1 million in the previous year.

(ii) Borrowings

The total borrowings of the Group at the end of 2016 amounted to RMB546.4 million, representing a decrease of RMB1,523.6 million as compared with that as at the end of the previous year, which was mainly due to short-term borrowings decreased by RMB1,523.6 million.

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

*(2) Gearing ratio*

As of 31 December 2016, the Group's gearing ratio was 26.34% (2015: 27.77%). The ratio is calculated using this formula: total liabilities/total assets multiply by 100%.

### *3.2.C R&D, patents and licenses*

The Group has a number of technological development units, including the Petrochemical Research Institute, the Plastics Research Institute, the Polyester Fibre Research Institute, the Acrylic Fibre Research Institute and the Environmental Protection Research Institute. These units are responsible for the various research and developments of new technology, new products, new production processes and equipment, as well as environmental protection. The Group's research and development expenditures for the years 2014, 2015 and 2016 were RMB43.6 million, RMB87.6 million and RMB102.1 million, respectively. The increase in research and development expenditures over the year was mainly attributable to the increase in the consumption of raw materials and ancillary materials for research purpose as well as costs of travel.

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

### *3.2.D Off-balance sheet arrangements*

Please refer to note 32 to the consolidated financial statements prepared under IFRS of this annual report for details of the Group's capital commitments. The Group did not provide any guarantee to external parties during the Reporting Period.

### *3.2.E Contractual obligations*

The following table sets forth the Group's contractual obligations to repay loan principal in the future as at 31 December 2016:

| | Payment due and payable by the following period as at 31 December 2016 | | | | |
|---|---|---|---|---|---|
| | Total (RMB'000) | Within 1 year (RMB'000) | After 1 year but within 2 years (RMB'000) | After 2 year but within 5 years (RMB'000) | Over 5 years (RMB'000) |
| Contractual obligations | | | | | |
| Short term borrowings | 546,432 | 546,432 | – | – | – |
| Long term borrowings | – | – | – | – | – |
| Total contractual obligations | 546,432 | 546,432 | – | – | – |

### 3.2.F Analysis of performance and results of major companies in which the Company has controlling interests or investment interests during the Reporting Period

As at 31 December 2016, the Company had more than 50% equity interest in the following principal subsidiaries:

| Company name | Place of registration | Principal activities | Country of principal activities | Type of legal person | Percentage of equity held by the Company (%) | Percentage of equity held by the Group (%) | Registered capital ('000) | Net profit/ (loss) for the year 2016 (RMB'000) |
|---|---|---|---|---|---|---|---|---|
| Shanghai Petrochemical Investment Development Company Limited | China | Investment management | China | Limited liability company | 100 | - | RMB1,000,000 | 22,466 |
| China Jinshan Associated Trading Corporation ("China Jinshan") | China | Import and export of petrochemical products and equipment | China | Limited liability company | 67.33 | - | RMB25,000 | 18,564 |
| Shanghai Jinchang Engineering Plastics Company Limited ("Shanghai Jinchang") | China | Production of polypropylene compound products | China | Limited liability company | - | 74.25 | US$9,154 | 34,549 |
| Shanghai Golden Phillips Petrochemical Company Limited ("Shanghai Golden Phillips") | China | Production of polypropylene products | China | Limited liability company | - | 60 | US$50,000 | 148 |
| Zhejiang Jin Yong Acrylic Fibre Company Limited | China | Production of acrylic fibre products | China | Limited liability company | 75 | - | RMB250,000 | -56,038 |
| Shanghai Golden Conti Petrochemical Company Limited | China | Production of petrochemical products | China | Limited liability company | - | 100 | RMB545,776 | -73,937 |
| Shanghai Jinmao International Trading Company Limited ("Jinmao International") | China | Import and export of petrochemical products and equipment | China | Limited liability company | - | 67.33 | RMB100,000 | 16,222 |

* None of the subsidiaries have issued any debt securities.

The Group's equity interests in its associates comprised an equity interest of 38.26%, amounting to RMB1,301.1 million, in Shanghai Chemical Industry Park Development Co., Ltd., a company incorporated in the PRC; and an equity interest of 20%, amounting to RMB2,031.3 million, in Shanghai SECCO, a company incorporated in the PRC. The principal business of Shanghai Chemical Industry Park Development Co., Ltd. includes planning, developing and operating the Chemical Industry Park in Shanghai, while the principal business of Shanghai SECCO is the production and distribution of petrochemicals.

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

In 2016, as the cost of raw materials decreased dramatically and the gross profits of petrochemical products increased, Shanghai SECCO recorded an operating income of RMB23,969 million, and its profit after tax reached RMB3,753.5 million, of which RMB750.7 million was attributable to the Company.

(2) *Major controlling companies and investing companies with a 30% change in operational performance as compared with last year*

a. In 2016, operation performance of China Jinshan increased by 85.81% as compared with last year, mainly because it actively promoted PX operations business in 2016, which was able to enjoy a cost advantage with the sharp rise in sales, resulting in the improvement of profitability.

b. In 2016, operation performance of Shanghai Jinchang increased by 38.38% as compared with last year, mainly because the falling price of polypropylene, which is the main raw material, and the recovery of downstream industries, resulting in a remarkable increase in operational performance in 2016.

c. In 2016, operation performance of Shanghai Golden Phillips decreased by 99.74% as compared with last year, mainly due to the sharp decline in sales of the major product TR480, and the constant high price level of the raw material ethylene in 2016, which resulted in a substantial decline in profit.

d. In 2016, operation performance of Shanghai Jinmao increased by 28.44% as compared with last year, mainly because Shanghai Jinmao has focused on developing the sales of the paralyxene, which resulted in the increase in net profits with a rapid growth in sales volume.

### *3.2.G. Major suppliers and customers*

The Group's top five suppliers in 2016 were China International United Petroleum & Chemical Co., Ltd., Shengyuan Ji (Jiangsu) Industrial Co., Ltd., Shanghai SECCO, Shanghai International Holding Co. and GS Caltex Corporation. Total procurement costs involving these five suppliers, which amounted to RMB52,045 million, accounted for 85.89% of the total procurement costs of the Group for the year. The procurement from the largest supplier amounted to RMB20,623 million, representing 56.38% of the total costs of purchases by the Group for the year.

The Group's top five customers in 2016 were East China Branch of Sinopec Sales Company Limited, Hangzhou Huasu Industrial Company Limited, Hengli Petrochemical (Dalian) Company Limited, Zhongtuo (Fujian) Industrial Company Limited and Jiaxing Petrochemical Company Limited. Total sales to these five customers amounted to RMB40,349.1 million, representing 51.8% of the Group's total turnover for the year. Sales to the Group's largest customer amounted to RMB31,796.1 million, representing 40.82% of the Group's total turnover for the year.

To the knowledge of the Board, among the suppliers and customers listed above, none of the Directors or shareholders of the Company (and their respective close associates) had any interests in Shengyuan Ji (Jiangsu) Industrial Co., Ltd., Shanghai International Holding Co., GS Caltex Corporation, Hangzhou Huasu Industrial Company Limited, Hengli Petrochemical (Dalian) Company Limited, Zhongtuo (Fujian) Industrial Company Limited and Jiaxing Petrochemical Company Limited. 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. Sinopec Corp. and the Company respectively owns 30% and 20% equity interests in Shanghai SECCO.

## (2) The principle operations of the Company during the Reporting Period
## Discussion and analysis of the Company's operations (Prepared under CAS)

### 1. Analysis of the Company's major businesses

*(i) Analysis of changes in the Consolidated Income Statement and the Consolidated Cash Flow Statement*

Unit: RMB'000

| Item | **Amount for the year ended 31 December 2016** | Amount for the year ended 31 December 2015 | Increase/ decrease (%) |
|---|---|---|---|
| Operating income | **77,894,285** | 80,803,422 | -3.60% |
| Operating costs | **55,743,306** | 60,089,297 | -7.23% |
| Selling and distribution expenses | **493,289** | 516,943 | -4.58% |
| General and administrative expenses | **2,683,310** | 2,667,413 | 0.60% |
| Financial expenses ("-" for financial income) | **-55,830** | 254,114 | –121.97% |
| Net cash inflow generated from operating activities ("-" for net outflow) | **7,210,957** | 5,143,397 | Increase inflow of 40.20% |
| Net cash inflow generated from investing activities ("-" for net outflow) | **-189,895** | -438,985 | Decrease outflow of 56.74% |
| Net cash inflow generated from financing activities ("-" for net outflow) | **-2,666,344** | -3,906,275 | Decrease outflow of 31.74% |
| Research and development expenses | **102,104** | 87,629 | 16.52% |

### *Analysis of major changes in the Consolidated Income Statement*

Unit: RMB'000

| Item | For the years ended 31 December 2016 | 2015 | Increase/ decrease amount | Increase/ decrease (%) | Major reason for change |
|---|---|---|---|---|---|
| Taxes and surcharges | **11,906,438** | 13,710,933 | -1,804,495 | -13.16 | Decrease in operating income |
| Financial expenses – net ("-" for income) | **-55,830** | 254,114 | -309,944 | -121.97 | Decrease in borrowings/ increase in deposits |
| Assets impairment loss | **330,440** | 95,625 | 234,815 | 245.56 | Increase in fixed assets impairment provisions |
| Investment income | **906,754** | 599,189 | 307,565 | 51.33 | Substantial increase in profits of Shanghai SECCO |
| Operating profit | **7,700,086** | 4,068,286 | 3,631,800 | 89.27 | Increase in gross profit of major products |
| Total profit | **7,765,405** | 4,208,729 | 3,556,676 | 84.51 | Increase in gross profit of major products |
| Net profit | **5,968,583** | 3,281,952 | 2,686,631 | 81.86 | Increase in gross profit of major products |
| Income tax expenses | **1,796,822** | 926,777 | 870,045 | 93.88 | Grow in profit |

### *Analysis of major changes in the Cash Flow Statement*

Unit: RMB'000

| Item | For the years ended 31 December 2016 | 2015 | Increase/ decrease amount | Increase/ decrease % | Major reason for the change |
|---|---|---|---|---|---|
| Net cash inflow generated from operating activities ("-" for net outflow) | **7,210,957** | 5,143,397 | Increase inflow of 2,067,560 | Increase inflow of 40.20% | Increase in operating profit of the year |
| Net cash inflow generated from investing activities ("-" for net outflow) | **-189,895** | -438,985 | Decrease outflow of 249,090 | Decrease outflow of 56.74% | Increase in investment income driven by significant growth of gross profit of associates |
| Net cash inflow generated from financing activities ("-" for net outflow) | **-2,666,344** | -3,906,275 | Decrease outflow of 1,239,931 | Decrease outflow of 31.74% | Substantial decrease in borrowings |

*(ii)* *Operating income*

***a. Analysis of factors causing the changes in operating income***

The weighted average prices (exclude VAT) of the Group's synthetic fibres, resins, plastics, intermediate petrochemical products and petroleum products fell by 12.41%, 3.83%, 0.51% and 10.81%, respectively, bringing a lower operating income in 2016 compared with the previous year.

***b. Major customers***

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

*(iii)* *Operating costs*

***a. Analysis of operating costs***

Operating costs of the Group amounted to RMB55.7433 billion in 2016, representing a decrease of 7.23% as compared with RMB60.0893 billion in 2015, which was mainly due to a decrease in the price of raw materials of the Group during the year.

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

| | For the year ended 31 December | | | | |
|---|---|---|---|---|---|
| | 2016 | | 2015 | | |
| | RMB million | % to total operating costs | RMB million | % to total operating costs | Increase/ decrease (%) |
| Cost of raw materials | | | | | |
| Crude oil | 23,190.5 | 41.60 | 32,390.7 | 53.90 | -28.40% |
| Ancillary materials | 8,786.4 | 15.76 | 9,092.6 | 15.13 | -3.37% |
| Depreciation and amortisation | 1,560.8 | 2.80 | 1,659.0 | 2.76 | -5.92% |
| Staff costs | 1,580.8 | 2.84 | 1,570.4 | 2.61 | 0.66% |
| Costs of trade | 20,423.9 | 36.64 | 13,573.2 | 22.59 | 50.47% |
| Others | 200.9 | 0.36 | 1,803.4 | 3.01 | -88.86% |
| Total | 55,743.3 | 100.00 | 60,089.3 | 100.00 | -7.23% |

***b. Major suppliers***

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

*(iv)* *Expenses*

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

*(v)* *R&D expenditure*

Unit: RMB'000

| | |
|---|---|
| Expensed R&D expenditure during the Reporting Period | 102,104 |
| Capitalised R&D expenditure during the Reporting Period | 0 |
| Total | 102,104 |
| % of R&D expenditure to operating income | 0.13 |
| Number of R&D personnel | 217 |
| % of number of R&D personnel to total number of staff | 1.96 |
| % of capitalised R&D expenditures | 0 |

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

*(vi)* *Cash flow*

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

2. **Analysis of business operations by industry, product or geographical location segment**

(i) *Principal operations by industry or product*

Unit: RMB'000

| By industry | Operating income (RMB'000) | Operating costs (RMB'000) | Gross profit margin (%) | Increase/ decrease of operating income as compared to the previous year | Increase/ decrease of operating costs as compared to the previous year | Increase/decrease of gross profit margin as compared to the previous year (percentage point) |
|---|---|---|---|---|---|---|
| Synthetic fibres | 1,915,242 | 1,920,884 | -0.29% | –20.10% | –18.89% | Decreased by 1.49 percentage points |
| Resins and plastics | 10,072,760 | 7,217,955 | 28.34% | -1.65% | –8.88% | Increased by 5.68 percentage points |
| Intermediate petrochemical products | 9,112,004 | 5,994,941 | 34.21% | -5.16% | –17.01% | Increased by 9.40 percentage points |
| Petroleum products (Note) | 35,261,722 | 19,506,920 | 44.68% | -19.67% | –31.26% | Increased by 9.33 percentage points |
| Trading of petrochemical products | 20,596,948 | 20,423,854 | 0.84% | 50.13% | 50.47% | Decreased by 0.23 percentage point |
| Others | 413,634 | 235,284 | 43.13% | -4.37% | –6.85% | Increased by 1.51 percentage points |

Note: Gross profit margin is calculated according to the price of petroleum products, which includes consumption tax. Gross profit margin of petroleum products after deducting consumption tax amounted to 18.77%.

*(ii) Operating income by geographical location*

Unit: RMB'000

| Geographical location | Operating income | Increase/decrease of operating income compared with the previous year (%) |
|---|---|---|
| Eastern China | 59,736,734 | -16.63 |
| Other regions in China | 6,255,708 | 23.75 |
| Exports | 11,901,843 | 190.39 |

## 3. Analysis of assets and liabilities

Unit: RMB'000

| | As at 31 December 2016 | | As at 31 December 2015 | | | |
|---|---|---|---|---|---|---|
| Item | Amount | % of total assets | Amount | % of total assets | Change of amount on 31 December 2016 compared to 31 December 2015 (%) | Major reason of the change |
| Inventories | **6,159,473** | **18.05** | 4,178,188 | 14.91 | 47.42 | Increase in unit price of inventory balance |
| Short-term borrowings | **546,432** | **1.6** | 2,070,000 | 7.39 | -73.6 | Decrease in capital demand due to an increase in profit of the year |
| Accounts payable | **5,082,470** | **14.89** | 3,017,878 | 10.77 | 68.41 | Increase in the procurement of crude oil in transit as of the end of the year |

## 4. Others

*(i) Directors, Supervisors, senior management and employees*

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

*(ii) Purchase, sale and investment*

Save and except as disclosed in this annual report, there was no material purchase or sale of the Group's subsidiaries, associates or joint ventures or any other material investments in 2016.

*(iii) Pledge of assets*

As at 31 December 2016, no fixed assets was pledged by the Group (31 December 2015: Nil).

*(iv) Material events after the Reporting Period*

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

## 5. Financial assets and financial liabilities held in foreign currencies

As at 31 December 2016, bank deposits denominated in foreign currencies held by the Group equivalent to RMB249,281,000.

## 6. Investment of the Company

*(i) Entrusted wealth management and entrusted loans*

***(a) Entrusted wealth management***

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

### *(b) Entrusted loans*

Unit: RMB'000

| Name of borrower | Amount of entrusted loan | Loan period | Interest rate of loan % | Whether it is overdue | Whether it is a connected transaction | Whether it has been extended | Whether it is subject to any lawsuits | Whether it is financed by fund-raising | Connected relationship | Expected income |
|---|---|---|---|---|---|---|---|---|---|---|
| Chevron Phillips Chemicals (Shanghai) Corporation | 12,000 | 29/01/2016-27/01/2017 | 1.75 | No | No | No | No | No | Nil | 194 |
| | 12,000 | 27/04/2016-27/04/2017 | 1.75 | No | No | No | No | No | Nil | 143 |
| | 12,000 | 30/08/2016-29/08/2017 | 1.75 | No | No | No | No | No | Nil | 71 |
| | 12,000 | 29/09/2016-29/09/2017 | 1.75 | No | No | No | No | No | Nil | 54 |
| | 28,000 | 29/11/2016-28/11/2017 | 1.75 | No | No | No | No | Nil | Nil | 43 |
| | 12,000 | 27/12/2016-27/12/2017 | 1.75 | No | No | No | No | Nil | Nil | 2 |

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

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

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

*(iii)* *Non-fundraising projects*

In 2016, the capital expenditures of the Group amounted to RMB824 million, representing an increase of 13.97% as compared with RMB723 million in 2015. Major projects include the following:

| Major Project | Total amount of project investment RMB'000 | Amount of project investment during the Reporting Period RMB'000 | Project progress as at 31 December 2016 |
|---|---|---|---|
| The 100,000 tons/year EVA production facility | 1,132,000 | 122,000 | Preliminary design |
| Desulfurization revamps for furnaces No.1-No.6 thermal power boilers | 164,000 | 18,000 | Completed |
| Desulfurization & denitrification of start-up boilers flue gas in olefin plant | 81,000 | 31,000 | Completed |
| Upgrade project on No.2 diesel hydrogenation unit | 99,000 | 81,000 | Completed |
| Oil tank's odors control project of Storage and Transportation Department | 63,000 | 17,000 | Completed |

The Group's capital expenditures for 2017 is estimated at approximately RMB1,500 million.

## (3) Discussion and analysis on future development of the Company

### 1. Industry competition and development trends

The outlook for growth in the global economy is pessimistic in 2017. Problems including the decline in the global potential growth rate, fragile financial market, weakened trade and investment, an increasingly obvious anti-globalization trend, coupled with the impact of uncertainties such as geopolitics risks, refugee crisis, political cycles of the major countries and terrorism will affect the stability and development of the global economy and intensify the challenges for the global economic recovery.

The Chinese economy has been experiencing a new normal and at the same time will maintain an L-shaped developing trend for a prolonged period. In 2017, China will accelerate its supply-side structural economic reform and will also endeavor to revitalize the physical economy which further stimulates the market dynamism. However, at the same time, the gross demand is facing a downturn trend as the structural conflicts in China's economy remain prominent for a long period of time. The domestic growth momentum is greatly hindered by various challenges regarding economic development which poses a great downward pressure on the economic growth.

In 2017, the international crude oil market will pay close attention to OPEC's fulfillment of the production reduction agreement. In the case of strict compliance with production quota by OPEC countries, coupled with increasing global demand, the global crude oil market may achieve a balance in the first half of the year which will further raise the oil prices. However, higher oil prices may prompt US oil companies to increase production, and combined with a slowdown in global demand for crude oil, the increase in the oil prices may be restrained. Moreover, it is expected that there will be a few rounds of rate hikes in the U.S. in 2017 which may boost the value of the U.S. dollar and in turn exert downward pressure on oil prices. An increase is expected in international crude oil prices from 2016 to 2017.

Though the oil and petrochemical industries in China maintain an overall promising development, the conflicts arising from oversupply in the industry are still prominent while both the domestic refined oil and petrochemicals market are experiencing the dilemma between supply-side structural overcapacity and structural shortage and thus reaching a fever pitch for severe market competition. Moreover, a sustainable appreciation of the U.S. dollar against Renminbi, along with policies such as the reform of the domestic resources tax and charges on pollutant emissions will inevitably raise the production costs of petrochemical enterprises. Increasingly stringent national standards on safety and environmental protection, acceleration of refined oil upgrading as well as enterprises' development plans in the place where the Company operates, all pose a relatively significant impact on the survival and development of the Company. On the other hand, the planning between the State and Sinopec to construct a petrochemical base in Shanghai will usher in new development opportunities for the Company.

**2. Development strategies of the Company**

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

**3. Business plans**

In 2017, under the sustained yet complex market and operations environment, the Group will continue to adhere to the enhancement of development quality and effectiveness, enhance safety and environmental protection, strengthen production and operation standards, maximise system optimization, lower costs and enhance efficiency, to promote for further development of the Company.

The Company plans to process 14,600,000 tons of crude oil in 2017, to produce 8,860,000 tons of refined oil, 760,000 tons of ethylene, 610,000 tons of paraxylene, 890,000 tons of polyolefin, 790,000 tons of synthetic fibre monomers, 450,000 tons of synthetic fibre polymers and 200,000 tons of synthetic fibres.

To achieve its business objectives in 2017, the Group will work hard in the following areas:

(1) *Strengthening efforts in safety and environmental protection works*

The Group will enhance the HSE operational management system and implement a veto mechanism to avoid the occurrence of any accidents. On top of optimizing and amending its environmental appraisal system, the Group will intensify the disciplinary penalties, improve the allocation and management of its environmental facilities as well as undergo environmental rectification and governance projects on schedule. The Group will also continue its "leak, detection and repair" (LDAR) work aiming at routinising LDAR work. The Group will continue the "Let's diagnose safety risks" campaign and strengthen the process of incentives on hidden hazard identification. In addition, the Group will strengthen its efforts in specific investigations of its direct operation and work safety and carry out a real-time video surveillance of the entire operational process. Apart from intensifying the classification appraisal of contractors and exploring the potential for implementing a bottom-out system for screening contractors, the Group will enhance the promotion of accident prevention awareness and conduct evaluations on occupational hazards and thus promote occupational health.

(2) *Strengthening the production and operation management*

By stringently controlling the frequency and durations of non-scheduled shut-downs and enhancing its appraisal, the Group can effectively ensure stable operations. In 2017, the Group will endeavor to improve the check and repair on No. 2 ethylene plant and No. 3 atmospheric and vacuum distillation unit, achieve a balance in connection with the supply and demand of materials as well as optimize operational strategies for production and thus guaranteeing smooth implementation of the operational plan. Both management of technical skill and supervision and appraisal of technical and economic indicators will be strengthened while new contract mechanisms for energy conservation and management will also be adopted. In addition, the Group will implement water conservation projects and strengthen the statistics and checks of carbon emissions aiming to upgrade its energy management level.

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

The Group will continue to thoroughly optimize its systems and extend the concept to its entire production and operation chain. By studying the international trend of oil prices, the Group will seize the potential opportunities in crude oil procurement and control inventories in a reasonable manner. As the Group consistently places efficiency as its first priority, the plants are reasonably arranged for operations while operations without marginal benefits will not be conducted. According to price changes in crude oil and refined oil, the Group will optimize and adjust the structure of refined oil, and will also accelerate the construction of the catalyzation and jet fuel plants. Maximizing the production of gasoline and jet fuel will enhance the proportion and quantity of quality gasoline products. In addition, the Group will emphasize the system optimization of hydrogen, fuel gas and nitrogen, strengthen the system management of flare gas and strictly control the flare gas emissions. The Group will intensify its refined management and implement cost management throughout the entire operational process and explore the potential in cost/expenditure reduction in key segments. In terms of comprehensive budget management, cost/expenditure control, fund management, capital and price management, tax planning and risk management, the Group will make an overall planning regarding various input and output factors and thus further achieve cost reductions and efficiency enhancements.

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

The Group will speed up the project construction and adhere to coordination and planning in projects of refined oil, olefins, aromatic hydrocarbon, plastics, chemical fibres and public utilities. Projects under the "13th Five-Year Plan" will be accelerated, including No. 1 ethylene equipment demolition project, transformation project for "ultra clean discharge" work in cogeneration unit as well as transformation of No. 2 olefin cracking burner, sulfur recovery unit and sulfuric acid exhaust standard. Besides, innovation and technology work will be further advanced with emphasis on development of high value-added synthetic materials, fine chemical technologies and varieties which allow the Group to focus on the key R&D aspect and the development of new products. Carbon fibre plant will carry out stable operation and achieve target while SCF-55 (T800 level) fibre precursors will strive to make a breakthrough from the bottleneck and the Group will initiate a carbon fibre project (phase 2). In addition, the Group will promote the integration of production and research and at the same time strengthen the communication between R&D, production, marketing departments and users as well as optimize the incentive mechanism for R&D and transformation of new products. For the pilot application of smart plant 2.0, the Group will step up the construction of smart plant and develop three major lines including production, supply chain management and comprehensive life cycle management of assets and thus achieving control over production, equipment, energy, safety and environmental protection, resources and supportive measures for the decision-making process.

(5) *Further enhancement of internal management*

With its competitive edge in the management integration system and business process digitalization, the Group will strengthen the system development and refine the accountability system in a detailed manner. Continuous refinement of on-site management standards can effectively improve the implementation of appraisal and evaluation of the accountability of the junior posts. With an emphasis on empowering primary strength, the Group will optimize the human resources structure and allocate primary professional and technical personnel as well as strengthen staff training to enhance staff's basic skills. Moreover, the steady launch of various reforms including reducing hierarchy of management level and optimizing plants, workplace and group will further optimise management. The Group will put its core values into practice during the course of daily production management and staff behavior in striving for a harmonious and stable environment for corporate development.

## 4. Risk exposure

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

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

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

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

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

The petrochemical industry is a capital-intensive industry. The Group's ability to maintain and raise income, net income and cash flows is closely connected with ongoing capital expenditures. The Group's estimated capital expenditures is estimated to amount to approximately RMB1,500.0 million in 2017, which will be met by financing activities and by internal funding. The Group's effective capital expenditures may vary significantly due to the Group's ability to generate sufficient cash flows from operations, investments and other factors that are beyond control. Furthermore, there is no assurance as to the completion, cost or outcome of the Group's fund raising projects.

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

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

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

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

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

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

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

*(vii)* *Risks associated with control by the majority shareholder*

Sinopec Corp., the controlling shareholder of the Company, owns 5,460,000,000 shares of the Company, which represents 50.56% of the total number of shares of the Company and gives it an absolute controlling position. Sinopec Corp. may, by using its controlling position, exercise influence over the Group's production operations, fund allocations, appointment or removal of senior staff and so forth, thereby adversely affecting the Group's production operations as well as minority shareholders' interests.

## Section III Analysis of Operating Information in Chemical Industry

### (1) Basic information of the industry

#### 1. Industry policy and changes

As China's economy development enters a structural transition period, environmental governance has entered a period of overcoming major difficulties. 2016 was the year setting high level plan for environmental protection in the "13th Five-Year Plan Period". 2016 witnessed the promulgation of "Atmospheric Pollution Prevention and Control Law of the People's Republic of China", "The Environmental Protection Tax Law of the People's Republic of China", "Notice of the State Council Regarding the Promulgation of the 13th Five-Year Work Plan for Greenhouse Gas Emission Control", "Notice of the General Office of the State Council on Issuing the Implementing Plan for the Permit System for Controlling the Discharge of Pollutants", "Notice of the State Council on Issuing the Comprehensive Work Plan for Energy Conservation and Emission Reduction in the 13th Five-Year Period", and "Notice of the General Office of the State Council on Issuing Extended Manufacturer Responsibility Plan". These laws, regulations and policies set higher standards and stricter restrictions on safety environmental protection management in various aspects, including ecological environmental protection, atmospheric pollution prevention and treatment, marine environmental protection, extended manufacturer responsibility, occupational disease prevention and treatment, administrative penalty and environmental public interest litigation. Targeted at the various issues in the development of the petrochemical industry, the General Office of the State Council issued "Guiding Opinions on the Structural Adjustment for the Promotion of Transformation and the Increase of Benefits in the Petrochemical Industry", offering macro level guidance over the development of the industry.

#### 2. Basic information of key industry segments and the Company's position in the industry

Currently, the refining and petrochemical industry is in a recovery cycle. According to the "2016 China's Petroleum and Chemical Industry Economic Operations Report" issued by the China Petroleum and Chemical Industry Association, the operation of the industry has shown characteristics of differentiation in economic growth, accelerated structural adjustment, progress in the enhancement of quality and efficiency, prices touching the bottom and bouncing back up, improved export trade structure, and continued enhancement in energy efficiency.

The national crude oil processing volume amounted to 541 million tons, representing a year-on-year increase of 2.8%; the production volume of refined oil (gasoline, kerosene and diesel in total, same below) amounted to 348 million tons, representing a year-on-year increase of 2.5%. Of these, the production volume of diesel amounted to 179 million tons, representing a decrease of 1.3%; the production volume of gasoline amounted to 129 million tons, representing an increase of 6.4%; the annual export volume of refined oil amounted to 38.20 million tons, representing an increase of 50.2%. In 2016, the total national production volume of major chemical products amounted to approximately 569 million tons, representing a year-on-year increase of 2.0%. Of these, the production volume of ethylene amounted to 17.811 million tons, representing an increase of 3.9% and the total production volume of synthetic products amounted to 142 million tons, representing an increase of 8.0%.

Due to cost reduction and enhanced quality with lower price, the efficiency of the oil refining industry has continued to grow rapidly in 2016, and the petroleum and chemical industry achieved remarkable progress in improving quality and efficiency.

International oil prices are expected to rise gradually over the next two years. Amid the rising oil prices, the petrochemical industry is expected to remain in the positive cycle. However, with the international crude oil prices rising further, the petrochemical industry may gradually withdraw from its peak. Assuming a complete petrochemical industry cycle of 6-8 years, the Company expects the peak of the petrochemical industry boom is expected to appear in 2016-2018.

The Group is one of the largest refining-chemical integrated enterprises in the domestic market and produces main product such as gasoline, kerosene and diesel taking up over 40% of the market share in Shanghai, and production of ethylene, PX, ethylene glycol taking a share of around 5% in the domestic market of similar products.

## (2) Products and production

### 1. Main operating model

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

## 2. Main products

| 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 |
| 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 |

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

| Products | Production 2016 (10,000 tons) | Production 2015 (10,000 tons) | Production Year-on-year change | Sales 2016 (10,000 tons) | Sales 2015 (10,000 tons) | Sales Year-on-year change |
|---|---|---|---|---|---|---|
| Diesel Note 1 | **388.22** | 426.53 | -8.98% | **280.70** | 361.17 | -22.28% |
| Gasoline | **287.87** | 309.76 | -7.07% | **285.01** | 310.26 | -8.14% |
| Jet Fuel Note 1 | **159.83** | 161.30 | -0.91% | **55.91** | 61.22 | -8.67% |
| Paraxylene | **67.06** | 65.97 | 1.65% | **46.60** | 46.51 | 0.19% |
| Benzene | **37.27** | 35.95 | 3.67% | **35.91** | 35.78 | 0.36% |
| Ethylene Glycol | **36.14** | 42.15 | -14.26% | **24.37** | 30.66 | -20.52% |
| Ethylene Oxide | **14.84** | 18.29 | -18.86% | **14.59** | 17.06 | -14.48% |
| Ethylene Note 2 | **82.56** | 83.65 | -1.30% | **3.75** | 3.04 | 23.36% |
| Polyethylene | **53.10** | 53.56 | -0.86% | **53.51** | 53.22 | 0.54% |
| Polypropylene | **49.23** | 48.88 | 0.72% | **45.40** | 45.30 | 0.22% |
| Polyester Pellet Note 2 | **41.56** | 39.47 | 5.30% | **29.83** | 28.11 | 6.12% |
| Acrylic | **14.05** | 15.97 | -12.02% | **14.06** | 16.11 | -12.73% |
| Polyester Staple | **6.47** | 6.40 | 1.09% | **6.08** | 5.99 | 1.50% |

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

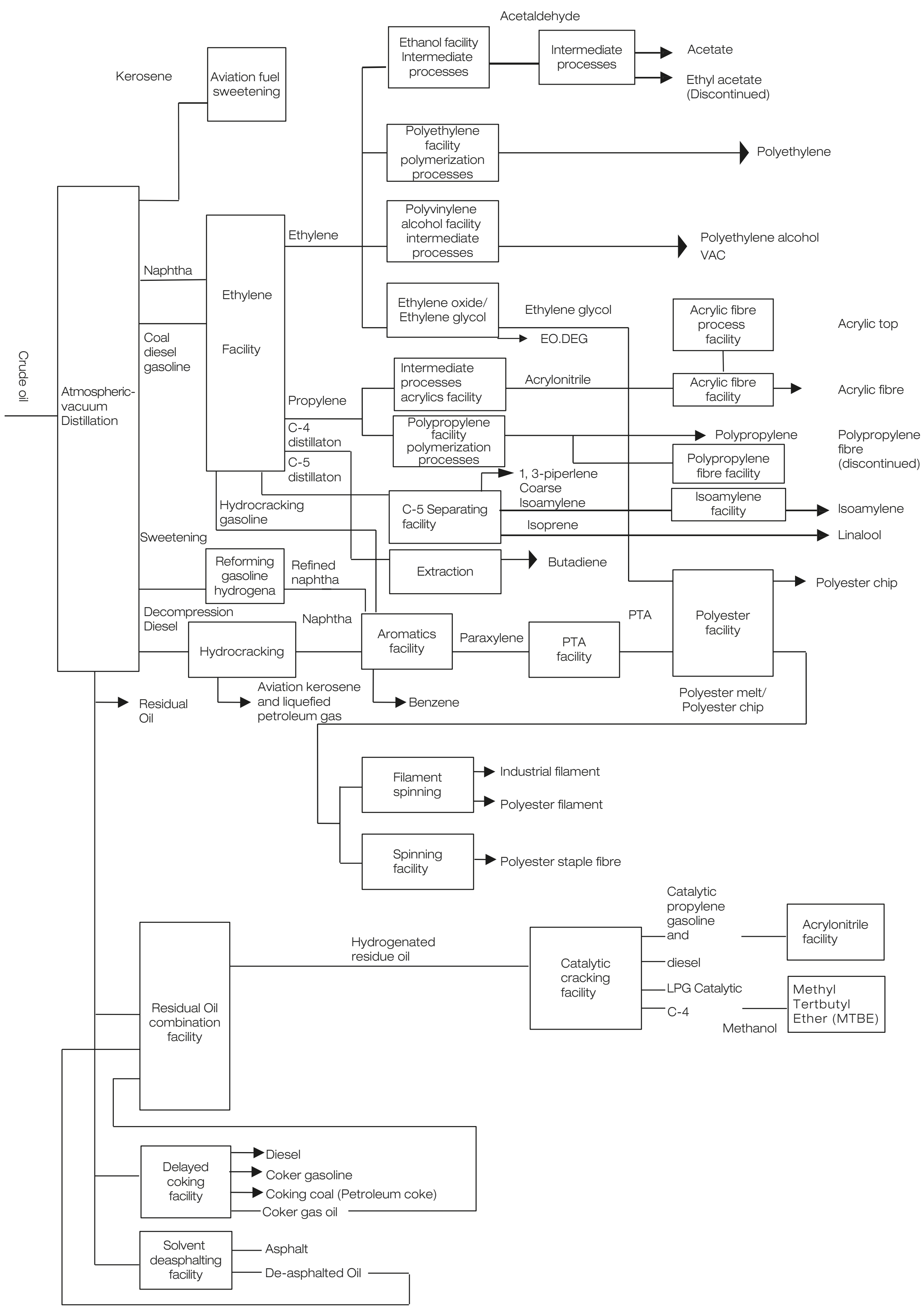
2: The difference between production and sales are internal sales.

## 3. R&D and Innovation

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

## 4. Production techniques and processes

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



Crude oil
Atmospheric-vacuum Distillation
Kerosene
Aviation fuel sweetening
Naphtha
Coal diesel gasoline
Ethylene Facility
Ethylene
Ethanol facility Intermediate processes
Acetaldehyde
Intermediate processes
Acetate
Ethyl acetate (Discontinued)
Polyethylene facility polymerization processes
Polyethylene
Polyvinylene alcohol facility intermediate processes
Polyethylene alcohol
VAC
Ethylene oxide/ Ethylene glycol
Ethylene glycol
EO.DEG
Acrylic fibre process facility
Acrylic top
Propylene
Intermediate processes acrylics facility
Acrylonitrile
Acrylic fibre facility
Acrylic fibre
C-4 distillaton
Polypropylene facility polymerization processes
Polypropylene
Polypropylene fibre facility
Polypropylene fibre (discontinued)
C-5 distillaton
1, 3-piperlene
Coarse
Isoamylene
Isoamylene facility
Isoamylene
Hydrocracking gasoline
C-5 Separating facility
Isoprene
Linalool
Sweetening
Reforming gasoline hydrogena
Refined naphtha
Extraction
Butadiene
Polyester chip
Decompression Diesel
Naphtha
Hydrocracking
Aromatics facility
Paraxylene
PTA facility
PTA
Polyester facility
Residual Oil
Aviation kerosene and liquefied petroleum gas
Benzene
Polyester melt/ Polyester chip
Filament spinning
Industrial filament
Polyester filament
Spinning facility
Polyester staple fibre
Residual Oil combination facility
Hydrogenated residue oil
Catalytic cracking facility
Catalytic propylene gasoline and
diesel
LPG Catalytic
C-4
Methanol
Acrylonitrile facility
Methyl Tertbutyl Ether (MTBE)
Delayed coking facility
Diesel
Coker gasoline
Coking coal (Petroleum coke)
Coker gas oil
Solvent deasphalting facility
Asphalt
De-asphalted Oil

### 5. Capacity and operation status

| Key production facilities (number of sets) | Designed capacity (tons) | Capacity utilization (%) |
|---|---|---|
| Crude oil distillation facility (2) | 14,000,000 | 97.5 |
| Hydrocracking facility (2) | 3,000,000 | 94.0 |
| Ethylene facility | 700,000 | 107.7 |
| *Aromatics facility (2) | 835,000 | 100.1 |
| PTA facility | 400,000 | 78.3 |
| Ethylene oxide/Ethylene glycol facility (2) | 525,000 | 84.3 |
| Catalytic cracking | 3,500,000 | 97.5 |
| Delayed coking (2) | 2,200,000 | 93.0 |
| Diesel hydrogenation (3) | 5,050,000 | 85.4 |
| C-5 Separation (2) | 205,000 | 100.0 |
| **Polyester facility (3) | 550,000 | 88.7 |
| ***Polyester staple fibre facility (2) | 158,000 | 89.6 |
| Polyester filament facility | 21,000 | 88.7 |
| Acrylics staple fibre facility (3) | 141,000 | 115.4 |
| Polyethylene facility (3) | 408,000 | 97.9 |
| Polypropylene facility (3) | 400,000 | 97.8 |
| Vinyl acetate facility | 86,100 | 95.7 |

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

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

*** No.1 Polyester staple fibre facility (4000 tons/year) was suspended for the whole year.

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

## (3) Raw material procurement

### 1. Basic information of major raw materials

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

Please refer to "Review of the Company's operations during the Reporting Period" in Section II Management Discussion and Analysis of this chapter for details of the crude oil procurement of the Company in 2016.

## (4) Sales of products

### 1. Sales model

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

### 2. Pricing strategy and change in prices of major products

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

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

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

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

### 4. Basic information of main businesses of the Company by sales channel

Unit: RMB'000

| Sales channels | Revenue | Year-on-year increase/decrease in revenue (%) |
|---|---|---|
| Direct sales | 56,625,560 | -1.16 |
| Agency sales | 20,746,750 | -9.82 |

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

The Company owns a power plant which provides power and steam resources mainly to the Company while the surplus is sold to external parties. In 2016, the Company sold 635 million kilowatt-hour of power, generating revenue of RMB410 million, and sold 592,000 giga joules of steam, generating revenue of RMB57.77 million.

### (5) Environmental protection and safety

#### 1. Major safety production accident of the Company during the Reporting Period

Nil.

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

Unit: RMB100 million

| Environmental protection investment | Percentage of invested capital in operating revenue (%) |
|---|---|
| 1.71 | 0.22 |

## Section IV Major Events

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

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

In 2016, the Company made amendments to its cash dividend policy in the Articles of Association of Sinopec Shanghai Petrochemical Company Limited (the "Articles of Association") and its appendices. The proposed amendments to the Articles of Association were considered and approved at the 2015 annual general meeting held on 15 June 2016. According to Article 205 of the amended Articles of Association:

(1) The Company should place emphasis on delivering reasonable return on investments to the investors. The Company shall pay due attention to the opinions of minority shareholders through various channels when allocating its profits. The profits distribution policy of the Company shall be consistent and stable, taking into account the long-term interests of the Company, the overall interests of all shareholders and the Company's sustainable development.

(2) The Company may distribute dividends in the following forms: cash, shares or other forms permitted by laws, administrative rules, regulations of competent authorities and regulatory provisions in the place where the Company's shares are listed. The Company shall give priority to the distribution of dividends in cash. The Company may make interim dividends distribution.

(3) The Company shall distribute cash dividends when the Company's net profit and retained earnings, in separate financial statement, are positive and the Company has adequate cash inflows over the requirements of cash flows for its operation and sustainable development. The cash dividends per annum should not be less than thirty (30) percent of the net profit of the Company in the current year.

(4) The Company may adjust its profits distribution policy referred to in sub-paragraphs (2) and (3) of this Article in case of war, natural disasters or other force majeure, or where changes to the external environment of the Company result in material impact on the production and operation of the Company, or where there are significant changes in the Company's own operations or financial conditions, or where the Company's board of directors considers it necessary. Independent directors shall issue independent opinions on the adjustment of the profits distribution policy whilst the board of directors shall discuss the rationality of such adjustment in detail and form a resolution which shall be submitted to shareholders' meeting for approval by way of special resolution. The convening of the shareholders' meeting shall comply with regulatory provisions in the place where the Company's shares are listed.

(5) The management of the Company shall formulate the annual profits distribution plan and submit such plan to the board of directors for consideration. Independent directors shall issue independent opinions on such plan and the board of directors shall form a resolution which shall be submitted for approval by shareholders' meeting. If the conditions for the distribution of cash dividends have been satisfied and the Company does not propose a cash dividends distribution plan or does not propose such plan in compliance with the sub-paragraph (3) of this Article, independent directors shall issue independent opinions whilst the board of directors shall give specific explanation regarding such arrangement and form a resolution which shall be submitted to shareholders' meeting for approval and make relevant disclosures. The plan for half-yearly dividends distribution of the Company shall comply with Article 213 of the Articles of Association.

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

In 2016, net profit attributable to shareholders of the Company amounted to RMB5,955.576 million under CAS (and RMB5,968.466 million under IFRS). The Board proposed to distribute a dividend of RMB0.25 per share (including tax) based on the total number of issued shares of the Company as on the record date for distributing dividends according to the 2016 plan for profit distribution approved on 15 March 2017. The 2016 plan for profit distribution will be executed after being approved at the annual general meeting. The date and time of 2016 annual general meeting, details of book closure, as well as the book closure arrangement for dividend payment and the date for payment of the dividend will be announced later.

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

Unit: RMB'000

| Year of dividend payment | Amount of bonus shares for every 10 shares (share) | Amount of dividend for every 10 shares (RMB) (including tax) | Amount of capitalization for every 10 shares (share) | Amount of cash dividend (including tax) | Net profit attributable to shareholders of ordinary shares of the listed company in the consolidated statement for the year | Percentage of net profit attributable to shareholders of ordinary shares of the listed company in the consolidated statement (%) |
|---|---|---|---|---|---|---|
| 2016 | 0 | 2.5 | 0 | 2,700,000 | 5,955,576 | 45.34 |
| 2015 | 0 | 1 | 0 | 1,080,000 | 3,245,849 | 33.27 |
| 2014 | 0 | 0 | 0 | 0 | -716,427 | – |

## (2) Fulfilment of undertakings

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

*(i) Undertakings about share reform*

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

1. Sinopec Corp. shall not, within 12 months from the date on which its non-circulating shares of the Company attain the right to circulate in the market (meaning the first trading day after the implementation of the share reform scheme), deal or transfer such shares. Upon the expiration of the aforesaid undertaking period, the number of existing non-circulating shares which may be disposed of by Sinopec Corp. through trading on the stock exchange shall not exceed 5% of the total number of shares of the Company within 12 months, and not exceed 10% within 24 months.

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

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

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

*(ii) Major shareholder's undertaking of not to reduce shareholdings*

On 13 July 2015, the Company received a notice from the controlling shareholder, Sinopec Corp., that for the purposes of promoting the sound development of the economy and capital market of PRC, Sinopec Corp. undertook that it would support the sound development of the listed company as always and would not reduce its shareholdings in the Company within 6 months from the date of the announcement i.e. 13 July 2015.

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

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

Nil.

## (4) Explanation on the reasons and impact for the Company's changes in accounting policies, accounting estimates, or correction of previous significant accounting errors

### 1. The Group has first adopted the following standards for financial statements prepared according to International Financial Reporting Standards for the financial year started on 1 January 2016

IAS 27 amendment on "Equity method in separate financial statements"

"Equity method in separate financial statements" amendment to IAS 27 permits companies to use the equity method for assessing investments in subsidiaries, affiliate companies, and joint-venture companies, as part of separate financial statements. In the past, IAS 27 permitted companies to use the cost method for the investments in subsidiaries, affiliate companies, and joint-venture companies or treat such investments as financial assets. This amendment introduced equity method as the third choice. For each investment category (subsidiary, affiliate company, and joint-venture company), assessment method could be independently chosen. If company switches to equity method, it has to apply the equity method retrospectively for previously held investments. This amendment took effect from the year started on 1 January 2016.

The Group has switched assessment of investments in affiliates and joint ventures from cost method to equity method starting from 1 January 2016 in separate financial statements, and has made retrospective adjustments for the past years.

| | |
|---|---|
| Amendment to IFRS 11 | "Accounting for Acquisitions of Interests in Joint Operations" |
| Amendment to IAS 16 and 38 | "Clarification of Acceptable Methods of Depreciation and Amortisation" |
| IFRS | Annual Improvements for the period from 2012 to 2014 |
| IAS 1 | Amendments to "Proactive disclosure" |

Except for the amendment to IAS 27, adoption of these amendments have no impact on the current year and past years, and is unlikely to have impact on future years. No other standards or interpretation revisions with major impact on the Group's combined financial statements was first effective for the financial year started on 1 January 2016.

## (5) Appointment and dismissal of auditors

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

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

Unit: RMB Yuan

| | **Current** |
|---|---|
| Name of the domestic auditors | PricewaterhouseCoopers Zhong Tian LLP |
| Remuneration of the domestic auditors | 4,800,000 |
| Duration of audit of the domestic auditors | 3 years |
| Name of the international auditors | PricewaterhouseCoopers |
| Remuneration of the international auditors | 3,000,000 |
| Duration of audit of the international auditors | 3 years |

## (6) Material litigation or arbitration

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

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

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

## (8) Share Option Incentive Scheme

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

| Summary | Index of enquiry |
|---|---|
| The fifth meeting of the Eighth Session of the Board considered and passed the "resolution on the adjustment to list of grantees and amount of initial grant under the Share Option Incentive Scheme" and the "resolution on initial grant under the Share Option Incentive Scheme". | Published on 7 January 2015 in China Securities Journal, Shanghai Securities News, Securities Times and uploaded to the websites of the Shanghai Stock Exchange, the Hong Kong Stock Exchange and the Company. |

### 2. Summary of Share Option Incentive Scheme

*a. Purpose of the scheme*

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

*b. Eligible participants of the scheme*

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

c. *Underlying shares and incentive instrument*

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

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

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

Under the Share Option Incentive Scheme, the total number of underlying shares to be granted shall not exceed 10% of the total share capital of the Company (10,800 million shares) nor exceed 10% of the total A-share capital of the Company (7,305 million shares). As at the annual report date, the number of outstanding share options of the Share Option Incentive Scheme is 0.35% of the total number of issued shares of the Company (10,800 million shares).

e. *Maximum entitlement of each participant under the scheme*

Unless approved by the shareholders as a special resolution at a general meeting of the Company, the aggregate number of A shares to be acquired by each grantee through the Share Option Incentive Scheme and other effective share option schemes of the Company (if any) at any time shall not exceed 1% of the total A-share capital of the Company. On each grant, the estimated benefit upon exercise of the share options shall not exceed 30% of his/her total emolument (including the estimated benefit to be granted to each grantee upon exercise of the share options) at the grant date.

f. *Exercisable period*

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

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

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

g. *Vesting period*

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

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

Nil.

*i. Basis of determining the exercise price*

***1. The exercise price under the initial grant***

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

I. the closing price of the A shares of the Company on the trading day immediately before the date of announcement on the summary of the proposal of the Share Option Incentive Scheme, which was RMB3.29 per share;

II. the average closing price of the A shares of the Company for the 30 trading days immediately before the date of announcement on the summary of the proposal of the Share Option Incentive Scheme, which was RMB3.27 per share; and

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

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

***2. The exercise price under further grants***

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

I. the closing price of the A shares of the Company on the trading day immediately before the date of announcement on the summary of the draft proposal for each grant; and

II. the average closing price of the A shares of the Company for the 30 trading days immediately before the date of announcement on the summary of the draft proposal for each grant.

***3. Adjustment of the exercise price***

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

*j. Remaining life of the scheme*

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

**3. Share Option Incentive Scheme of the Company**

*1. Date and number of the initial grant*

Grant Date: 6 January 2015

Number of grantees: 214 persons

Number of share options granted: 38,760,000

2. *Outstanding share options of Directors, chief executive and substantial shareholder as at the end of the Reporting Period*

   As at the end of the Reporting Period, the total number of outstanding A shares share options held by the six persons, including Chairman and President Mr. Wang Zhiqing, Vice Chairman and Vice President Mr. Gao Jinping, Director, Vice President and Chief Financial Officer Mr. Ye Guohua, Director and Vice President Mr. Jin Qiang, Director and Vice President Mr. Guo Xiaojun were 2,540,000 outstanding A shares share options. Former secretary to the Board Mr. Tang Weizhong resigned on 23 October 2015. Pursuant to the Share Option Incentive Scheme, the share options granted to him have lapsed.

3. *Outstanding share options granted to employees other than the persons mentioned in item (2)*

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

4. *Exercise price of the initial grant*

   According to the principle disclosed by the Company on the determination of exercise price, the exercise price of the initial grant was RMB4.20 per share (in the event of dividends payment, capitalisation of capital reserves, bonus issue, subdivision or reduction of shares or allotment of shares during the validity period, the exercise price shall be adjusted according to the Share Option Incentive Scheme). On 15 June 2016, the 2015 annual profit distribution plan was considered and passed at the Company's 2015 annual general meeting, whereby cash dividend of RMB1.00 was paid for each 10 shares, and the exercise price was adjusted to RMB4.10 per share accordingly.

5. *Validity of and exercise arrangements for the initial grant*

   The share options shall be exercisable within five years from the date of the grant, subject to the exercise arrangements. For the related regulations, please refer to paragraph 2.f. "Exercisable Period" above.

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

## (9) Major connected transactions

### 1. Connected transactions in relation to daily operations

During the Reporting Period, pursuant to the Mutual Product Supply and Sales Services Framework Agreement entered into with the controlling shareholder of the Company on 25 October 2013, Sinopec Corp., and the de facto controller, Sinopec Group, the Company purchased raw materials from Sinopec Group, Sinopec Corp. and their associates and sold petroleum products and petrochemicals and leased properties to Sinopec Corp. and its associates, and Sinopec Corp. and its associates provided agency sales services for petrochemical products to the Company. Pursuant to the Comprehensive Services Framework Agreement entered into with the Company's de facto controller Sinopec Group on 25 October 2013, the Company obtained construction and installation, engineering design, petrochemical industry insurance and financial services from Sinopec Group and its associates. The transactions under the abovementioned Mutual Product Supply and Sales Services Framework Agreement and the Comprehensive Services Framework Agreement constituted continuing connected transactions under Chapter 14A of the Hong Kong Listing Rules and constituted ongoing connected transactions under the Shanghai Listing Rules. The Company disclosed the two agreements and the respective continuing connected transactions (i.e. ongoing connected transactions, same below) under the agreements in an announcement dated 25 October 2013 and a circular dated 1 November 2013. These two agreements and the respective continuing connected transactions under the agreements together with the associated annual caps from 2014 to 2016 were considered and approved at the second extraordinary general meeting for 2013 held on 11 December 2013.

During the Reporting Period, the relevant continuing connected transactions were conducted in accordance with the terms of the Mutual Product Supply and Sales Services Framework Agreement and the Comprehensive Services Framework Agreement. The transaction amounts of the relevant connected transactions did not exceed the caps in relation to the respective continuing connected transactions approved at the second extraordinary general meeting for 2013.

As the above framework agreements expired on 31 December 2016, in order to ensure that the normal operation of the Company would not be affected, on 23 August 2016, the Company renewed the Mutual Product Supply and Sales Services Framework Agreement with Sinopec Group and Sinopec Corp, and renewed the Comprehensive Services Framework Agreements with Sinopec Group, so as to continue to conduct the abovementioned continuing connected transactions between 2017 and 2019. The framework agreement will remain effective for three years and expire on 31 December 2019. The Company has disclosed the two agreements and the respective continuing connected transactions under the agreements in an announcement dated 23 August 2016 and a circular dated 2 September 2016. These two agreements and the respective continuing connected transactions under the agreements, together with the associated annual caps from 2017 to 2019, were considered and approved at the first extraordinary general meeting for 2016 held on 18 October 2016.

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

Unit: RMB'000

| Connected transactions | Connected parties | Annual cap for 2016 | Transaction amount during the Reporting Period | Percentage of the transaction amount of the same type of transaction (%) |
|---|---|---|---|---|
| **Mutual Product Supply and Sales Services Framework Agreement** | | | | |
| Purchases of raw materials | Sinopec Group, Sinopec Corp. and their associates | 94,475,000 | 26,350,188 | 45.27% |
| Sales of petroleum products | Sinopec Corp. and its associates | 79,586,000 | 33,159,665 | 42.57% |
| Sales of petrochemical products | Sinopec Corp. and its associates | 31,156,000 | 5,738,425 | 7.37% |
| Property leasing | Sinopec Corp. and its associates | 116,000 | 28,160 | 61.47% |
| Agency sales of petrochemical products | Sinopec Corp. and its associates | 309,000 | 100,220 | 100.00% |
| **Comprehensive Services Framework Agreement** | | | | |
| Construction, installation and engineering design services | Sinopec Group and its associates | 1,824,000 | 177,295 | 21.52% |
| Petrochemical industry insurance services | Sinopec Group and its associates | 200,000 | 123,621 | 96.93% |
| Financial services | Sinopec Group and its associates | 300,000 | 3,553 | 4.45% |

On 5 December 2016, the Company entered into an asset leasing agreement (the "Lease Agreement") with Baishawan branch of Sinopec Petroleum Reserve Company Limited (the "Baishawan Branch"), a wholly-owned subsidiary of the Company's de facto controller Sinopec Group. Pursuant to the Lease Agreement, the Company rents the oil tanks and ancillary facilities from the Baishawan Branch at an annual rent up to RMB53,960,000 (exclusive of VAT), with the leasing period from 1 January 2016 to 31 December 2018. The Lease Agreement was considered and approved at the 16th meeting of the eighth session of the Board on 24 November 2016. Related announcements were published on the official websites of the Shanghai Stock Exchange, the Hong Kong Stock Exchange and the Company, as well as on "Shanghai Securities News" and "China Securities Journal" on 25 November 2016. During the Reporting Period, the Company incurred leasing cost of RMB53,960,000.

The transactions between the Company and Sinopec Group, Sinopec Corp. and their associates as disclosed in Note 29 to the consolidated financial statements prepared under IFRS in the 2016 annual report of the Company constituted continuing connected transactions under Chapter 14A of the Hong Kong Listing Rules. The above-mentioned continuing connected transactions have been disclosed in accordance with Chapter 14A of the Hong Kong Listing Rules.

## 2. Connected parties' liabilities

Unit:RMB'000

| Connected party | Connected relationship | Funds provided to connected parties | | | Funds provided by connected parties to the listed company | | |
|---|---|---|---|---|---|---|---|
| | | Balance as at the beginning of the period | Transaction amount | Balance as at the end of the period | Balance as at the beginning of the period | Transaction amount | Balance as at the end of the period |
| Sinopec Corp., its subsidiaries, joint ventures and associates & Sinopec Group and its subsidiaries | Controlling shareholder, de facto controller and their related parties | 736 | (557) | 179 | 99,907 | (27,983) | 71,924 |

Note 1: The period-end balance of the funds provided by the Group to the connected parties was mainly unsettled receivables arising from the provision of services and pipeline leases to Sinopec Corp., its subsidiaries and associates;

Note 2: The period-end balance of the funds provided by the connected parties to the Group was mainly unsettled payables arising from the provision of construction, installation and engineering design services by Sinopec Group and its subsidiaries.

The prices of the continuing connected transactions conducted by the Company with Sinopec Group, Sinopec Corp. and their associates were determined, upon negotiations between both parties, on the basis of (i) state tariffs, (ii) state guidance prices; or (iii) market prices. Such connected transactions were entered into in line with the Company's production and operational needs. Accordingly, the aforementioned continuing connected transactions did not have a significant adverse impact on the Company's independence.

Independent non-executive directors of the Company have reviewed the continuing connected transactions of the Group and confirmed that:

– the above continuing connected transactions have been entered into in the ordinary and usual course of business of the Company;

– the above continuing connected transactions have been entered into on normal commercial terms or better;

– the above continuing connected transactions have been entered into according to the agreements governing them on terms that are fair and reasonable and in the interests of the Company's shareholders as a whole; and

– the transaction amounts of the above continuing connected transactions during the Reporting Period were within the annual caps.

3. **The international auditor of the Company, PricewaterhouseCoopers, was engaged to report their conclusions regarding the above continuing connected transactions of the Company to the Board in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information", with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The auditors has, in accordance with Chapter 14A.56 of the Hong Kong Listing Rules came to the conclusion that:**

- nothing has come to their attention that causes them to believe that the disclosed continuing connected transactions have not been approved by the Board;

- for transactions involving the provision of goods or services by the Group, nothing has come to their attention that causes them to believe that the transactions were not, in all material respects, in accordance with the pricing policies of the Group;

- nothing has come to their attention that causes them to believe that the transactions were not entered into, in all material respects, in accordance with the relevant agreements governing such transactions; and

- with respect to the aggregate amount of each of the continuing connected transactions, nothing has come to their attention that causes them to believe that the amount has exceeded the annual cap set by the Company as disclosed in the related announcements in respect of each of the continuing connected transactions.

## (10) Material contracts and their performance

### 1. Entrustments, sub-contracts and lease arrangements

During the Reporting Period, the Company had no entrustments, sub-contracts or lease arrangements that generated 10% or more (including 10%) of the gross profit of the Company for the period.

### 2. Guarantees

There were no guarantees provided by the Company during the Reporting Period.

### 3. Entrusting others to conduct wealth management

Please refer to "Investment of the Company" in the section headed "Discussion and analysis of the Company's operations" in Section II "Management Discussion and Analysis" of this chapter.

### 4. Other major contracts

There were no major contracts of the Company during the Reporting Period.

## (11) The Company's disclosure on the fulfillment of its corporate social responsibility

### 1. Fulfillment of corporate social responsibility

For the Company's performance of corporate social responsibility in 2016 and the Company's 2016 Environmental, Social and Governance Report, please refer to the "2016 Corporate Social Responsibility Report of Sinopec Shanghai Petrochemical Company Limited" published by the Company on the websites of the Shanghai Stock Exchange, the Hong Kong Stock Exchange and the Company.

### 2. Environmental protection situation of key pollutant-discharging companies and their subsidiaries as announced by the Ministry of Environmental Protection

The Company is one of the contaminating enterprises under Intensive Monitoring and Control by the State proclaimed by the Ministry of Environmental Protection. According to Measures for Self-Monitoring and Information Disclosure by the Enterprises subject to Intensive Monitoring and Control of the State (Trial Implementation) (國家重點監控企業自行監測及信息公開辦法(試行)), the Company has disclosed to the public on the website of the Shanghai Environmental Protection Bureau the sites of the source of pollution, pollutant types and concentration of pollution which are subject to intensive monitoring and control of the State.

The Company, as a manufacturing enterprise in the petrochemical industry, consistently places environmental protection as its first priority. It continues to receive ISO14001 Environmental Management System Certification. In January 2013, it received certifications from the Shanghai Audit Center of Quality including quality (GB/T 19001: 2008), environment (GB/T 24001: 2004) and occupational health and safety (GB/T28001: 2011). On 26 October 26, 2016, the continued use of the title "All-China Environmentally Friendly Enterprise" （「中華環境好友企業」）was approved.

In 2016, the Company persisted in green development and environmental protection and executed the "Action Plan of the Municipal Government on Environment Improvement of Jinshan District". For the purpose of improving quality of the environment, the Company launched the "Clear Water, Blue Sky" specialized environmental improvement project, took various measures to reduce emissions and established the environmental protection standard of the "Three Simultaneous Activities" for construction projects to keep on improving level of environmental protection.

In 2016, the Company introduced advanced treatment of oily sewage with olefins department and aromatics department as pilot to control the volume of COD, bringing down the total volume of COD for the year by 6.18% year-on-year. Meanwhile, the Company accelerated to promote the construction of desulphurization and denitrifying project of boilers of the olefin department to cut total emission volume of sulfur dioxide and nitrogen oxides by 9.74% and 7.27% year-on-year respectively. In 2016, both the compliance rate on waste water and waste gas emission was 100%, and all hazardous wastes were disposed of properly with a rate of 100%.

Comprehensively implements LDAR work and continues emission reduction of VOC. In 2016, the Company implemented LDAR work on various aspects such as its management system and organizational structure, and conducted on-site detections and repair for over 1 million of sealed spots of its oil refining and petrochemical devices. Through extensive research and study, the Company has full knowledge of its total amount of VOC emissions, established a comprehensive VOC list and framework, unleashed the potential of emission reduction in terms of VOC and made clear its emission reduction goal.

In 2016, the Company paid pollution discharge fees of RMB63 million to Shanghai Environmental Protection Bureau.

## (12) Equity-linked agreements

Apart from the Share Option Incentive Scheme disclosed in item (8) under Section IV “Major Events” in this chapter, the Company does not have any equity-linked agreements during the year.

## (13) Tax rate

The income tax rate currently applicable to the Company is 25% (2015: 25%).

## (14) Deposits

The Company did not have any entrusted deposits during the Reporting Period. As at 31 December 2016, the Group did not have any term deposits which could not be collected upon maturity.

## (15) Reserves

Details of changes in reserves are set out in note 24 to the consolidated financial statements prepared under IFRS.

## (16) Financial summary

A summary of the results, total assets, total liabilities and shareholders’ equity of the Group as at 31 December 2016 are set out on page 6 of this annual report.

## (17) Bank loans and other borrowings

Details of bank loans and other borrowings of the Company and the Group for the year ended 31 December 2016 are set out in note 26 to the consolidated financial statements prepared under IFRS.

## (18) Interest capitalized

Details of interest capitalized during the year are set out in note 9 to the consolidated financial statements prepared under IFRS.

## (19) Property, plant and equipment

Changes in property, plant and equipment during the year are set out in note 15 to the consolidated financial statements prepared under IFRS.

## (20) Purchase, sale and redemption of the Company’s securities

During the Reporting Period, the Group did not purchase, sell or redeem any of the Company’s listed securities.

### (21) Pre-emptive rights

According to the Articles of Association and the laws of the PRC, there is no pre-emptive rights which requires the Company to offer new shares to the existing shareholders of the Company in proportion to their shareholdings.

### (22) Donations

During the Reporting Period, the company and its subsidiaries had not made any donations.

### (23) Tax relief

During the Reporting Period, the holders of listed securities of the Company were not entitled to tax relief due to the holding of listed securities of the Company in accordance with the PRC laws.

## Section V Business review and outlook

Please refer to Section II "Management Discussion and Analysis" of this chapter for the business review of the Group for the year ended 31 December 2016 and the outlook for 2017.

By order of the Board
*Chairman*
**Wang Zhiqing**

Shanghai, the PRC, 15 March 2017

羅兵咸永道

**To the Shareholders of Sinopec Shanghai Petrochemical Company Limited**
*(incorporated in the People's Republic of China with limited liability)*

## Opinion

### What we have audited

The consolidated financial statements of Sinopec Shanghai Petrochemical Company Limited (the "Company") and its subsidiaries (the "Group") set out on pages 138 to 224, which comprise:

- the consolidated balance sheet as at 31 December 2016;
- the consolidated income statement for the year then ended;
- the consolidated statement of comprehensive income for the year then ended;
- the consolidated statement of changes in equity for the year then ended;
- the consolidated statement of cash flows for the year then ended; and
- the notes to the consolidated financial statements, which include a summary of significant accounting policies.

### Our opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with International Financial Reporting Standards ("IFRSs") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

## Basis for Opinion

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### Independence

We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code.

PricewaterCoopers, 22/F, Prince's Building, Central, Hong Kong
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**To the Shareholders of Sinopec Shanghai Petrochemical Company Limited**
*(incorporated in the People's Republic of China with limited liability)*

## Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matters identified in our audit is summarised as follows:

- Net realisable value of work in progress and finished goods

| Key Audit Matter | How our audit addressed the Key Audit Matter |
|---|---|
| Net realisable value (NRV) of work in progress and finished goods<br><br>Refer to Notes 2.16 "Inventories", 4.1 "Critical accounting estimates and assumptions" and 20 "Inventories" to the consolidated financial statements.<br><br>The Group is principally engaged in processing of crude oil into petroleum products and other chemical products. The crude oil can be processed into various finish goods by different processing procedures. Inventories are valued at the lower of cost and NRV.<br><br>As at 31 December 2016, the gross balances of work in progress and finished goods were RMB1,004,580 thousand and RMB1,154,679 thousand, against which provisions of RMB44,453 thousand and RMB22,583 thousand were set aside, respectively.<br><br>The NRVs is determined based on the estimated selling prices less the estimated costs to completion, if relevant, other costs necessary to make the sale, and the related taxes.<br><br>Determination of estimated selling prices requires significant management judgement, taking into consideration of historical selling prices and future market trend.<br><br>We focused on this area because of the magnitude of the amounts and the significance of management judgements involved. | We evaluated and tested the key control over the determination of estimated selling prices.<br><br>For selected goods that had been sold after 31 December 2016, we compared on a sample basis the actual selling prices against the estimated selling prices.<br><br>For other inventories:<br><br>– for those goods of which selling prices were available in the domestic market, we performed independent research of the market price information and compared them against the estimated selling prices.<br><br>– for those goods of which no selling prices were available in the domestic market, we compared the estimated selling prices against the recent selling prices. We also independently evaluated the future market trend factors which management considered in determining the estimated selling prices, including possible changes in market supplies, customer demands, technology developments, the relevant State tariffs and the State's guidance prices by corroborating with public data or research information, checking subsequent outcomes of these factors and reference to our industry knowledge.<br><br>We assessed the reasonableness of the estimated costs to completion by comparing with the historical costs to completion for the similar inventories.<br><br>We found that management's judgements in determining the NRV were supported by the evidence we gathered. |

**To the Shareholders of Sinopec Shanghai Petrochemical Company Limited**

*(incorporated in the People's Republic of China with limited liability)*

## Other Information

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## Responsibilities of Directors and Those Charged with Governance for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

**To the Shareholders of Sinopec Shanghai Petrochemical Company Limited**

*(incorporated in the People's Republic of China with limited liability)*

## Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

PricewaterCoopers, 22/F, Prince's Building, Central, Hong Kong
T: +852 2289 8888, F: +852 2810 9888, www.pwchk.com

**To the Shareholders of Sinopec Shanghai Petrochemical Company Limited**
*(incorporated in the People's Republic of China with limited liability)*

## Auditor's Responsibilities for the Audit of the Consolidated Financial Statements *(continued)*

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement partner on the audit resulting in this independent auditor's report is HON Chong Heng.

**PricewaterhouseCoopers**
*Certified Public Accountants*

Hong Kong, 15 March 2017

# Consolidated Income Statement

*For the year ended 31 December 2016*

| | Note | 2016 RMB'000 | 2015 RMB'000 |
|---|---|---|---|
| | | Year ended 31 December | |
| Revenue | 5 | 77,842,906 | 80,748,138 |
| Sales taxes and surcharges | | (11,906,438) | (13,710,933) |
| Net Sales | | 65,936,468 | 67,037,205 |
| Cost of sales | 10 | (58,731,674) | (62,757,106) |
| **Gross profit** | | 7,204,794 | 4,280,099 |
| Selling and administrative expenses | 10 | (546,087) | (600,859) |
| Other operating income | 6 | 197,306 | 234,924 |
| Other operating expenses | 7 | (24,275) | (33,871) |
| Other (losses)/gains-net | 8 | (53,882) | 28,639 |
| **Operating profit** | | 6,777,856 | 3,908,932 |
| Finance income | 9 | 137,302 | 49,302 |
| Finance expenses | 9 | (53,617) | (293,081) |
| **Finance income/(expenses) – net** | | 83,685 | (243,779) |
| Share of profit of investments accounted for using the equity method | 19 | 916,754 | 572,035 |
| **Profit before income tax** | | 7,778,295 | 4,237,188 |
| Income tax expense | 12 | (1,796,822) | (926,777) |
| **Profit for the year** | | 5,981,473 | 3,310,411 |
| **Profit attributable to:** | | | |
| -Owners of the Company | | 5,968,466 | 3,274,308 |
| -Non-controlling interests | | 13,007 | 36,103 |
| | | 5,981,473 | 3,310,411 |

*For the year ended 31 December 2016*

| | | Year ended 31 December | |
|---|---|---|---|
| | Note | 2016 | 2015 |
| | | RMB'000 | RMB'000 |
| **Earnings per share attributable to owners of the Company for the year (expressed in RMB per share)** | | | |
| **Basic earnings per share** | 13 | **RMB0.553** | RMB0.303 |
| **Diluted earnings per share** | 13 | **RMB0.552** | RMB0.303 |

The notes on pages 145 to 224 are an integral part of these consolidated financial statements.

**Wang Zhiqing**
*Chairman and General Manager*

**Gao Jinping**
*Director and Vice General Manager*

# Consolidated Statement of Comprehensive Income

*For the year ended 31 December 2016*

| | Note | Year ended 31 December 2016 RMB'000 | 2015 RMB'000 |
|---|---|---|---|
| **Profit for the year** | | **5,981,473** | 3,310,411 |
| **Other comprehensive income:** | | | |
| Share of other comprehensive income of investments accounted for using the equity method | | **18,213** | – |
| **Other comprehensive income for the year, net of tax** | | **18,213** | – |
| **Total comprehensive income for the year** | | **5,999,686** | 3,310,411 |
| **Attributable to:** | | | |
| – Owners of the Company | | **5,986,679** | 3,274,308 |
| – Non-controlling interests | | **13,007** | 36,103 |
| **Total comprehensive income for the year** | | **5,999,686** | 3,310,411 |

The notes on pages 145 to 224 are an integral part of these consolidated financial statements.

**Wang Zhiqing**
*Chairman and General Manager*

**Gao Jinping**
*Director and Vice General Manager*

# Consolidated Balance Sheet

*As at 31 December 2016*

| | Note | As at 31 December 2016 RMB'000 | 2015 RMB'000 |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | | |
| Lease prepayments and other assets | 14 | 705,456 | 783,016 |
| Property, plant and equipment | 15 | 13,474,287 | 14,383,319 |
| Investment properties | 16 | 380,429 | 405,572 |
| Construction in progress | 17 | 717,672 | 722,520 |
| Investments accounted for using the equity method | 19 | 3,688,794 | 3,311,139 |
| Deferred income tax assets | 12 | 103,091 | 71,045 |
| | | 19,069,729 | 19,676,611 |
| **Current assets** | | | |
| Inventories | 20 | 6,159,473 | 4,178,188 |
| Trade receivables | 21 | 414,944 | 488,560 |
| Bills receivable | 21 | 1,238,620 | 991,273 |
| Other receivables | 21 | 165,798 | 141,655 |
| Prepayments | 21 | 165,804 | 103,746 |
| Amounts due from related parties | 21,29(c) | 1,290,619 | 1,163,128 |
| Cash and cash equivalents | 22 | 5,440,623 | 1,077,430 |
| | | 14,875,881 | 8,143,980 |
| **Total assets** | | 33,945,610 | 27,820,591 |
| **Equity and liabilities** | | | |
| **Equity attributable to owners of the Company** | | | |
| Share capital | 23 | 10,800,000 | 10,800,000 |
| Reserves | 24 | 13,921,965 | 8,997,282 |
| | | 24,721,965 | 19,797,282 |
| **Non-controlling interests** | | 281,270 | 297,038 |
| **Total equity** | | 25,003,235 | 20,094,320 |

*As at 31 December 2016*

| | Note | As at 31 December 2016 RMB'000 | 2015 RMB'000 |
|---|---|---|---|
| **Liabilities** | | | |
| **Current liabilities** | | | |
| Borrowings | 26 | 546,432 | 2,070,000 |
| Advance from customers | | 462,992 | 561,721 |
| Trade payables | 28 | 2,123,904 | 1,562,232 |
| Bills payable | 28 | 5,000 | – |
| Other payables | 28 | 2,139,378 | 1,898,754 |
| Amounts due to related parties | 28,29(c) | 3,044,304 | 1,573,967 |
| Income tax payable | | 620,365 | 59,597 |
| | | 8,942,375 | 7,726,271 |
| **Total liabilities** | | 8,942,375 | 7,726,271 |
| **Total equity and liabilities** | | 33,945,610 | 27,820,591 |

The notes on pages 145 to 224 are an integral part of these consolidated financial statements.

The consolidated financial statements on pages 138 to 144 were approved by the Board of Directors on 15 March 2017 and were signed on its behalf.

**Wang Zhiqing**
*Chairman and General Manager*

**Gao Jinping**
*Director and Vice General Manager*

# Consolidated Statement of Changes in Equity

*For the year ended 31 December 2016*

| | Note | Attributable to owners of the Company: Share capital RMB'000 | Other reserves RMB'000 | Retained earnings RMB'000 | Total RMB'000 | Non-controlling interests RMB'000 | Total equity RMB'000 |
|---|---|---|---|---|---|---|---|
| **Balance at 1 January 2015** | | 10,800,000 | 4,179,276 | 1,520,996 | 16,500,272 | 271,395 | 16,771,667 |
| Total comprehensive income for the year | | – | – | 3,274,308 | 3,274,308 | 36,103 | 3,310,411 |
| Employees share option scheme | 25 | – | 22,702 | – | 22,702 | – | 22,702 |
| Dividends paid by subsidiaries to non-controlling interests | | – | – | – | – | (10,460) | (10,460) |
| Utilisation of safety production fund | 24 | – | (312) | 312 | – | – | – |
| **Balance at 31 December 2015** | | 10,800,000 | 4,201,666 | 4,795,616 | 19,797,282 | 297,038 | 20,094,320 |

| | Note | **Attributable to owners of the Company**: Share capital RMB'000 | Other reserves RMB'000 | Retained earnings RMB'000 | Total RMB'000 | Non-controlling interests RMB'000 | Total equity RMB'000 |
|---|---|---|---|---|---|---|---|
| **Balance at 1 January 2016** | | 10,800,000 | 4,201,666 | 4,795,616 | 19,797,282 | 297,038 | 20,094,320 |
| Profit for the year | | – | – | 5,968,466 | 5,968,466 | 13,007 | 5,981,473 |
| Other comprehensive income | | – | 18,213 | – | 18,213 | – | 18,213 |
| Total comprehensive income for the year | | – | 18,213 | 5,968,466 | 5,986,679 | 13,007 | 5,999,686 |
| Dividends proposed and approved | 30 | – | – | (1,080,000) | (1,080,000) | – | (1,080,000) |
| Employees share option scheme | 25 | – | 18,004 | – | 18,004 | – | 18,004 |
| Dividends paid by subsidiaries to non-controlling interests | | – | – | – | – | (28,775) | (28,775) |
| Utilisation of safety production fund | 24 | – | (607) | 607 | – | – | – |
| **Balance at 31 December 2016** | | 10,800,000 | 4,237,276 | 9,684,689 | 24,721,965 | 281,270 | 25,003,235 |

The notes on pages 145 to 224 are an integral part of these consolidated financial statements.

**Wang Zhiqing**
*Chairman and General Manager*

**Gao Jinping**
*Director and Vice General Manager*

# Consolidated Statement of Cash Flows

*For the year ended 31 December 2016*

| | Note | Year ended 31 December 2016 RMB'000 | 2015 RMB'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Cash generated from operations | 31 | 8,479,057 | 5,176,515 |
| Interest paid to related parties | | (3,570) | (32,400) |
| Interest paid to third parties | | (25,617) | (178,173) |
| Income tax paid | | (1,268,100) | (33,118) |
| **Net cash generated from operating activities** | | 7,181,770 | 4,932,824 |
| **Cash flows from investing activities** | | | |
| Dividends received from joint ventures and associates | | 557,312 | 216,530 |
| Interest received from related parties | | 232 | 624 |
| Interest received from third parties | | 124,148 | 46,263 |
| Net proceeds from disposal of property, plant and equipment | 31 | 11,889 | 16,875 |
| Cash received from entrusted lending | | 106,000 | 82,000 |
| Cash payment of entrusted lending | | (88,000) | (106,000) |
| Purchases of property, plant and equipment from related parties | | (205,775) | (74,702) |
| Purchases of property, plant and equipment and other long-term assets from third parties | | (695,701) | (620,575) |
| **Net cash used in investing activities** | | (189,895) | (438,985) |
| **Cash flows from financing activities** | | | |
| Proceeds from borrowings from related parties | | – | 5,720,000 |
| Proceeds from borrowings from third parties | | 2,589,432 | 26,279,758 |
| Repayments of borrowings to related parties | | (370,000) | (6,420,000) |
| Repayments of borrowings to third parties | | (3,743,000) | (29,264,713) |
| Dividends paid to the Company's shareholders | | (1,084,814) | (287) |
| Dividends paid by subsidiaries to non-controlling interests | | (28,775) | (10,460) |
| **Net cash used in financing activities** | | (2,637,157) | (3,695,702) |
| **Net increase in cash and cash equivalents** | | 4,354,718 | 798,137 |
| Cash and cash equivalents at beginning of the year | 22 | 1,077,430 | 279,198 |
| Exchange gain on cash and cash equivalents | | 8,475 | 95 |
| **Cash and cash equivalents at end of the year** | 22 | 5,440,623 | 1,077,430 |

The notes on pages 145 to 224 are an integral part of these consolidated financial statements.

**Wang Zhiqing**
*Chairman and General Manager*

**Gao Jinping**
*Director and Vice General Manager*

## 1 General information

Sinopec Shanghai Petrochemical Company Limited ("the Company"), formerly Shanghai Petrochemical Company Limited, was established in the People's Republic of China ("the PRC") on 29 June 1993 as a joint stock limited company to hold the assets and liabilities of the production divisions and certain other units of Shanghai Petrochemical Complex ("SPC"), a state-owned enterprise. The Company was under the direct supervision of China Petrochemical Corporation ("Sinopec Group") at that time.

The Company completed its initial public offerings in 1993. Its shares were listed on the Stock Exchange of Hong Kong Limited ("H shares") and the New York Stock Exchange in the form of American Depositary Shares ("ADS") on 26 July 1993, and were also listed on the Shanghai Stock Exchange ("ordinary A shares") on 8 November 1993.

Sinopec Group completed its reorganisation on 25 February 2000. After the reorganisation, China Petroleum & Chemical Corporation ("Sinopec Corp.") was established. As part of the reorganisation, Sinopec Group transferred its 4,000,000,000 of the Company's state-owned legal shares, which represented 55.56 percent of the issued share capital of the Company, to Sinopec Corp.

The Company changed its name to Sinopec Shanghai Petrochemical Company Limited on 12 October 2000, and Sinopec Corp. was the largest shareholder of the Company.

Pursuant to the 'Approval on matters relating to the Share Segregation Reform of Sinopec Shanghai Petrochemical Company Limited' issued by the State-owned Assets Supervision and Administration Commission of the State Council (State Owned Property [2013] No.443), a General Meeting of A share shareholders was held on 8 July 2013 and passed the resolution of 'Share Segregation Reform of Sinopec Shanghai Petrochemical Company Limited (Amendment)' ("the Share Segregation Reform Resolution") which was published by the Company on Shanghai Stock Exchange ("SSE") website on 20 June 2013.

According to the Share Segregation Reform Resolution, the controlling shareholder of the Company, Sinopec Corp., offered shareholders of circulating A shares 5 shares for every 10 circulating A shares they held on 16 August 2013, aggregating 360,000,000 A shares, for the purpose of obtaining the listing rights of its non-circulating shares in the A Shares market. From 20 August 2013 ("the circulation date"), all the Company's non-circulating A shares have been granted circulating rights on Shanghai Stock Exchange ("SSE"). As part of the restricted conditions, Sinopec Corp. committed that all the 3,640,000,000 A shares held were not allowed to be traded on SSE or transferred within 12 months from the circulation date ("the restriction period"). After the restriction period, Sinopec Corp. can only sell no more than 5 and 10 percent of its total shares within 12 and 24 months, respectively. The former 150,000,000 non-circulating A shares held by social legal persons were also prohibited to be traded on SSE or transferred within 12 months from the circulation date. Meanwhile, Sinopec Corp. also committed in the Share Segregation Reform Resolution that a scheme of converting surplus to share capital (no less than 4 shares for every 10 shares) will be proposed on the board of directors and shareholders meetings within 6 months after the circulation date.

## 1 General information *(continued)*

The 15th meeting of the seventh session of the Board was held on 28 August 2013 and the Company proposed and passed a resolution regarding interim cash dividend for the first half of 2013 and the conversion of share premium and surplus reserve to share capital. The resolution included a distribution of 5 shares and a cash dividend distribution of RMB0.5 (tax included) for every 10 shares based on the 7,200,000 thousands ordinary shares as at 30 June 2013. Among the 5 shares distributed, 3.36 shares were converted from share premium of RMB2,420,841 thousands and 1.64 shares were converted from surplus reserves of RMB1,179,159 thousands. The resolution were approved by the extraordinary general meeting of shareholders, A share class shareholders meeting and H share class shareholders meeting on 22 October 2013, respectively. As at 31 December 2015 and 2016, total shares of the Company were 10,800,000 thousands.

The Company and its subsidiaries ("the Group") are principally engaged in processing crude oil into synthetic fibres, resins and plastics, intermediate petrochemicals and petroleum products.

These consolidated financial statements are presented in thousands of Renminbi Yuan (RMB), unless otherwise stated. These financial statements have been approved for issue by the Board on 15 March 2017.

## 2 Summary of significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

### 2.1 Basis of preparation

The consolidated financial statements of the Group have been prepared in accordance with all applicable International Financial Reporting Standards ("IFRS") as issued by International Accounting Standards Board (IASB). The consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of available-for-sale financial assets, and financial assets and financial liabilities at fair value through profit or loss, which are carried at fair value.

The preparation of financial statements in conformity with IFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

# 2 Summary of significant accounting policies *(continued)*

## 2.1 Basis of preparation *(continued)*

### 2.1.1 Changes in accounting policy and disclosures

(a) *New and amended standards adopted by the Group*

The following amendments to standards have been adopted by the Group for the first time for the financial year beginning on 1 January 2016.

- 'Equity method in separate financial statements' – amendment to IAS 27

Amendment to IAS 27, 'Equity method in separate financial statements ', allows entities to use equity method to measure investments in subsidiaries, joint ventures and associates in their separate financial statements. Previously, IAS 27 allows entities to measure their investments in subsidiaries, joint ventures and associates either at cost or as a financial asset in their separate financial statements. The amendment introduces the equity method as a third option. The election can be made independently for each category of investment (subsidiaries, joint ventures and associates). Entities wishing to change to the equity method must do so retrospectively. The amendment is effective for annual period beginning on or after 1 January 2016.

The Group has changed cost method to equity method to measure investments in joint ventures and associates in the separate financial statements from 1 January 2016 and accordingly made retrospective adjustments. Please refer to Note 34 for the details of the retrospective adjustments.

- 'Accounting for acquisitions of interests in joint operations' – amendments to IFRS 11

- 'Clarification of acceptable methods of depreciation and amortization' – amendments to IAS 16 and IAS 38

- Annual improvements to IFRSs 2012 – 2014 cycle, and

- 'Disclosure initiative' – amendment to IAS 1.

Except for the Amendment to IAS 27, the adoption of all other amendments did not have material impact on the current or any prior period and is not likely to affect future periods. There are no other amended standards or interpretations that are effective for the first time for the financial year beginning on 1 January 2016 that could be expected to have a material impact on the consolidated financial statements of the Group.

# 2 Summary of significant accounting policies *(continued)*

## 2.1 Basis of preparation *(continued)*

### 2.1.1 Changes in accounting policy and disclosures *(continued)*

*(b) New standards and interpretations not yet adopted*

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2016 and have not been applied in preparing these consolidated financial statements. Those applicable to the Group are listed below.

IFRS 9, 'Financial instruments', addresses the classification, measurement and derecognition of financial assets and financial liabilities. The complete version of IFRS 9 was issued in July 2014. It replaces the whole of IAS 39. IFRS 9 introduces a new model for the recognition of impairment losses – the expected credit losses (ECL) model, which constitutes a change from the incurred loss model in IAS 39. IFRS 9 applies to all hedging relationships, with the exception of portfolio fair value hedges of interest rate risk. The new guidance better aligns hedge accounting with the risk management activities of an entity and provides relief from the more "rule-based" approach of IAS 39. IFRS 9 is effective for annual periods beginning on or after 1 January 2018. It is expected to have no significant impact on the consolidated financial statement of the Group.

IFRS 15, 'Revenue from contracts with customers', establishes a comprehensive framework for determining when to recognize revenue and how much revenue to recognise through a 5-step approach. IFRS 15 provides specific guidance on capitalisation of contract cost and licence arrangements. It also includes a cohesive set of disclosure requirements about the nature, amount, timing and uncertainty of revenue and cash flows arising from the entity's contracts with customers. The core principle is that a company should recognise revenue to depict the transfer of promised goods or services to the customer in an amount that reflects the consideration to which the company expects to be entitled in exchange for those goods or services. IFRS 15 replaces the previous revenue standards: IAS 18 'Revenue' and IAS 11 'Construction Contracts' and the related Interpretations on revenue recognition: IFRIC 13 'Customer Loyalty Programmes', IFRIC 15 'Agreements for the Construction of Real Estate', IFRIC 18 'Transfers of Assets from Customers' and SIC-31 'Revenue—Barter Transactions Involving Advertising Services'. IFRS 15 is effective for annual reporting periods beginning on or after 1 January 2018.

Management is currently assessing the effects of applying the new standard on the Group's financial statements. At this stage, the Group is not able to estimate the impact of the new rules on the consolidated financial statements. The Group will make more detailed assessments of the impact over the next twelve months. IFRS 15 is mandatory for financial years commencing on or after 1 January 2018. At this stage, the group does not intend to adopt the standard before its effective date.

*For the year ended 31 December 2016*

# 2 Summary of significant accounting policies *(continued)*

## 2.1 Basis of preparation *(continued)*

### 2.1.1 Changes in accounting policy and disclosures *(continued)*

*(b) New standards and interpretations not yet adopted (continued)*

IFRS 16, 'Leases', provides updated guidance on the definition of leases, and the guidance on the combination and separation of contracts. Under IFRS 16, a contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. IFRS 16 requires lessees to recognise lease liability reflecting future lease payments and a 'right-of-use-asset' for almost all lease contracts, with an exemption for certain short-term leases and leases of low value assets. The lessors accounting stays almost the same as under IAS 17 'Leases'. IFRS 16 is effective for annual reporting periods beginning on or after 1 January 2019. Earlier application is permitted if IFRS 15 is also applied.

The standard will affect primarily the accounting for the Group's operating leases when the Group is as the leasee in those leases. As at the reporting date, the Group has non-cancellable operating lease commitments, as disclosed in Note 32. Most of the commitments are covered by the exception for short-term and low value leases under new IFRS 16 standard. The Group is still evaluating the effects of the new standard on the other lease commitments with the lease term greater than one year. IFRS 16 is mandatory for financial years commencing on or after 1 January 2019. At this stage, the group does not intend to adopt the standard before its effective date.

## 2.2 Subsidiaries

### 2.2.1 Consolidation

A subsidiary is an entity (including a structured entity) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. Subsidiaries are consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

# 2 Summary of significant accounting policies *(continued)*

## 2.2 Subsidiaries *(continued)*

### 2.2.1 Consolidation *(continued)*

*(a) Business combinations*

The Group applies the acquisition method to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date.

The Group recognises any non-controlling interest in the acquiree on an acquisition-by-acquisition basis. Non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation are measured at either fair value or the present ownership interests' proportionate share in the recognised amounts of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at their acquisition date fair value, unless another measurement basis is required by IFRS.

Acquisition-related costs are expensed as incurred.

If the business combination is achieved in stages, the acquisition date carrying value of the acquirer's previously held equity interest in the acquiree is re-measured to fair value at the acquisition date; any gains or losses arising from such re-measurement are recognized in profit or loss.

Any contingent consideration to be transferred by the Group is recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognized in accordance with IAS 39 in profit or loss. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the identifiable net assets acquired, is recorded as goodwill. If the total consideration transferred, non-controlling interest recognized and previously held interest measured is less than the fair value of the identifiable net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognized directly in the income statement.

Intra-Group transactions, balances and unrealized gains on transactions between group companies are eliminated. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. When necessary, amounts reported by subsidiaries have been adjusted to conform with the Group's accounting policies.

# 2 Summary of significant accounting policies *(continued)*

## 2.2 Subsidiaries *(continued)*

### 2.2.1 Consolidation *(continued)*

*(b) Changes in ownership interests in subsidiaries without change of control*

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transactions with the owners of the subsidiary in their capacity as owners. The difference between fair value of any consideration paid and the relevant share acquired of the carrying amount of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

*(c) Disposal of subsidiaries*

When the Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognized in profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognized in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. It means the amounts previously recognized in other comprehensive income are reclassified to profit or loss or transferred to another category of equity as specified by applicable IFRSs.

### 2.2.2 Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

Investments in joint ventures and associates are accounted for using the equity method of accounting.

## 2 Summary of significant accounting policies *(continued)*

### 2.3 Associates

An associate is an entity over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognized at cost, and the carrying amount is increased or decreased to recognize the investor's share of the profit or loss of the investee after the date of acquisition. The Group's investments in associates include goodwill identified on acquisition. Upon the acquisition of the ownership interest in an associate, any difference between the cost of the associate and the Group's share of the net fair value of the associate's identifiable assets and liabilities is accounted for as goodwill.

If the ownership interest in an associate is reduced but significant influence is retained, only a proportionate share of the amounts previously recognized in other comprehensive income is reclassified to profit or loss where appropriate.

The Group's share of post-acquisition profit or loss is recognized in the income statement, and its share of post-acquisition movements in other comprehensive income is recognized in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognizes the amount adjacent to 'share of profit of investments accounted for using equity method' in the income statement.

Profits and losses resulting from upstream and downstream transactions between the Group and its associates are recognized in the Group's financial statements only to the extent of unrelated investor's interests in the associates. Unrealized losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

Gain or losses on dilution of equity interest in associates are recognised in the income statement

# 2 Summary of significant accounting policies *(continued)*

## 2.4 Joint arrangements

The Group has applied IFRS 11 to all joint arrangements. Under IFRS 11, investments in joint arrangements are classified as either joint operations or joint ventures depending on the contractual rights and obligations of each investor. The Group has assessed the nature of its joint arrangements and determined them to be joint ventures. Joint ventures are accounted for using the equity method.

Under the equity method of accounting, interests in joint ventures are initially recognized at cost and adjusted thereafter to recognize the Group's share of the post-acquisition profits or losses and movements in other comprehensive income. The Group's investments in joint ventures include goodwill identified on acquisition. Upon the acquisition of the ownership interest in a joint venture, any difference between the cost of the joint venture and the Group's share of the net fair value of the joint venture's identifiable assets and liabilities is accounted for as goodwill. When the Group's share of losses in a joint venture equals or exceeds its interests in the joint ventures, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the joint ventures.

Unrealized gains on transactions between the Group and its joint ventures are eliminated to the extent of the Group's interest in the joint ventures. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Group.

## 2.5 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors that makes strategic decisions.

## 2.6 Foreign currency translation

### (a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in RMB, which is the Company's functional and the Group's presentation currency.

# 2 Summary of significant accounting policies *(continued)*

## 2.6 Foreign currency translation *(continued)*

### (b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement, except when deferred in other comprehensive income as qualifying cash flow hedges and qualifying net investment hedges.

Foreign exchange gains and losses that relate to borrowings and cash and cash equivalents are presented in the income statement within 'finance income or expenses'. All other foreign exchange gains and losses are presented in the income statement within 'Other (losses)/gains – net'.

## 2.7 Property, plant and equipment

Property, plant and equipment is stated at historical cost less depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to the income statement during the financial period in which they are incurred.

Depreciation on property, plant and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

| | |
|---|---|
| Buildings | 12-40 years |
| Plant and machinery | 12-20 years |
| Vehicles and other equipment | 4-20 years |

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.11).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized within 'Other (loss)/gains-net' in the income statement.

## 2 Summary of significant accounting policies *(continued)*

### 2.8 Construction in progress

Construction in progress represents buildings, various plant and equipment under construction and pending installation, and is stated at cost less government grants that compensate the Company for the cost of construction, and impairment losses. Cost comprises direct costs of construction as well as interest charges, and foreign exchange differences on related borrowed funds to the extent that they are regarded as an adjustment to interest charges, during the period of construction. Construction in progress is transferred to property, plant and equipment when the asset is substantially ready for its intended use. No depreciation is provided in respect of construction in progress.

### 2.9 Investment properties

Investment properties are properties which are owned or held under a leasehold interest either to earn rental income and/or for capital appreciation.

Investment properties are stated in the balance sheet at cost less accumulated depreciation and impairment losses (Note 2.11). Depreciation is provided over their estimated useful lives on a straight-line basis, after taking into account their estimated residual values. Estimated useful lives of the Group's investment properties are 30-40 years.

### 2.10 Lease prepayments and other assets

Lease prepayments and other assets mainly represent prepayments for land use rights and catalysts used in production. These assets are carried at cost less accumulated amortisation and impairment losses. Lease prepayments and other assets are amortised on a straight-line basis over the respective periods of the rights and the estimated useful lives of the catalysts, as follows:

| | |
|---|---|
| Land use rights | 30-50 years |
| Patents | 10-28 years |
| Catalyst | 2-5 years |

### 2.11 Impairment of non-financial assets

Intangible assets that have an indefinite useful life or intangible assets not ready to use are not subject to amortisation and are tested annually for impairment. Assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

# 2 Summary of significant accounting policies *(continued)*

## 2.12 Financial assets

### 2.12.1 Classification

The Group classifies its financial assets in the following categories: at fair value through profit or loss, loans and receivables and available for sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial assets at initial recognition.

*(a) Financial assets at fair value through profit or loss*

Financial assets at fair value through profit or loss are financial assets held for trading. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term. Derivatives are also categorised as held for trading unless they are designated as hedges. Assets in this category are classified as current assets if expected to be settled within 12 months; otherwise, they are classified as non-current.

*(b) Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for the amounts that are settled or expected to be settled more than 12 months after the end of the reporting period. These are classified as non-current assets. The Group's loans and receivables comprise 'trade receivables, bills receivable and other receivables' and 'cash and cash equivalents' in the balance sheet (Note 2.17 and 2.18).

*(c) Available-for-sale financial assets*

Available-for-sale financial assets are non-derivatives that are either designated in this category or not classified in any of the other categories. They are included in non-current assets unless the investment matures or management intends to dispose of it within 12 months of the end of the reporting period.

# 2 Summary of significant accounting policies *(continued)*

## 2.12 Financial assets *(continued)*

### 2.12.2 Recognition and measurement

Regular way purchases and sales of financial assets are recognized on the trade-date – the date on which the Group commits to purchase or sell the asset. Investments are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. Financial assets carried at fair value through profit or loss are initially recognized at fair value, and transaction costs are expensed in the income statement. Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Group has transferred substantially all risks and rewards of ownership. Available-for-sale financial assets and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Gains or losses arising from changes in the fair value of the 'financial assets at fair value through profit or loss' category are presented in the income statement within 'Other (losses)/gains-net' in the period in which they arise. Dividend income from financial assets at fair value through profit or loss is recognised in the income statement as part of other income when the Group's right to receive payments is established.

Changes in the fair value of monetary and non-monetary securities classified as available for sale are recognised in other comprehensive income.

When securities classified as available for sale are sold or impaired, the accumulated fair value adjustments recognized in equity are included in the income statement as 'gains and losses from investment securities'.

Interest on available-for-sale securities calculated using the effective interest method is recognized in the income statement as part of other income. Dividends on available-for-sale equity instruments are recognized in the income statement as part of other income when the Group's right to receive payments is established.

## 2.13 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the balance sheet when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously. The legally enforceable right must not be contingent on future events and must be enforceable in the normal course of business and in the event of default, insolvency or bankruptcy of the company or the counterparty.

# 2 Summary of significant accounting policies *(continued)*

## 2.14 Impairment of financial assets

### (a) Assets carried at amortised cost

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Evidence of impairment may include indications that the receivables or a group of receivables is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation, and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognized in the consolidated income statement. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the reversal of the previously recognized impairment loss is recognized in the consolidated income statement.

### (b) Financial assets classified as available for sale

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired.

For debt securities, if any such evidence exists, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is reclassified from equity and recognised in profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as available for sale increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the impairment loss is reversed through the consolidated income statement.

# 2 Summary of significant accounting policies *(continued)*

## 2.14 Impairment of financial assets *(continued)*

### (b) Financial assets classified as available for sale *(continued)*

For equity investments, a significant or prolonged decline in the fair value of the security below its cost is also evidence that the assets are impaired. If any such evidence exists, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognised in profit or loss – is reclassified from equity and recognised in profit or loss. Impairment losses recognised in the consolidated income statement on equity instruments are not reversed through the consolidated income statement.

## 2.15 Derivative financial instruments

Derivative financial instruments of the Group are foreign exchange forward contracts, which are not designated as hedges.

Derivative financial instruments are initially recognized at fair value on the date a derivative contract is entered into and are subsequently re-measured at their fair value.

Fair values are obtained from quoted market prices in active markets, including recent market transactions, and through the use of valuation techniques, including discounted cash flow models and options pricing models, as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

The best evidence of the fair value of a derivative at initial recognition is the transaction price (i.e., the fair value of the consideration given or received) unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable markets. When such evidence exists, the Group recognizes profits (losses) on that day.

## 2.16 Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the weighted average cost method. The cost of finished goods and work in progress comprises raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses.

# 2 Summary of significant accounting policies *(continued)*

## 2.17 Trade receivables, bills receivable and other receivables

Trade receivables and bills receivable are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection of trade receivables, bills receivable and other receivables is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade receivables, bills receivable and other receivables are recognized initially at fair value plus transaction costs and subsequently measured at amortised cost using the effective interest method, less allowance for impairment. See Note 2.12.2 for further information about the Group's accounting for receivables and Note 2.14 for a description of the Group's impairment policies.

## 2.18 Cash and cash equivalents

In the consolidated statement of cash flows, cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less, and bank overdrafts. In the Group's balance sheet, bank overdrafts are shown within borrowings in current liabilities.

## 2.19 Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

## 2.20 Safety production fund

Under China's law and regulation, the Group is required to accrue safety production fund at a certain percentage of the sales of dangerous goods. The fund is earmarked for improving the safety of production. The fund is accrued from retained earnings to other reserves and converted back to retained earnings when used.

## 2.21 Trade payables and other payables

Trade payables and other payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade payables and other payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade payables and other payables are recognized initially at fair value plus transaction costs and subsequently measured at amortised cost using the effective interest method.

# 2 Summary of significant accounting policies *(continued)*

## 2.22 Borrowings

Borrowings are recognized initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the income statement over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognized as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

## 2.23 Borrowing costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognized in profit or loss in the period in which they are incurred.

Borrowing costs include interest expense, finance charges in respect of exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs. The exchange gains and losses that are an adjustment to interest costs include the interest rate differential between borrowing costs that would be incurred if the entity had borrowed funds in its functional currency, and the borrowing costs actually incurred on foreign currency borrowings.

## 2.24 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognized in the income statement except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

## 2 Summary of significant accounting policies *(continued)*

### 2.24 Current and deferred income tax *(continued)*

#### (a) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the balance sheet date in the countries where the Company's subsidiaries, associates and joint ventures operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

#### (b) Deferred income tax

*Inside basis differences*

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognized if they arise from the initial recognition of goodwill, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the balance sheet date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

*Outside basis differences*

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries, associates and joint arrangements, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Generally the Group is unable to control the reversal of the temporary difference for associates. Only when there is an agreement in place that gives the Group the ability to control the reversal of the temporary difference in the foreseeable future, deferred tax liability in relation to taxable temporary differences arising from the associate's undistributed profits is not recognised.

Deferred income tax assets are recognized on deductible temporary differences arising from investments in subsidiaries, associates and joint arrangements only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.

# 2 Summary of significant accounting policies *(continued)*

## 2.24 Current and deferred income tax *(continued)*

### (c) Offsetting

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

## 2.25 Employee benefits

### (a) Pension obligations

The PRC employees of the Group are covered by various PRC government-sponsored defined-contribution pension plans under which the employees are entitled to a monthly pension based on certain formulas. The relevant government agencies are responsible for the pension liability to these employees when they retire. The Group contributes on a monthly basis to these pension plans for the employees which are determined at a certain percentage of their salaries. Under these plans, the Group has no obligation for post-retirement benefits beyond the contribution made. Contributions to these plans are expensed as incurred and contributions paid to the defined contribution pension plans for a staff are not available to reduce the Group's future obligations to such defined-contribution pension plans even if the staff leaves the Group.

### (b) Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognizes termination benefits at the earlier of the following dates: when Group demonstrably commits itself to terminate employment or to provide benefits as a result of voluntary redundancy by having a detailed formal plan which is without realistic possibility of withdrawal. Benefits falling due more than 12 months after the end of the reporting period are discounted to their present value.

# 2 Summary of significant accounting policies *(continued)*

## 2.26 Share-based payment

### (a) Equity-settled share-based payment transactions

The Group operates a number of equity-settled, share-based compensation plans, under which the entity receives services from employees as consideration for equity instruments (options) of the Group. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense. The total amount to be expensed is determined by reference to the fair value of the options granted:

- including any market performance conditions such as an entity's share price;
- excluding the impact of any service and non-market performance vesting conditions such as profitability, sales growth targets and remaining an employee of the entity over a specified time period; and
- including the impact of any non-vesting conditions such as the requirement for employees to save or holding shares for a specified period of time.

At the end of each reporting period, the Group revises its estimates of the number of options that are expected to vest based on the non-marketing performance and service conditions. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity.

In addition, in some circumstances employees may provide services in advance of the grant date and therefore the grant date fair value is estimated for the purposes of recognising the expense during the period between service commencement period and grant date.

When the options are exercised, the Company issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital.

### (b) Share-based payment transactions among Group entities

The grant by the Company of options over its equity instruments to the employees of subsidiary undertakings in the Group is treated as a capital contribution. The fair value of employee services received, measured by reference to the grant date fair value, is recognised over the vesting period as an increase to investment in subsidiary undertakings, with a corresponding credit to equity in the parent entity accounts.

# 2 Summary of significant accounting policies *(continued)*

## 2.27 Provisions

Provisions for environmental restoration, restructuring costs and legal claims are recognised when: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

## 2.28 Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods supplied, stated net of discounts, returns and value added taxes. The Group recognizes revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Group's activities, as described below. The Group bases its estimates of return on historical results, taking into consideration the type of customers, the type of transactions and the specifics of each arrangement.

**(a) Sales of petroleum and chemical products**

Revenues associated with the sale of petroleum and chemical products are recognized in the income statement when the significant risks and rewards of ownership have been transferred to the buyer. Revenue excludes value added tax and is after deduction of any trade discounts and returns. No revenue is recognized if there are significant uncertainties regarding recovery of the consideration due to the possible return of goods, or when the amount of revenue and the costs incurred or to be incurred in respect of the transaction cannot be measured reliably.

**(b) Pipeline transportation services**

Revenues associated with pipeline transportation services are recognized by reference to the stage of completion (that is, when the services are rendered) of the transaction at the end of the reporting period and when the outcome of the transaction can be estimated reliably. The outcome of the transaction can be estimated reliably when the amount of revenue, the costs incurred and the stage of completion can be measured reliably and it is probable that the economic benefits associated with the transaction will flow to the Group.

# 2 Summary of significant accounting policies *(continued)*

## 2.28 Revenue recognition *(continued)*

### (c) Rental income

Rental income from investment property is recognized in the income statement on a straight-line basis over the term of the lease.

## 2.29 Interest income

Interest income is recognized using the effective interest method. When a loan and receivable is impaired, the Group reduces the carrying amount to its recoverable amount, being the estimated future cash flow discounted at the original effective interest rate of the instrument, and continues unwinding the discount as interest income. Interest income on impaired loans and receivables is recognized using the original effective interest rate.

## 2.30 Dividend income

Dividend income is recognized when the right to receive payment is established.

## 2.31 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the income statement over the period necessary to match them with the costs that they are intended to compensate.

Grants that compensate the Group for the cost of an asset are deducted from the carrying amount of the asset and consequently are effectively recognized in the income statement over the useful life of the asset by way of reduced depreciation expense.

## 2.32 Leases

Leases in which a significant portion of the risks and rewards of ownership are retained by the lessor are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statement on a straight-line basis over the period of the lease.

## 2.33 Dividend distribution

Dividend distribution to the Company’s shareholders is recognized as a liability in the Group’s financial statements in the period in which the dividends are approved by the Company’s shareholders.

# 2 Summary of significant accounting policies *(continued)*

## 2.34 Research and development costs

Research and development costs comprise all costs that are directly attributable to research and development activities or that can be allocated on a reasonable basis to such activities. Research and development costs are recognized as intangible assets when the following criteria are met:

- it is technically feasible to complete the research and development project so that it will be available for use or sale;
- management intends to complete the research and development project, and use or sell it;
- it can be demonstrated how the research and development project will generate economic benefits;
- there are adequate technical, financial and other resources to complete the development and the ability to use or sell the research and development project; and
- the expenditure attributable to the research and development project during its development phase can be reliably measured.

Other research and development expenditure that do not meet these criteria are recognized as an expense as incurred. Research and development costs previously recognized as an expense are not recognized as an asset in a subsequent period.

## 2.35 Related parties

(i) A person, or a close member of that person's family, is related to the Group if that person:

(1) has control or joint control over the Group;

(2) has significant influence over the Group; or

(3) is a member of the key management personnel of the Group or the Group's parent.

# 2 Summary of significant accounting policies *(continued)*

## 2.35 Related parties *(continued)*

(ii) An entity is related to the Group if any of the following conditions applies:

(1) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(2) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(3) Both entities are joint ventures of the same third party.

(4) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(5) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group.

(6) The entity is controlled or jointly controlled by a person identified in (i).

(7) A person identified in (i)(1) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

# 3 Financial risk management

## 3.1 Financial risk factors

The Group's activities exposed it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and commodity price risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

# 3 Financial risk management *(continued)*

## 3.1 Financial risk factors *(continued)*

### (a) Market risk

*(i) Foreign exchange risk*

The Group's major operational activities are carried out in Mainland China and a majority of the transactions are denominated in RMB. Nevertheless the Group is exposed to foreign exchange risk arising from the recognised assets and liabilities (mainly trade payables), and future transactions denominated in foreign currencies, primarily with respect to USD and EUR. The Group's finance department at its headquarter is responsible for monitoring the amount of assets and liabilities, and transactions denominated in foreign currencies to minimise the foreign exchange risk. During the year ended 31 December 2016, the Group did not enter into any forward foreign exchange contracts (2015: the Group entered into forward foreign exchange contracts to mitigate foreign exchange risk arising from borrowings denominated in EUR).

As at 31 December 2016, if the foreign currencies had weakened/strengthened by 5% against RMB with all other variables held constant, the Group's net profit for the year would have been RMB23,139 thousands increased/decreased as a result of foreign exchange gains/losses on translation of foreign currencies denominated trade payables (31 December 2015: RMB3,605 thousands).

*(ii) Cash flow and fair value interest rate risk*

The Group's interest rate risk arises from short-term and long-term interest bearing borrowings. Borrowings obtained at variable rates expose the Group to cash flow interest rate risk. Borrowings obtained at fixed rates expose the Group to fair value interest rate risk. The Group determines the relative proportions of its fixed rate and floating rate contracts depending on the prevailing market conditions. As at 31 December 2016, the Group's short-term interest bearing borrowings denominated with floating rates amounted to RMB46,432 thousands (31 December 2015: RMB2,000,000 thousands, representing 97% of total borrowing balance), which represented 7% of total borrowing balance.

The Group's finance department at its headquarter continuously monitors the interest rate position of the Group. Increases in interest rates will increase the cost of new borrowing and the interest expenses with respect to the Group's outstanding floating rate borrowings, and therefore could have a material adverse effect on the Group's financial position. The Group makes adjustments timely with reference to the latest market conditions and may enter into interest rate swap agreements to mitigate its exposure to interest rate risk. During the year ended 31 December 2016 and 2015, the Group did not enter into any interest rate swap agreements.

As at 31 December 2016, if interest rates on the floating rate borrowings had risen/fallen by 50 basis points while all other variables had been held constant, the Group's net profit would have decreased/increased by approximately RMB174 thousands (31 December 2015: RMB7,500 thousands), mainly as a result of higher/lower interest expense on floating rate borrowings.

# 3 Financial risk management *(continued)*

## 3.1 Financial risk factors *(continued)*

### (a) Market risk *(continued)*

#### *(iii) Commodity price risk*

The Group principally engages in processing crude oil into synthetic fibres, resins and plastics, intermediate petrochemicals and petroleum products. The selling price of petroleum products is periodically adjusted by government department based on the market price adjustment mechanism, and generally in connection with the crude oil price. The selling prices of synthetic fibres, resins and plastics and intermediate petrochemicals are market prices. The Group didn't have any derivative financial instrument such as commodity futures and swaps, therefore the fluctuation of crude oil price could have significant impact on the Group.

### (b) Credit risk

Credit risk is managed on group basis. It mainly arises from cash at bank, trade receivables, other receivables, bills receivable, etc.

The Group expects that there is no significant credit risk associated with cash at bank since they are deposited at state-owned banks and other medium or large size listed banks. Management does not expect that there will be any significant losses from non-performance by these counterparties.

In addition, the Group has policies to limit the credit exposure on accounts receivable, other receivables and bills receivable. The Group assesses the credit quality of and sets credit limits on its customers by taking into account their financial position, the availability of guarantee from third parties, their credit history and other factors such as current market conditions. The credit history of the customers is regularly monitored by the Group. In respect of customers with a poor credit history, the Group will use written payment reminders, or shorten or cancel credit periods, to ensure the overall credit risk of the Group is limited to a controllable extent.

# 3 Financial risk management *(continued)*

## 3.1 Financial risk factors *(continued)*

### (c) Liquidity risk

Cash flow forecast is performed by the operating entities of the Group and aggregated by Group finance. Group finance monitors rolling forecasts of the Group's liquidity requirements to ensure it has sufficient cash to meet operational needs while maintaining sufficient headroom on its undrawn committed borrowing facilities from major financial institution so that the Group does not breach borrowing limits or covenants on any of its borrowing facilities to meet the short-term and long-term liquidity requirements.

The liquidity of the Group is primarily dependent on its ability to maintain adequate cash inflow from operations, the renewal of its short-term bank loans and its ability to obtain adequate external financing to support its working capital and meet its debt obligation when they become due. As at 31 December 2016, the Group had standby credit facilities with several PRC financial institutions which provided the Group to borrow up to RMB23,664,190 thousands, within which the maturity dates of unused facility amounted to RMB21,959,224 thousands will be after 31 December 2017 as disclosed in Note 26. Management assessed that all the facilities could be renewed upon the expiration dates.

Surplus cash held by the operating entities over and above balance required for working capital management are transferred to the Group treasury. As at 31 December 2016, the Group held cash and cash equivalents of RMB5,440,623 thousands (31 December 2015: RMB1,077,430 thousands) (Note 22) and trade receivables of RMB414,944 thousands (31 December 2015: RMB488,560 thousands) (Note 21), that are expected to readily generate cash inflows for managing liquidity risk.

The table below analyses the Group's non-derivative financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

# 3 Financial risk management *(continued)*

## 3.1 Financial risk factors *(continued)*

### (c) Liquidity risk *(continued)*

| | Less than 1 year RMB'000 | Between 1 and 2 years RMB'000 | Between 2 and 5 years RMB'000 | Over 5 years RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|
| **At 31 December 2016** | | | | | |
| Borrowings | 546,432 | – | – | – | 546,432 |
| Bill payables | 5,000 | – | – | – | 5,000 |
| Trade payables | 2,123,904 | – | – | – | 2,123,904 |
| Other payables | 563,682 | – | – | – | 563,682 |
| Amounts due to related parties | 3,030,490 | – | – | – | 3,030,490 |
| | 6,269,508 | – | – | – | 6,269,508 |

| | Less than 1 year RMB'000 | Between 1 and 2 years RMB'000 | Between 2 and 5 years RMB'000 | Over 5 years RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|
| **At 31 December 2015** | | | | | |
| Borrowings | 2,103,881 | – | – | – | 2,103,881 |
| Trade payables | 1,562,232 | – | – | – | 1,562,232 |
| Other payables | 549,934 | – | – | – | 549,934 |
| Amounts due to related parties | 1,555,802 | – | – | – | 1,555,802 |
| | 5,771,849 | – | – | – | 5,771,849 |

# 3 Financial risk management *(continued)*

## 3.2 Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including 'current and non-current borrowings' as shown in the consolidated balance sheet) less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the consolidated balance sheet plus net debt.

As cash and cash equivalents exceed total borrowings, which was resulted primarily from the significantly improved profitability and the early repayment of some bank loans before its maturity, there was no net debt as at 31 December 2016.

The gearing ratio at 31 December 2015 was as follows:

| | As at 31 December 2015 RMB'000 |
|---|---|
| Total borrowings (Note 26) | 2,070,000 |
| Less: cash and cash equivalents (Note 22) | (1,077,430) |
| Net debt | 992,570 |
| Total Equity | 20,094,320 |
| Total Capital | 21,086,890 |
| **Gearing ratio** | 4.71% |

# 3 Financial risk management *(continued)*

## 3.3 Fair value estimation

The table below analyses the Group's financial instruments carried at fair value as at 31 December 2016 by level of the inputs to valuation techniques used to measure fair value. Such inputs are categorised into three levels within a fair value hierarchy as follows:

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level3).

Financial assets and financial liabilities not measured at fair value mainly represent bills receivable, trade receivables and other receivables, trade and other payables (except for the staff salaries and welfare payables and taxes payables) and borrowings. As at 31 December 2016, these financial assets are expected to be collected in one year or less and these financial liabilities are due within one year or less. As a result, the carrying amounts of these financial assets and liabilities not measured at fair value are a reasonable approximation of their fair value.

## 3.4 Offsetting financial assets and financial liabilities

**(a) Financial assets**

| | As at 31 December | |
|---|---|---|
| | **2016** | 2015 |
| | **RMB'000** | RMB'000 |
| Gross amount of recognised amounts due from related parties | **1,403,442** | 1,227,020 |
| Gross amount of recognised amounts due to related parties set off in the balance sheet | **(112,823)** | (63,892) |
| Net amount of amounts due from related parties presented in the balance sheet | **1,290,619** | 1,163,128 |

# 3 Financial risk management *(continued)*

## 3.4 Offsetting financial assets and financial liabilities *(continued)*

### (b) Financial liabilities

| | As at 31 December | |
|---|---|---|
| | **2016** | 2015 |
| | **RMB'000** | RMB'000 |
| Gross amount of recognised amounts due to related parties | **3,157,127** | 1,637,859 |
| Gross amount of recognised amounts due from related parties set off in the balance sheet | **(112,823)** | (63,892) |
| Net amount of amounts due to related parties presented in the balance sheet | **3,044,304** | 1,573,967 |

According to the offsetting master arrangements entered into in October 2014 between the Company and its related party, Shanghai Secco Petrochemical Company Limited ("Shanghai Secco") and in December 2016 between the Company and its related party, BOC-SPC Gases Company Limited ("BOC"), the relevant financial assets and liabilities of each operating agreement between the Company and Shanghai Secco and those between the Company and BOC, are settled on a net basis periodically.

# 4 Critical accounting estimates and assumptions

Estimates and assumptions are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

## 4.1 Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

### (a) Impairments for non-financial assets

In determining the value in use, expected cash flows generated by the non-financial assets or the cash-generating unit are discounted to their present value. Management uses all readily available information in determining an amount that is a reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of sale volume, selling price and amount of operating costs.

# 4 Critical accounting estimates and assumptions *(continued)*

## 4.1 Critical accounting estimates and assumptions *(continued)*

### (b) Useful life and residual value of property, plant and equipment

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

### (c) Net realisable value of inventories

The NRV is determined based on the estimated selling prices less the estimated costs to completion, if relevant, other costs necessary to make the sale, and the related taxes. Determination of estimated selling prices requires significant management judgement, taking into consideration of historical selling prices and future market trend. If the actual selling prices were to be lower or the costs of completion were to be higher than estimated, the actual allowance for diminution in value of inventories could be higher than the estimate.

### (d) Recognition of deferred tax assets

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

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

In making the assessment of whether it is probable the Group will realize or utilise the deferred tax assets, management primarily relies on the generation of future taxable income to support the recognised of deferred tax assets. In order to fully utilize the deferred tax assets recognized at 31 December 2016, the Group would need to generate future taxable income of at least RMB412 million. Based on estimated forecast and historical experience, management believes that it is probable that the Group will generate sufficient taxable income to utilize the deferred tax assets.

## 5 Segment information

The Group manages its business by divisions, which are organized by business lines. In view of the fact that the Company and its subsidiaries operate mainly in the PRC, no geographical segment information is presented.

In a manner consistent with the way in which information is reported internally to the Group's chief operating decision maker, Board of Directors, for the purposes of resource allocation and performance assessment, the Group has identified the following five reportable segments. No operating segments have been aggregated to form the following reportable segments.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items mainly comprise investments accounted for using the equity method, deferred income tax assets, cash and cash equivalents, entrusted lending and incomes relating to these assets (such as share of profit of investments accounted for using equity method and interest income) and borrowings and interest expenses.

The Group principally operates in five operating segments: synthetic fibres, resins and plastics, intermediate petrochemicals, petroleum products and trading of petrochemical products. Synthetic fibres, resins and plastics, intermediate petrochemicals and petroleum products are produced through intermediate steps from the principal raw material of crude oil. The specific products of each segment are as follows:

(i) The synthetic fibres segment produces primarily polyester, acrylic fibres and carbon fibres, which are mainly used in the textile and apparel industries.

(ii) The resins and plastics segment produces primarily polyester chips, polyethylene resins, polypropylene resins and PVA granules. The polyester chips are used to produce polyester fibres, coating and containers. Polyethylene resins and plastics are used to produce insulated cable, mulching films and moulded products such as housewares and toys. Polypropylene resins are used for films, sheets and moulded products such as housewares, toys, consumer electronics and automobile parts.

(iii) The intermediate petrochemicals segment primarily produces p-xylene, benzene and ethylene oxide. The intermediate petrochemicals produced by the Group are both served as raw materials in the production of other petrochemicals, resins, plastics and synthetic fibres, and sold to external customers.

(iv) The petroleum products segment is equipped with crude oil refinery facilities used to produce qualified refined gasoline, fuel, diesel oil, heavy oil and liquefied petroleum gas, and provide raw materials for the Group's downstream petrochemical processing facilities.

(v) The trading of petrochemical products segment is primarily engaged in importing and exporting of petrochemical products. The products are sourced from international and domestic suppliers.

(vi) Other operating segments represent the operating segments which do not meet the quantitative threshold for determining reportable segments. These include investment property leasing, service provision and a variety of other commercial activities.

*For the year ended 31 December 2016*

## 5 Segment information *(continued)*

| | 2016 | | | 2015 | | |
|---|---|---|---|---|---|---|
| | Total segment revenue RMB'000 | Inter-segment revenue RMB'000 | Revenue from external customers RMB'000 | Total segment revenue RMB'000 | Inter-segment revenue RMB'000 | Revenue from external customers RMB'000 |
| Synthetic fibres | 1,915,242 | – | 1,915,242 | 2,397,015 | – | 2,397,015 |
| Resins and plastics | 10,164,433 | 91,673 | 10,072,760 | 10,348,002 | 106,042 | 10,241,960 |
| Intermediate petrochemicals | 20,360,722 | 11,248,718 | 9,112,004 | 23,305,685 | 13,697,886 | 9,607,799 |
| Petroleum products | 38,776,209 | 3,514,487 | 35,261,722 | 47,473,490 | 3,579,131 | 43,894,359 |
| Trading of petrochemical products | 22,148,401 | 1,551,453 | 20,596,948 | 16,940,621 | 3,220,905 | 13,719,716 |
| Others | 1,369,671 | 485,441 | 884,230 | 1,429,317 | 542,028 | 887,289 |
| | 94,734,678 | 16,891,772 | 77,842,906 | 101,894,130 | 21,145,992 | 80,748,138 |

| | 2016 RMB'000 | 2015 RMB'000 |
|---|---|---|
| Segment result – Profit/(loss) from operations | | |
| Petroleum products | 3,812,973 | 1,862,304 |
| Resins and plastics | 1,637,578 | 1,218,598 |
| Intermediate petrochemicals | 1,810,011 | 956,820 |
| Trading of petrochemical products | 51,168 | 15,165 |
| Synthetic fibres | (608,891) | (356,399) |
| Others | 75,017 | 212,444 |
| Profit from operations | 6,777,856 | 3,908,932 |
| Net finance income/(expenses) | 83,685 | (243,779) |
| Share of profit of investments accounted for using the equity method | 916,754 | 572,035 |
| Profit before taxation | 7,778,295 | 4,237,188 |

## 5 Segment information *(continued)*

### Other profit and loss disclosures

| | 2016 | | | 2015 | | |
|---|---|---|---|---|---|---|
| | Depreciation and amortisation RMB'000 | Impairment loss RMB'000 | Inventory (write-down)/ reversal RMB'000 | Depreciation and amortisation RMB'000 | Impairment loss RMB'000 | Inventory write down RMB'000 |
| Synthetic fibres | (137,153) | (185,096) | (38,750) | (159,472) | – | (4,768) |
| Resins and plastics | (120,641) | – | 1,575 | (122,558) | – | (339) |
| Intermediate petrochemicals | (525,698) | (14,351) | (642) | (552,833) | (50,001) | (429) |
| Petroleum products | (886,784) | (53,155) | – | (979,911) | – | (3,168) |
| Trading of petrochemical products | (176) | – | – | (175) | – | (13,150) |
| Others | (211,808) | (1,570) | (38,451) | (230,012) | (756) | (23,014) |
| | (1,882,260) | (254,172) | (76,268) | (2,044,961) | (50,757) | (44,868) |

| | As at 31 December | |
|---|---|---|
| | 2016 Total assets RMB'000 | 2015 Total assets RMB'000 |
| **Allocated assets** | | |
| Synthetic fibres | 1,405,804 | 1,624,351 |
| Resins and plastics | 1,821,576 | 1,578,493 |
| Intermediate petrochemicals | 4,441,418 | 4,557,760 |
| Petroleum products | 13,426,863 | 12,164,426 |
| Trading of petrochemical products | 1,186,590 | 924,622 |
| Others | 2,323,376 | 2,299,088 |
| **Allocated assets** | 24,605,627 | 23,148,740 |
| **Unallocated assets** | | |
| Investments accounted for using the equity method | 3,688,794 | 3,311,139 |
| Cash and cash equivalents | 5,440,623 | 1,077,430 |
| Deferred income tax assets | 103,091 | 71,045 |
| Others | 107,475 | 212,237 |
| **Unallocated assets** | 9,339,983 | 4,671,851 |
| **Total assets** | 33,945,610 | 27,820,591 |

*For the year ended 31 December 2016*

## 5 Segment information *(continued)*

| | As at 31 December | |
|---|---|---|
| | **2016** | 2015 |
| | **Total liabilities** | Total liabilities |
| | **RMB'000** | RMB'000 |
| **Allocated liabilities** | | |
| Synthetic fibres | **344,287** | 272,717 |
| Resins and plastics | **1,118,166** | 646,347 |
| Intermediate petrochemicals | **1,126,031** | 675,470 |
| Petroleum products | **4,323,580** | 3,059,334 |
| Trading of petrochemical products | **1,407,484** | 948,775 |
| Others | **76,395** | 53,628 |
| **Allocated liabilities** | **8,395,943** | 5,656,271 |
| **Unallocated liabilities** | | |
| Borrowings | **546,432** | 2,070,000 |
| **Total liabilities** | **8,942,375** | 7,726,271 |

| | **2016** | 2015 |
|---|---|---|
| | **RMB'000** | RMB'000 |
| **Additions to property, plant and equipment, construction in progress, lease prepayment and other assets** | | |
| Synthetic fibres | **106,872** | 38,629 |
| Resins and plastics | **169,330** | 94,935 |
| Intermediate petrochemicals | **261,291** | 180,806 |
| Petroleum products | **740,520** | 546,996 |
| Others | **36,965** | 96,886 |
| | **1,314,978** | 958,252 |

## 5 Segment information *(continued)*

### Entity-wide information

The Group's revenue from external customers and the total non-current assets other than financial instruments and deferred income tax assets located are mainly within Mainland China as at 31 December 2016.

Revenue of approximate RMB31,796,065 thousands (2015: RMB39,657,297 thousands) are derived from a single customer. These revenues are attributable to the Petroleum products and Others segments.

## 6 Other operating income

| | 2016<br>RMB'000 | 2015<br>RMB'000 |
|---|---|---|
| Government grants | 144,631 | 150,116 |
| Rental income from investment property | 46,164 | 48,553 |
| Income from pipeline transportation services | 5,215 | 6,731 |
| Others | 1,296 | 29,524 |
| | 197,306 | 234,924 |

## 7 Other operating expenses

| | 2016<br>RMB'000 | 2015<br>RMB'000 |
|---|---|---|
| Cost related to lease of investment properties | (13,904) | (13,453) |
| Others | (10,371) | (20,418) |
| | (24,275) | (33,871) |

## 8 Other (losses)/gains – net

| | 2016<br>RMB'000 | 2015<br>RMB'000 |
|---|---|---|
| Loss on disposal of property, plant and equipment-net | (42,031) | (9,393) |
| Net foreign exchange (loss)/gain | (11,851) | 878 |
| Forward foreign exchange contracts | – | 37,154 |
| | (53,882) | 28,639 |

*For the year ended 31 December 2016*

## 9 Finance income and expenses

| | 2016 RMB'000 | 2015 RMB'000 |
|---|---|---|
| Interest income | 133,484 | 49,302 |
| Net foreign exchange gain | 3,818 | – |
| **Finance income** | 137,302 | 49,302 |
| Interest on bank and other borrowings | (56,080) | (215,460) |
| Less: amounts capitalized on qualifying assets | 2,463 | 3,518 |
| Net interest expense | (53,617) | (211,942) |
| Net foreign exchange loss | – | (81,139) |
| **Finance expenses** | (53,617) | (293,081) |
| **Finance income/(expenses) – net** | 83,685 | (243,779) |

## 10 Expense by nature

| | 2016 RMB'000 | 2015 RMB'000 |
|---|---|---|
| Cost of raw material | 31,922,984 | 41,483,278 |
| Cost of trading products | 20,423,854 | 13,573,180 |
| Employee benefit expenses (Note 11) | 2,487,534 | 2,595,646 |
| Depreciation and amortisation (Note 14, 15, 16) | 1,882,260 | 2,044,961 |
| Repairs and maintenance expenses | 1,192,203 | 978,845 |
| Transportation costs | 323,678 | 337,454 |
| Impairment loss (Note 15, 21) | 254,172 | 50,757 |
| Sales commissions (Note 29) | 100,221 | 112,245 |
| Inventory write-down (Note 20) | 76,268 | 44,868 |
| Leasing expenses | 73,852 | 23,477 |
| Auditors' remuneration – audit services | 7,800 | 7,800 |
| Change of goods in process and finished goods | (731,944) | 855,692 |
| Other expenses | 1,264,879 | 1,249,762 |
| Total cost of sales, selling and administrative expenses | 59,277,761 | 63,357,965 |

*For the year ended 31 December 2016*

## 11 Employee benefit expenses

| | 2016 RMB'000 | 2015 RMB'000 |
|---|---|---|
| Wages and salaries | 1,666,806 | 1,719,419 |
| Social welfare costs | 640,710 | 694,415 |
| Share options granted to directors and employees (Note 25) | 18,004 | 22,702 |
| Others | 162,014 | 159,110 |
| Total employee benefit expense | 2,487,534 | 2,595,646 |

### (i) Five highest paid individuals

During the year ended 31 December 2016 and 2015, all 5 individuals with the highest emoluments are directors and supervisors whose emoluments are disclosed in Note 35(i).

## 12 Income tax

| | 2016 RMB'000 | 2015 RMB'000 |
|---|---|---|
| – Current income tax | 1,828,868 | 82,753 |
| – Deferred taxation | (32,046) | 844,024 |
| **Income tax expense** | 1,796,822 | 926,777 |

## 12 Income tax *(continued)*

A reconciliation of the expected income tax calculated at the applicable tax rate and total profit, with the actual income tax is as follows:

| | 2016<br>RMB'000 | 2015<br>RMB'000 |
|---|---|---|
| Profit before taxation | 7,778,295 | 4,237,188 |
| Expected PRC income tax at the statutory tax rate of 25% | 1,944,574 | 1,059,297 |
| Tax effect of share of profit of investments accounted for using the equity method | (225,813) | (140,509) |
| Tax effect of other non-taxable income | (16,610) | (19,178) |
| Tax effect of non-deductible loss, expenses and costs | 23,578 | 5,486 |
| True up for final settlement of enterprise income taxes in respect of previous years | 32,457 | 1,752 |
| Utilisation of previously unrecognized tax losses | (58) | – |
| Temporary differences for which no deferred income tax asset was recognized in current year | 13,511 | 15 |
| Utilisation of previously unrecognised temporary differences | (36) | (12,359) |
| Tax losses for which no deferred income tax asset was recognized | 25,219 | 32,273 |
| Actual income tax | 1,796,822 | 926,777 |

The provision for PRC income tax is calculated at the rate of 25% (2015: 25%) on the estimated taxable income of the year ended 31 December 2016 determined in accordance with relevant income tax rules and regulations. The Group did not carry out business overseas and therefore does not incur overseas income taxes.

**(i)** The analysis of deferred tax assets and deferred tax liabilities is as follows:

| | 2016<br>RMB'000 | 2015<br>RMB'000 |
|---|---|---|
| Deferred tax assets: | | |
| – Deferred tax asset to be recovered after more than 12 months | 69,382 | 47,884 |
| – Deferred tax asset to be recovered within 12 months | 40,309 | 31,862 |
| | 109,691 | 79,746 |
| Deferred tax liabilities: | | |
| – Deferred tax liabilities to be recovered after more than 12 months | (4,500) | (5,812) |
| – Deferred tax liabilities to be recovered within 12 months | (2,100) | (2,889) |
| | (6,600) | (8,701) |
| Deferred tax assets net | 103,091 | 71,045 |

## 12 Income tax *(continued)*

**(ii)** Movements in deferred tax assets and liabilities are as follows:

| | Balance at 1 January 2016 RMB'000 | Recognized in income statement RMB'000 | Balance at 31 December 2016 RMB'000 |
|---|---|---|---|
| Impairment for bad and doubtful debts, provision for inventories and payroll payables | 19,792 | 1,081 | 20,873 |
| Provision for impairment losses in fixed assets, construction in progress | 137,908 | 35,868 | 173,776 |
| Difference in depreciation | (91,321) | (7,755) | (99,076) |
| Capitalisation of borrowing costs | (8,701) | 2,101 | (6,600) |
| Tax losses carried forward | 2,875 | (2,875) | – |
| Share option | 5,675 | 4,501 | 10,176 |
| Others | 4,817 | (875) | 3,942 |
| Deferred tax assets | 71,045 | 32,046 | 103,091 |

| | Balance at 1 January 2015 RMB'000 | Recognized in income statement RMB'000 | Balance at 31 December 2015 RMB'000 |
|---|---|---|---|
| Impairment for bad and doubtful debts, provision for inventories and payroll payables | 59,580 | (39,788) | 19,792 |
| Deferred income | 4,109 | (4,109) | – |
| Provision for impairment losses in fixed assets, construction in progress | 126,028 | 11,880 | 137,908 |
| Difference in depreciation | (72,310) | (19,011) | (91,321) |
| Capitalisation of borrowing costs | (11,590) | 2,889 | (8,701) |
| Tax losses carried forward | 803,559 | (800,684) | 2,875 |
| Share option | – | 5,675 | 5,675 |
| Others | 5,693 | (876) | 4,817 |
| Deferred tax assets | 915,069 | (844,024) | 71,045 |

The Group recognizes deferred tax assets only to the extent that it is probable that future taxable income will be available against which the assets can be utilized. Based on the level of historical taxable income and projections for future taxable income over the periods which the deferred tax assets will be utilized, management believes that it is probable the Group will realize the benefits of these temporary differences for which deferred tax assets have been recognized.

## 12 Income tax *(continued)*

### (iii) Deferred tax assets not recognized

As at 31 December 2016, a subsidiary of the Company did not recognise the deferred tax assets in respect of the impairment losses on property, plant and equipment amounting to RMB456,623 thousands and provision for inventories amounting to RMB46,190 thousands (31 December 2015: RMB432,579 thousands and RMB46,190 thousands respectively), because it was not probable that the related tax benefit would be realized.

As at 31 December 2016, certain subsidiaries of the Company did not recognize the deferred tax assets of RMB432,634 thousands (31 December 2015: RMB411,284 thousands) in respect of unused tax losses carried forward for PRC income tax purpose because it was not probable that the related tax benefit would be realized.

Tax losses carried forward that are not recognised as deferred tax assets will expire in the following years:

| | 2016<br>RMB'000 | 2015<br>RMB'000 |
|---|---|---|
| 2016 | – | 79,526 |
| 2017 | 68,211 | 68,211 |
| 2018 | 63,733 | 63,733 |
| 2019 | 70,723 | 70,723 |
| 2020 | 140,591 | 129,091 |
| 2021 | 89,376 | – |
| | 432,634 | 411,284 |

## 13 Earnings per share

### (a) Basic

Basic earnings per share is calculated by dividing the profit attributable to owners of the Company by the weighted average number of ordinary shares in issue during the year.

| | 2016<br>RMB'000 | 2015<br>RMB'000 |
|---|---|---|
| Net profit attributable to owners of the Company | 5,968,466 | 3,274,308 |
| Weighted average number of ordinary shares in issue (thousands of shares) | 10,800,000 | 10,800,000 |
| Basic earnings per share (RMB per share) | RMB0.553 | RMB0.303 |

## 13 Earnings per share *(continued)*

### (b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares.

The Company has dilutive potential ordinary shares from share options. The number of shares that would have been issued assuming the exercise of the share options less the number of shares that could have been issued at fair value (determined as the average market price per the Company's A share for year ended 31 December 2016) for the same total proceeds is the number of shares issued for no consideration. The resulting number of shares issued for no consideration is included in the weighted average number of ordinary shares as the denominator for calculating diluted earnings per share.

The calculation of the diluted earnings per share for year ended 31 December 2016 and year ended 31 December 2015 was shown as:

| | 2016<br>RMB'000 | 2015<br>RMB'000 |
|---|---|---|
| **Earnings** | | |
| Profit attributable to owners of the Company | 5,968,466 | 3,274,308 |
| Weighted average number of ordinary shares in issue (thousands of shares) | 10,800,000 | 10,800,000 |
| Adjustments for share options granted (thousands of shares) | 8,632 | 9,041 |
| Weighted average number of ordinary shares for diluted earnings per share (thousands of shares) | 10,808,632 | 10,809,041 |
| Diluted earnings per share (RMB per share) | RMB0.552 | RMB0.303 |

*For the year ended 31 December 2016*

## 14 Lease prepayments and other assets

| | Land use rights RMB'000 | Other Intangible assets RMB'000 | Long-term prepaid expense RMB'000 | Total RMB'000 |
|---|---|---|---|---|
| **At 1 January 2015** | | | | |
| Cost | 708,972 | 81,085 | 602,451 | 1,392,508 |
| Accumulated amortisation | (300,087) | (48,830) | – | (348,917) |
| **Net book amount** | 408,885 | 32,255 | 602,451 | 1,043,591 |
| **Year ended 31 December 2015** | | | | |
| Opening net book amount | 408,885 | 32,255 | 602,451 | 1,043,591 |
| Additions | – | – | 148,553 | 148,553 |
| Charge for the year | (14,690) | (2,922) | (305,035) | (322,647) |
| Reclassified to prepayments | – | – | (86,481) | (86,481) |
| **Closing net book amount** | 394,195 | 29,333 | 359,488 | 783,016 |
| **At 31 December 2015** | | | | |
| Cost | 708,972 | 81,085 | 359,488 | 1,149,545 |
| Accumulated amortisation | (314,777) | (51,752) | – | (366,529) |
| **Net book amount** | 394,195 | 29,333 | 359,488 | 783,016 |
| **Year ended 31 December 2016** | | | | |
| Opening net book amount | 394,195 | 29,333 | 359,488 | 783,016 |
| Additions | – | – | 324,523 | 324,523 |
| Charge for the year | (14,491) | (2,922) | (226,744) | (244,157) |
| Reclassified to prepayments | – | – | (157,926) | (157,926) |
| **Closing net book amount** | 379,704 | 26,411 | 299,341 | 705,456 |
| **At 31 December 2016** | | | | |
| Cost | 708,972 | 81,085 | 299,341 | 1,089,398 |
| Accumulated amortisation | (329,268) | (54,674) | – | (383,942) |
| **Net book amount** | 379,704 | 26,411 | 299,341 | 705,456 |

Long-term prepaid expenses are mainly catalyst. As at 31 December 2016, the current portion of catalyst amounted to RMB157,926 thousands (31 December 2015: RMB86,481 thousands) was reclassified to prepayments, while the net book value of non-current portion was RMB287,423 thousands (31 December 2015: RMB345,414 thousands).

During the year ended 31 December 2016, the amortisation of RMB244,157 thousands (2015: RMB322,647 thousands) has been charged in cost of sales.

## 15 Property, plant and equipment

| | Buildings RMB'000 | Plant and machinery RMB'000 | Vehicles and other equipment RMB'000 | Total RMB'000 |
|---|---|---|---|---|
| **At 1 January 2015** | | | | |
| Cost | 3,757,546 | 40,353,304 | 1,931,721 | 46,042,571 |
| Accumulated depreciation | (2,109,366) | (25,957,875) | (1,507,236) | (29,574,477) |
| Impairment loss | (279,099) | (593,348) | (54,072) | (926,519) |
| **Net book amount** | 1,369,081 | 13,802,081 | 370,413 | 15,541,575 |
| **Year ended 31 December 2015** | | | | |
| Opening net book amount | 1,369,081 | 13,802,081 | 370,413 | 15,541,575 |
| Additions | – | 127,381 | 23,295 | 150,676 |
| Disposals | (452) | (23,337) | (2,479) | (26,268) |
| Reclassification | 48,244 | (51,253) | 3,009 | – |
| Transferred from construction in progress (Note 17) | 11,283 | 444,904 | 23,194 | 479,381 |
| Transferred to investment property (Note 16) | (3,277) | – | – | (3,277) |
| Charge for the year | (106,439) | (1,539,391) | (62,937) | (1,708,767) |
| Impairment loss | – | (50,001) | – | (50,001) |
| **Closing net book amount** | 1,318,440 | 12,710,384 | 354,495 | 14,383,319 |
| **At 31 December 2015** | | | | |
| Cost | 3,813,839 | 40,630,644 | 1,903,931 | 46,348,414 |
| Accumulated depreciation | (2,216,300) | (27,279,363) | (1,495,393) | (30,991,056) |
| Impairment loss | (279,099) | (640,897) | (54,043) | (974,039) |
| **Net book amount** | 1,318,440 | 12,710,384 | 354,495 | 14,383,319 |
| **Year ended 31 December 2016** | | | | |
| Opening net book amount | 1,318,440 | 12,710,384 | 354,495 | 14,383,319 |
| Additions | 195 | 149,691 | 16,826 | 166,712 |
| Disposals | (1,300) | (33,660) | (2,173) | (37,133) |
| Reclassification | (4,192) | (5,573) | 9,765 | – |
| Transferred from construction in progress (Note 17) | 28,652 | 757,157 | 42,782 | 828,591 |
| Transferred from investment property (Note 16) | 11,587 | – | – | 11,587 |
| Charge for the year | (94,189) | (1,467,424) | (62,934) | (1,624,547) |
| Impairment loss | – | (247,058) | (7,184) | (254,242) |
| **Closing net book amount** | 1,259,193 | 11,863,517 | 351,577 | 13,474,287 |
| **At 31 December 2016** | | | | |
| Cost | 3,841,570 | 41,025,426 | 1,924,313 | 46,791,309 |
| Accumulated depreciation | (2,303,278) | (28,330,684) | (1,511,509) | (32,145,471) |
| Impairment loss | (279,099) | (831,225) | (61,227) | (1,171,551) |
| **Net book amount** | 1,259,193 | 11,863,517 | 351,577 | 13,474,287 |

## 15 Property, plant and equipment *(continued)*

In the year ended 31 December 2016, the amount of depreciation expense charged to cost of sales and selling and administrative expense were RMB1,616,117 thousands and RMB8,430 thousands, respectively (2015: RMB1,706,595 thousands and RMB2,172 thousands, respectively).

During the year ended 31 December 2016, the Company and its subsidiaries made impairment provision of RMB254,242 thousands against these property, plant and equipment which will be redundant and replaced by new facilities (2015: RMB50,001 thousands).

## 16 Investment properties

| | RMB'000 |
|---|---|
| **At 1 January 2015** | |
| Cost | 552,534 |
| Accumulated depreciation | (136,692) |
| **Net book amount** | 415,842 |
| **Year ended 31 December 2015** | |
| Opening net book amount | 415,842 |
| Transferred from property, plant and equipment (Note 15) | 3,277 |
| Charge for the year | (13,547) |
| **Closing net book amount** | 405,572 |
| **At 1 January 2016** | |
| Cost | 556,884 |
| Accumulated depreciation | (151,312) |
| **Net book amount** | 405,572 |
| **Year ended 31 December 2016** | |
| Opening net book amount | 405,572 |
| Transferred to property, plant and equipment (Note 15) | (11,587) |
| Charge for the year | (13,556) |
| **Closing net book amount** | 380,429 |
| **At 31 December 2016** | |
| Cost | 540,493 |
| Accumulated depreciation | (160,064) |
| **Net book amount** | 380,429 |

## 16 Investment properties *(continued)*

As at 31 December 2016, the Group had no contractual obligations for future repairs and maintenance (31 December 2015: Nil).

Investment properties represent certain floors of an office building leased to other entities including related parties.

The fair value of the investment properties of the Group as at 31 December 2016 was estimated by the directors to be approximately RMB1,330,700 thousands by reference to market values of similar properties in the nearby area (31 December 2015: RMB1,262,135 thousands). This fair value estimation was at level 3 of fair value hierarchy by using market observable inputs. The investment property has not been valued by an external independent appraiser.

Rental income of RMB46,164 thousands was recognized by the Group during the year ended 31 December 2016 (2015: RMB48,553 thousands).

## 17 Construction in progress

| | 2016<br>RMB'000 | 2015<br>RMB'000 |
|---|---|---|
| **At 1 January** | 722,520 | 542,878 |
| Additions | 823,743 | 659,023 |
| Transferred to property plant and equipment (Note 15) | (828,591) | (479,381) |
| **At 31 December** | 717,672 | 722,520 |

During the year ended 31 December 2016, the Group capitalised borrowing costs amounting to RMB2,463 thousands (2015: RMB3,518 thousands) on qualifying assets. Borrowing costs were capitalised at the weighted average rate of its general borrowings of 3.03% (2015: 3.47%).

*For the year ended 31 December 2016*

## 18 Subsidiaries

The following list contains the particulars of major subsidiaries of the Group, all of which are limited companies established and operated in the PRC as at 31 December 2016.

| Company | Registered capital '000 | Percentage of equity directly held by the Company % | Percentage of equity held by the Group % | Percentage of equity held by non-controlling interests % | Principal activities |
|---|---|---|---|---|---|
| Shanghai Petrochemical Investment Development Company Limited | RMB1,000,000 | 100.00 | 100.00 | – | Investment management |
| China Jinshan Associated Trading Corporation | RMB25,000 | 67.33 | 67.33 | 32.67 | Import and export of petrochemical products and equipment |
| Shanghai Jinchang Engineering Plastics Company Limited | USD9,154 | – | 74.25 | 25.75 | Production of Polypropylene compound products |
| Shanghai Golden Phillips Petrochemical Company Limited | USD50,000 | – | 60.00 | 40.00 | Production of polyethylene products |
| Zhejiang Jin Yong Acrylic Fibre Company Limited | RMB250,000 | 75.00 | 75.00 | 25.00 | Production of acrylic fibre products |
| Shanghai Golden Conti Petrochemical Company Limited | RMB545,776 | – | 100.00 | – | Production of petrochemical products |
| Shanghai Jinshan Trading Corporation | RMB100,000 | – | 67.33 | 32.67 | Import and export of petrochemical products |

The total comprehensive income attributable to non-controlling interests for the year ended 31 December 2016 is RMB13,007 thousands (2015: 36,103 thousands).

## 19 Investments accounted for using the equity method

The amounts recognised in the balance sheet are as follows:

| | 2016 RMB'000 | 2015 RMB'000 |
|---|---|---|
| **Associates** | | |
| – Share of net assets | 3,498,097 | 3,074,156 |
| **Joint ventures** | | |
| – Share of net assets | 190,697 | 236,983 |
| | 3,688,794 | 3,311,139 |

The amounts recognised in the share of profit/(loss) of investments accounted for using the equity method are as follows:

| | 2016 RMB'000 | 2015 RMB'000 |
|---|---|---|
| Associates | 929,315 | 550,530 |
| Joint ventures | (12,561) | 21,505 |
| | 916,754 | 572,035 |

### Investment in associates

| | 2016 RMB'000 | 2015 RMB'000 |
|---|---|---|
| **At 1 January** | 3,074,156 | 2,720,134 |
| Share of profit | 929,315 | 550,530 |
| Other Comprehensive Income | 18,213 | – |
| Cash dividends distribution | (523,587) | (196,508) |
| **At 31 December** | 3,498,097 | 3,074,156 |

# 19 Investments accounted for using the equity method *(continued)*

## Investment in associates *(continued)*

Set out below are the material associates of the Group as at 31 December 2016. The associates as listed below have share capital consisting solely of ordinary shares, which are held directly by the Group; the country of incorporation or registration is also their principal place of business.

Nature of investment in material associates as at 31 December 2016 and 2015

| Name of entity | Place of business/ country of incorporation | % of ownership interest | Nature of the relationship | Measurement method |
|---|---|---|---|---|
| Shanghai Secco | PRC | 20 | Manufacturing and distribution of chemical products | Equity |
| Shanghai Chemical Industry Park Development Company Limited ("Chemical Industry") | PRC | 38.26 | Planning, development and operation of the Chemical Industry Park in Shanghai, PRC | Equity |
| Shanghai Jinsen Hydrocarbon Resins Company Limited ("Jinsen") | PRC | 40 | Production of resins products | Equity |
| Shanghai Azbil Automation Company Limited ("Azbil") | PRC | 40 | Service and maintenance of building automation systems and products | Equity |

Shanghai Secco, Chemical Industry, Jinsen and Azbil are private companies and there are no quoted market prices available for their shares.

There are no contingent liabilities relating to the Group's interest in the associates.

**Summarised financial information for material associates**

Set out below are the summarised financial information for the above associates.

# 19 Investments accounted for using the equity method *(continued)*

## Investment in associates *(continued)*

**Summarised financial information for material associates** *(continued)*

Summarised balance sheet for material associates

| As at 31 December 2016 | Shanghai Secco RMB'000 | Chemical Industry RMB'000 | Jinsen RMB'000 | Azbil RMB'000 |
|---|---|---|---|---|
| **Current** | | | | |
| – Current Assets | 5,596,573 | 4,265,139 | 110,499 | 153,980 |
| – Current Liabilities | (1,982,932) | (1,299,046) | (10,324) | (46,532) |
| **Non-current** | | | | |
| – Non-current Assets | 6,582,633 | 3,001,112 | 83,077 | 3,145 |
| – Non-current liabilities | – | (1,655,448) | – | – |
| **Net Assets** | 10,196,274 | 4,311,757 | 183,252 | 110,593 |

| As at 31 December 2015 | Shanghai Secco RMB'000 | Chemical Industry RMB'000 | Jinsen RMB'000 | Azbil RMB'000 |
|---|---|---|---|---|
| **Current** | | | | |
| – Current Assets | 4,879,596 | 2,486,929 | 128,354 | 150,672 |
| – Current Liabilities | (3,532,247) | (404,115) | (7,882) | (41,801) |
| **Non-current** | | | | |
| – Non-current Assets | 8,033,469 | 2,693,119 | 86,514 | 3,444 |
| – Non-current liabilities | (487,020) | (980,583) | – | – |
| **Net Assets** | 8,893,798 | 3,795,350 | 206,986 | 112,315 |

*For the year ended 31 December 2016*

## 19 Investments accounted for using the equity method *(continued)*

### Investment in associates *(continued)*

**Summarised financial information for material associates** *(continued)*

*Summarised statement of comprehensive income for material associates*

| 2016 | Shanghai Secco RMB'000 | Chemical Industry RMB'000 | Jinsen RMB'000 | Azbil RMB'000 |
|---|---|---|---|---|
| Revenue | 23,969,408 | 2,471,027 | 167,956 | 180,108 |
| Post-tax profit/(loss) from continuing operations | 3,753,476 | 513,804 | (16,394) | 16,278 |
| Other comprehensive income | – | 47,603 | – | – |
| Total comprehensive income/(loss) | 3,753,476 | 561,407 | (16,394) | 16,278 |
| Dividends declared by associate | 2,451,000 | 45,000 | 7,340 | 18,000 |

| 2015 | Shanghai Secco RMB'000 | Chemical Industry RMB'000 | Jinsen RMB'000 | Azbil RMB'000 |
|---|---|---|---|---|
| Revenue | 23,848,576 | 1,032 | 245,060 | 186,657 |
| Post-tax profit from continuing operations | 2,185,268 | 235,635 | 8,155 | 20,507 |
| Other comprehensive income | – | – | – | – |
| Total comprehensive income | 2,185,268 | 235,635 | 8,155 | 20,507 |
| Dividends declared by associate | 780,000 | 42,000 | 7,315 | 30,000 |

The information above reflects the amounts presented in the financial statements of the associates (and not the Group's share of those amounts) adjusted for differences in accounting policies between the Group and the associates.

**Reconciliation of summarised financial information**

Reconciliation of the summarised financial information presented to the carrying amount of its interest in material associates

# 19 Investments accounted for using the equity method *(continued)*

## Investment in associates *(continued)*

**Summarised financial information for material associates**

| 2016 | Shanghai Secco RMB'000 | Chemical Industry RMB'000 | Jinsen RMB'000 | Azbil RMB'000 |
|---|---|---|---|---|
| **Opening net assets 1 January** | 8,893,798 | 3,795,350 | 206,986 | 112,315 |
| Profit/(loss) for the year | 3,753,476 | 513,804 | (16,394) | 16,278 |
| Other comprehensive income | – | 47,603 | – | – |
| Capital increment | – | – | – | – |
| Declared dividends | (2,451,000) | (45,000) | (7,340) | (18,000) |
| **Closing net assets** | 10,196,274 | 4,311,757 | 183,252 | 110,593 |
| % of ownership interest | 20.00% | 38.26% | 40.00% | 40.00% |
| Interest in associates | 2,039,256 | 1,649,677 | 73,301 | 44,237 |
| Unrealised upstream and downstream transaction | (7,979) | – | – | – |
| Unentitled portion (Note a) | – | (348,600) | – | – |
| **Carrying value** | 2,031,277 | 1,301,077 | 73,301 | 44,237 |

| 2015 | Shanghai Secco RMB'000 | Chemical Industry RMB'000 | Jinsen RMB'000 | Azbil RMB'000 |
|---|---|---|---|---|
| **Opening net assets 1 January** | 7,488,530 | 3,601,715 | 206,146 | 121,808 |
| Profit for the year | 2,185,268 | 235,635 | 8,155 | 20,507 |
| Other comprehensive income | – | – | – | – |
| Capital increment | – | – | – | – |
| Declared dividends | (780,000) | (42,000) | (7,315) | (30,000) |
| **Closing net assets** | 8,893,798 | 3,795,350 | 206,986 | 112,315 |
| % of ownership interest | 20.00% | 38.26% | 40.00% | 40.00% |
| Interest in associates | 1,778,760 | 1,452,101 | 82,794 | 44,926 |
| Unentitled portion (Note a) | – | (331,242) | – | – |
| **Carrying value** | 1,778,760 | 1,120,859 | 82,794 | 44,926 |

Note a: Unentitled portion represented the earnings from sales of lands injected by Government in Chemical Industry cannot be shared by other shareholders.

## 19 Investments accounted for using the equity method *(continued)*

### Investment in associates *(continued)*

**Summarised financial information for other associates**

| | 2016<br>RMB'000 | 2015<br>RMB'000 |
|---|---|---|
| Carrying value of investments at 31 December | 48,205 | 46,817 |
| Aggregate amount of the Group's share of those individually immaterial associates: | | |
| Profit for the year | 7,423 | 8,347 |
| Other comprehensive income | – | – |
| **Total comprehensive income** | 7,423 | 8,347 |

### Investment in joint ventures

| | 2016<br>RMB'000 | 2015<br>RMB'000 |
|---|---|---|
| **At 1 January** | 236,983 | 216,128 |
| Share of (loss)/profit | (12,561) | 21,505 |
| Cash dividends distribution | (33,725) | (650) |
| **At 31 December** | 190,697 | 236,983 |

The joint venture listed below has share capital consisting solely of ordinary shares, which is held directly by the Group.

| Name of entity | Place of business/ country of incorporation | % of ownership interest | Nature of the relationship | Measurement method |
|---|---|---|---|---|
| BOC | PRC | 50 | Production and sales of industrial gases | Equity |
| Shanghai Jinpu Plastic Packing Materials Company Limited ("Jinpu") | PRC | 50 | Production of polypropylene film | Equity |
| Shanghai Petrochemical Yangu Gas Development Company Limited ("Yangu Gas") | PRC | 50 | Production and sales of industrial gases | Equity |

BOC, Jinpu and Yangu Gas are private companies and there are no quoted market prices available for their shares.

# 19 Investments accounted for using the equity method *(continued)*

## Investment in joint ventures *(continued)*

### Summarised financial information for joint ventures

Set out below are the summarised financial information for joint ventures which are accounted for using the equity method.

*Summarised balance sheet*

| At 31 December 2016 | BOC RMB'000 | Jinpu RMB'000 | Yangu Gas RMB'000 |
|---|---|---|---|
| **Current** | | | |
| Cash and cash equivalents | 43,356 | 2,587 | 27,174 |
| Other current assets (excluding cash) | 37,422 | 1,740 | 12,401 |
| Total current assets | 80,778 | 4,327 | 39,575 |
| Financial liabilities | (29,522) | (21,610) | (3,104) |
| Other current liabilities | (12,545) | (3,389) | (2,115) |
| Total current liabilities | (42,067) | (24,999) | (5,219) |
| **Non-current** | | | |
| Total non-current assets | 273,096 | 17,945 | 66,757 |
| Total non-current liabilities | – | – | – |
| **Net assets** | 311,807 | (2,727) | 101,113 |

| At 31 December 2015 | BOC RMB'000 | Jinpu RMB'000 | Yangu Gas RMB'000 |
|---|---|---|---|
| **Current** | | | |
| Cash and cash equivalents | 28,563 | 1,790 | 19,224 |
| Other current assets (excluding cash) | 55,888 | 30,886 | 12,925 |
| Total current assets | 84,451 | 32,676 | 32,149 |
| Financial liabilities | (57,686) | (31,462) | – |
| Other current liabilities | (13,077) | (3,236) | (5,807) |
| Total current liabilities | (70,763) | (34,698) | (5,807) |
| **Non-current** | | | |
| Total non-current assets | 313,884 | 81,985 | 78,622 |
| Total non-current liabilities | – | – | – |
| **Net assets** | 327,572 | 79,963 | 104,964 |

## 19 Investments accounted for using the equity method *(continued)*

### Investment in joint ventures *(continued)*

**Summarised financial information for joint ventures** *(continued)*

*Summarised statement of comprehensive income for joint ventures*

| 2016 | BOC RMB'000 | Jinpu RMB'000 | Yangu Gas RMB'000 |
|---|---|---|---|
| Revenue | 370,171 | 31,794 | 59,904 |
| Depreciation and amortisation | (45,317) | (8,463) | (11,612) |
| Interest income | 354 | 6 | 246 |
| Interest expense | (927) | (775) | – |
| Profit/(loss) from continuing operations | 66,855 | (82,690) | (2,651) |
| Income tax expense | 16,679 | – | – |
| Post-tax profit/(loss) from continuing operations | 50,485 | (82,690) | (2,651) |
| Other comprehensive income | – | – | – |
| Total comprehensive income/(loss) | 50,485 | (82,690) | (2,651) |
| Dividends declared by joint venture | 66,250 | – | 1,200 |

| 2015 | BOC RMB'000 | Jinpu RMB'000 | Yangu Gas RMB'000 |
|---|---|---|---|
| Revenue | 396,176 | 118,966 | 68,469 |
| Depreciation and amortisation | (44,727) | (8,498) | (10,952) |
| Interest income | 326 | 50 | 169 |
| Interest expense | (4,012) | (1,072) | (244) |
| Profit/(loss) from continuing operations | 72,778 | (24,213) | 1,830 |
| Income tax expense | (14,392) | – | – |
| Post-tax profit/(loss) from continuing operations | 58,386 | (24,213) | 1,830 |
| Other comprehensive income | – | – | – |
| Total comprehensive income/(loss) | 58,386 | (24,213) | 1,830 |
| Dividends declared by joint venture | – | – | 1,300 |

The information above reflects the amounts presented in the financial statements of the joint ventures (and not the Group's share of those amounts) adjusted for differences in accounting policies between the Group and the joint ventures.

## 19 Investments accounted for using the equity method *(continued)*

### Investment in joint ventures *(continued)*

**Reconciliation of summarised financial information**

| **2016** | **BOC** RMB'000 | **Jinpu** RMB'000 | **Yangu Gas** RMB'000 |
|---|---|---|---|
| **Opening net assets 1 January** | 327,572 | 79,963 | 104,964 |
| Profit/(loss) for the year | 50,485 | (82,690) | (2,651) |
| Other comprehensive income | – | – | – |
| Declared dividends | (66,250) | – | (1,200) |
| **Closing net assets/(deficit)(a)** | 311,807 | (2,727) | 101,113 |
| % of ownership interest | 50.00% | 50.00% | 50.00% |
| Interest in joint ventures | 155,903 | – | 50,558 |
| Unrealized downstream transactions | (15,764) | – | – |
| **Carrying value** | 140,139 | – | 50,558 |

| **2015** | BOC RMB'000 | Jinpu RMB'000 | Yangu Gas RMB'000 |
|---|---|---|---|
| **Opening net assets 1 January** | 269,186 | 104,176 | 104,434 |
| Profit/(loss) for the year | 58,386 | (24,213) | 1,830 |
| Other comprehensive income | – | – | – |
| Declared dividends | – | – | (1,300) |
| **Closing net assets** | 327,572 | 79,963 | 104,964 |
| % of ownership interest | 50.00% | 50.00% | 50.00% |
| Interest in joint ventures | 163,786 | 39,982 | 52,482 |
| Unrealized downstream transactions | (19,267) | – | – |
| **Carrying value** | 144,519 | 39,982 | 52,482 |

(a) The Group's share of losses in Jinpu exceeded RMB2,727 thousands to its interest during the year ended 31 December 2016 (2015: nil), cumulatively exceeded RMB2,727 thousands to its investment as at 31 December 2016 (31 December 2015: nil). The Group has no obligations and does not need to make payments on behalf of Jinpu. Meanwhile, the Group has not any other unsecured receivables due from Jinpu. As a result, the Group did not recognize further losses and the carrying amount of the investment in Jinpu was solely decreased to zero.

## 20 Inventories

| | As at 31 December 2016 | | | As at 31 December 2015 | | |
|---|---|---|---|---|---|---|
| | Gross carrying amount RMB'000 | Provision for declines in the value of inventories RMB'000 | Carrying amount RMB'000 | Gross carrying amount RMB'000 | Provision for declines in the value of inventories RMB'000 | Carrying amount RMB'000 |
| Raw materials | 3,863,647 | (309) | 3,863,338 | 2,517,806 | (1,564) | 2,516,242 |
| Work in progress | 1,004,580 | (44,453) | 960,127 | 898,694 | (28,081) | 870,613 |
| Finished goods | 1,154,679 | (22,583) | 1,132,096 | 554,171 | (25,424) | 528,747 |
| Spare parts and consumables | 266,189 | (62,277) | 203,912 | 332,652 | (70,066) | 262,586 |
| | 6,289,095 | (129,622) | 6,159,473 | 4,303,323 | (125,135) | 4,178,188 |

The cost of inventories recognized in Cost of Sales amounted to RMB52,400,798 thousands for the year ended 31 December 2016 (2015: RMB55,056,458 thousands) which included an inventory provision of RMB76,268 thousands (2015: RMB44,868 thousands).

As at 31 December 2016, the provision for inventory write-down was RMB129,622 thousands (31 December 2015: RMB125,135 thousands). During the year ended 31 December 2016, the Group sold certain finished goods and utilized certain spare parts and consumables which were previously provided for. The related provision of RMB71,781 thousands was reversed and included in 'cost of sales' in the consolidated income statement.

## 21 Trade receivables, other receivables and prepayments

| | As at 31 December | |
|---|---|---|
| | 2016 RMB'000 | 2015 RMB'000 |
| Trade receivables | 414,962 | 488,584 |
| Less: impairment provision | (18) | (24) |
| | 414,944 | 488,560 |
| Bills receivable | 1,238,620 | 991,273 |
| Amounts due from related parties | 1,290,619 | 1,163,128 |
| | 2,944,183 | 2,642,961 |
| Prepayments | 165,804 | 103,746 |
| Other receivables | 165,798 | 141,655 |
| | 3,275,785 | 2,888,362 |

## 21 Trade receivables, other receivables and prepayments *(continued)*

During the year ended 31 December 2016, certain associates and joint ventures of the Group declared dividends with total amount of RMB557,312 thousands to the Group (2015: RMB197,158 thousands). As at 31 December 2016 and 31 December 2015, all these declared dividends had been received by the Group.

As at 31 December 2016, entrusted lendings of RMB88,000 thousands included in other receivables was made by the Group at an interest rate of 1.75% per annum, which will be due in 2017 (31 December 2015: RMB106,000 thousands at interest rates ranging from 1.75% to 3.00% per annum).

The remaining balance of other receivables mainly represented the receivables from export tax refund and consumption tax refund.

As of 31 December 2016, the Group didn't have any trade receivable which was past due but not impaired (31 December 2015: Nil).

Amounts due from related parties mainly represent trade-related balances, unsecured in nature and bear no interest.

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

| | As at 31 December | |
|---|---|---|
| | 2016<br>RMB'000 | 2015<br>RMB'000 |
| Within one year | 2,944,162 | 2,642,921 |
| Above one year | 21 | 40 |
| | 2,944,183 | 2,642,961 |

Movements of the Group's impairment provision for trade and other receivables are as follows:

| | 2016<br>RMB'000 | 2015<br>RMB'000 |
|---|---|---|
| **At 1 January** | 1,269 | 1,256 |
| Provision for receivables impairment | 71 | 834 |
| Receivables written off during the year as uncollectible | (207) | (743) |
| Unused amounts reversed | (141) | (78) |
| **At 31 December** | 992 | 1,269 |

## 21 Trade and other receivables and prepayments *(continued)*

Bills receivables represent short-term bank acceptance receivables that entitle the Group to receive the full face amount of the receivables from the banks at maturity, which generally range from one to six months from the date of issuance. Historically, the Group had experienced no credit losses on bills receivables.

As at 31 December 2016 and 31 December 2015, no trade receivable or bills receivable was pledged as collateral.

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

## 22 Cash and cash equivalents

| | As at 31 December | |
|---|---|---|
| | **2016** | 2015 |
| | **RMB'000** | RMB'000 |
| Cash deposits with a related party | **169,261** | 5,394 |
| Cash at bank and on hand | **5,271,362** | 1,072,036 |
| | **5,440,623** | 1,077,430 |

## 23 Share capital

| | **Shares with trading restrictions** | **Ordinary A shares listed in PRC** | **Foreign invested H shares listed overseas** | **Total** |
|---|---|---|---|---|
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| **As at 1 January 2015** | 4,920,000 | 2,385,000 | 3,495,000 | 10,800,000 |
| Transition to unrestricted shares | (540,000) | 540,000 | – | – |
| **As at 31 December 2015** | 4,380,000 | 2,925,000 | 3,495,000 | 10,800,000 |
| **As at 1 January 2016** | 4,380,000 | 2,925,000 | 3,495,000 | 10,800,000 |
| Transition to unrestricted shares | (4,380,000) | 4,380,000 | – | – |
| **As at 31 December 2016** | – | 7,305,000 | 3,495,000 | 10,800,000 |

## 24 Reserves

| | Legal surplus RMB'000 | Capital surplus RMB'000 | Surplus reserve RMB'000 | Other reserve RMB'000 | Safety production fund RMB'000 | Retained earnings RMB'000 | Total RMB'000 |
|---|---|---|---|---|---|---|---|
| **Balance at 1 January 2015** | 4,072,476 | 4,180 | 101,355 | – | 1,265 | 1,520,996 | 5,700,272 |
| Net profit attributable to shareholders of the Company | – | – | – | – | – | 3,274,308 | 3,274,308 |
| Utilisation of safety production fund | – | – | – | – | (312) | 312 | – |
| Share option scheme (Note 25) | – | – | – | 22,702 | – | – | 22,702 |
| **Balance at 31 December 2015** | 4,072,476 | 4,180 | 101,355 | 22,702 | 953 | 4,795,616 | 8,997,282 |
| Net profit attributable to shareholders of the Company | – | – | – | – | – | 5,968,466 | 5,968,466 |
| Dividends proposed and approved | – | – | – | – | – | (1,080,000) | (1,080,000) |
| Utilisation of safety production fund | – | – | – | – | (607) | 607 | – |
| Share option scheme (Note 25) | – | – | – | 18,004 | – | – | 18,004 |
| Share of other comprehensive income of investments accounted for using the equity method | – | – | – | 18,213 | – | – | 18,213 |
| **Balance at 31 December 2016** | 4,072,476 | 4,180 | 101,355 | 58,919 | 346 | 9,684,689 | 13,921,965 |

## 25 Share-based payments

Pursuant to the resolution of the fifth meeting of the eighth session of the Board of Directors of the Company on 6 January 2015, the proposal regarding the list of participants and the number of share options under the share option incentive scheme was approved.

According to the Company's share option incentive scheme, the grant date of share options was 6 January 2015, and there were a total of 38,760 thousand share options granted to 214 participants (0.359% of the total ordinary share capital issued). Each share option has a right to purchase an ordinary A share listed in PRC on vesting date at the exercise price under vesting conditions. The options were exercisable by three tranches of 40%, 30% and 30% of the total share options granted, respectively. Each tranche has independent vesting conditions relevant to year 2015, 2016 and 2017, respectively, which were listed out as following:

- weighted average rate of return on equity of the Group should be no less than 9% for 2015, 9.5% for 2016 and 10% for 2017 in respect to the three tranche;
- for each year of 2015, 2016 and 2017, the compound annual growth rate in net profit based on the net profit of 2013 should achieve 5%;

## 25 Share-based payments *(continued)*

- for each year of 2015, 2016 and 2017, proportion of the main business revenue in the total revenue should be no less than 99%;

- for each year of 2015, 2016 and 2017, each of the above three conditions should be no lower than the 75% level of peer companies; and

- achieving the target budget set by the Sinopec Corp. in 2015, 2016 and 2017, respectively.

The participant should serve the Group at the required position from the grant date. Exercisable amount of each tranche depended on the time for which the participant served the Group during each year of 2015, 2016 and 2017. Upon the fulfilment of relevant vesting conditions, the share options of each tranche shall become exercisable at its exercisable date.

The fair value of the employee services received in exchange for the grant of this equity-settled, share-based compensation plan is recognised as an expense on a straight-line basis over the vesting period of each tranche. The total amount to be expensed is determined by reference to the fair value of the options granted excluding the impact of any service and non-market performance vesting conditions. When the options are exercised, the Company issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital and share premium. As at 31 December 2016, no share option had been exercised yet.

As at the grant date, the exercise price of each share option was RMB4.2. During the vesting period, the exercise price would be adjusted according to the declaration of dividends or any changes of total shares. As at 31 December 2016, the outstanding share options of each tranche, their exercisable date and exercise price are as follows. These outstanding share options will expire in twelve months after each exercisable date.

| Tranche | Exercisable date | Exercise price (per share in RMB) | Outstanding shares |
|---|---|---|---|
| 1 | 6 January 2017 | 4.10 | 15,404,000 |
| 2 | 6 January 2018 | 4.10 | 11,553,000 |
| 3 | 6 January 2019 | 4.10 | 11,553,000 |

The total fair value of share options at the grant date was RMB65,412 thousands, which has been estimated by the Company using Black-Scholes valuation model with the support from an external valuation expert.

## 25 Share-based payments *(continued)*

The significant inputs into the model were as follows:

| | **Granting date** |
|---|---|
| Spot share price | RMB4.51 |
| Exercise price | RMB4.20 |
| Expected volatility | 41.20% |
| Maturity (years) | 5.00 |
| Risk-free interest rate | 3.39%~3.67% |
| Dividend yield | 1.00% |

Share option expenses of RMB18,004 thousands have been recognised in the consolidated income statement for the year ended 31 December 2016 (the year ended 31 December 2015: RMB22,702 thousands).

## 26 Borrowings

| | **As at 31 December** | |
|---|---|---|
| | **2016** | 2015 |
| | **RMB'000** | RMB'000 |
| Loans due within one year | | |
| – Short term bank loans | **546,432** | 1,700,000 |
| – Short term loans from related parties | **–** | 370,000 |
| | **546,432** | 2,070,000 |

The weighted average interest rate for the Group's borrowings was 3.03% for the year ended 31 December 2016 (2015: 3.55%).

As at 31 December 2016, no borrowings were secured by property, plant and equipment (31 December 2015: nil).

As at 31 December 2016, the Group had standby credit facilities with several PRC financial institutions which provided the Group to borrow up to RMB23,664,190 thousands (31 December 2015:28,179,120 thousands), within which the maturity dates of unused facility amounted to RMB21,959,224 thousands will be after 31 December 2017.

## 27 Deferred income

| | 2016<br>RMB'000 | 2015<br>RMB'000 |
|---|---|---|
| **At 1 January** | – | 16,436 |
| Recognised in other operating income | – | (16,436) |
| **At 31 December** | – | – |

## 28 Trade and other payables

| | As at 31 December | |
|---|---|---|
| | 2016<br>RMB'000 | 2015<br>RMB'000 |
| Trade payables | 2,123,904 | 1,562,232 |
| Bills payable | 5,000 | – |
| Amounts due to related parties | 3,044,304 | 1,573,967 |
| Subtotal | 5,173,208 | 3,136,199 |
| Staff salaries and welfares payable | 37,634 | 39,999 |
| Taxes payable (exclude income tax payable) | 1,538,062 | 1,308,821 |
| Interest payable | 465 | 1,642 |
| Dividends payable | 20,473 | 19,119 |
| Construction payable | 191,043 | 205,714 |
| Other liabilities | 351,701 | 323,459 |
| Subtotal of other payables | 2,139,378 | 1,898,754 |
| | 7,312,586 | 5,034,953 |

As at 31 December 2016 and 2015, all trade and other payables of the Group were non- interest bearing, and their fair value approximated their carrying amounts due to their short maturities.

As at 31 December 2016, amounts due to related parties included the advances from the related parties of RMB13,814 thousands (31 December 2015: RMB18,165 thousands).

## 28 Trade and other payables *(continued)*

As at 31 December 2016, the ageing analysis of the trade payables (including bills payable and amounts due to related parties with trading nature) based on invoice date was as follows:

| | As at 31 December | |
|---|---|---|
| | **2016** | 2015 |
| | **RMB'000** | RMB'000 |
| Within one year | **5,151,868** | 3,110,638 |
| Between one and two years | **7,373** | 3,240 |
| Over two years | **13,967** | 22,321 |
| | **5,173,208** | 3,136,199 |

## 29 Related party transactions

The following is a list of the Group's major related parties:

| **Names of related parties** | **Relationship with the Company** |
|---|---|
| Sinopec Group | Ultimate parent company |
| BOC | Joint venture of the Group |
| Jinpu | Joint venture of the Group |
| Yangu Gas | Joint venture of the Group |
| Secco | Associate of the Group |
| Chemical Industry | Associate of the Group |
| Jinsen | Associate of the Group |
| Azbil | Associate of the Group |
| Shanghai Nam Kwong Petro-Chemical Company Limited | Associate of the Group |
| Shanghai Jinhuan Petroleum Naphthalene Development Company Limited | Associate of the Group |
| Shanghai Chemical Industry Park Logistics Company Limited | Associate of the Group |
| Sinopec Chemical Commercial Holding Company Limited | Subsidiary of the immediate parent company |
| Sinopec Sales Company Limited | Subsidiary of the immediate parent company |
| Sinopec Yizheng Chemical Fibre Company Limited | Subsidiary of the immediate parent company |
| China International United Petroleum and Chemical Company Limited | Subsidiary of the immediate parent company |
| China Petrochemical International Company Limited | Subsidiary of the immediate parent company |
| Sinopec Refinery Product Sales Company Limited | Subsidiary of the immediate parent company |
| Sinopec Yangzi Petrochemical Company Limited | Subsidiary of the immediate parent company |
| China Petrochemical International Beijing Company Limited | Subsidiary of the immediate parent company |
| China Petrochemical International Ningbo Company Limited | Subsidiary of the immediate parent company |
| China Petrochemical International Tianjin Company Limited | Subsidiary of the immediate parent company |

## 29 Related party transactions *(continued)*

| Names of related parties | Relationship with the Company |
|---|---|
| China Petrochemical International Russia Company Limited | Subsidiary of the immediate parent company |
| Sinopec Europe Company Limited | Subsidiary of the immediate parent company |
| China and South Korea (Wuhan) petrochemical Company Limited | Subsidiary of the immediate parent company |
| Sinopec USA Company Limited | Subsidiary of the immediate parent company |
| Sinopec Chemical Commercial Holding (Hong Kong) Company Limited | Subsidiary of the immediate parent company |
| Sinopec Huadong Supplies and Equipment Company Limited | Subsidiary of the immediate parent company |
| Petro-Cyber Works Information Technology Company Limited | Subsidiary of the immediate parent company |
| Sinopec Fuel Oil Sales Corporation Limited | Subsidiary of the immediate parent company |
| BASF-YPC Company Limited | Joint venture of the immediate parent company |
| Zhejiang Baling Hengyi Caprolactam Limited Company | Joint venture of the immediate parent company |
| Sinopec Petroleum Storage and Reserve Limited | Subsidiary of the ultimate parent company |
| Sinopec Assets Management Corporation | Subsidiary of the ultimate parent company |
| Shanghai Petrochemical Machine Manufacturing Company Limited | Subsidiary of the ultimate parent company |
| Sinopec Shanghai Engineering Company Limited | Subsidiary of the ultimate parent company |
| The Fourth Construction Company of Sinopec | Subsidiary of the ultimate parent company |
| The Fifth Construction Company of Sinopec | Subsidiary of the ultimate parent company |
| The Tenth Construction Company of Sinopec | Subsidiary of the ultimate parent company |
| Sinopec Engineering Incorporation | Subsidiary of the ultimate parent company |
| Sinopec Ningbo Engineering Company Limited | Subsidiary of the ultimate parent company |
| Sinopec Finance Company Limited ("Sinopec Finance") | Subsidiary of the ultimate parent company |

The following is a summary of significant balances and transactions between the Group and its related parties except for the dividends received as disclosed in the forgoing Note 21.

**(a)** Most of the transactions undertaken by the Group during the year ended 31 December 2016 have been affected on such terms as determined by Sinopec Corp. and relevant PRC authorities.

Sinopec Corp. negotiates and agrees the terms of crude oil supply with suppliers on a group basis, which is then allocated among its subsidiaries, including the Group, on a discretionary basis. Sinopec Corp. also owns a widespread petroleum products sales network and possesses a fairly high market share in domestic petroleum products market, which is subject to extensive regulation by the PRC government.

The Group has entered into a mutual product supply and sales services framework agreement with Sinopec Corp. Pursuant to the agreement, Sinopec Corp. provides the Group with crude oil, other petrochemical raw materials and agent services. On the other hand, the Group provides Sinopec Corp. with petroleum products, petrochemical products and property leasing services.

## 29 Related party transactions *(continued)*

### (a) *(continued)*

The pricing policy for these services and products provided under the agreement is as follows:

If there are applicable State (central and local government) tariffs, the pricing shall follow the State tariffs;

If there are no State tariffs, but there are applicable State's guidance prices, the pricing shall follow the State's guidance prices; or

If there are no State tariffs or State's guidance prices, the pricing shall be determined in accordance with the prevailing market prices (including any bidding prices).

Transactions between the Group and Sinopec Corp., its subsidiaries and joint ventures were as follows:

| | 2016<br>RMB'000 | 2015<br>RMB'000 |
|---|---|---|
| Sales of petroleum products | 33,159,665 | 41,731,401 |
| Sales other than petroleum products | 5,738,425 | 4,010,856 |
| Purchases of crude oil | 21,599,355 | 23,313,185 |
| Purchases other than crude oil | 3,748,055 | 4,683,317 |
| Sales commissions | 100,221 | 112,245 |
| Rental income | 28,160 | 29,071 |

*For the year ended 31 December 2016*

## 29 Related party transactions *(continued)*

**(b)** Other transactions between the Group and Sinopec Group and its subsidiaries, associates and joint ventures of the Group were as follows:

| | 2016<br>RMB'000 | 2015<br>RMB'000 |
|---|---|---|
| Sales of goods and service fee income | | |
| – Sinopec Group and its subsidiaries | 38,389 | 151,417 |
| – Associates and joint ventures of the Group | 2,051,620 | 1,466,511 |
| | 2,090,009 | 1,617,928 |
| Purchase | | |
| – Sinopec Group and its subsidiaries | 1,056,737 | 421,803 |
| – Associates and joint ventures of the Group | 3,602,791 | 3,607,573 |
| | 4,659,528 | 4,029,376 |
| Insurance premiums expenses | | |
| – Sinopec Group and its subsidiaries | 123,621 | 117,914 |
| Lease expenses | | |
| – Sinopec Group and its subsidiaries | 53,960 | – |
| Interest income | | |
| – Sinopec Finance | 232 | 624 |
| Loans borrowed | | |
| – Sinopec Finance | – | 5,720,000 |
| Loans repayment | | |
| – Sinopec Finance | 370,000 | 6,420,000 |
| Interest expense | | |
| – Sinopec Finance | 3,322 | 31,328 |
| Construction and installation cost | | |
| – Sinopec Group and its subsidiaries | 177,792 | 158,822 |

## 29 Related party transactions *(continued)*

### (b) *(continued)*

The directors of the Company are of the opinion that the transactions with Sinopec Corp., its subsidiaries and joint ventures, Sinopec Group and its subsidiaries, associates and joint ventures of the Group as disclosed in Note 29(a) and 29(b) were conducted in the ordinary course of business, on normal commercial terms and in accordance with the agreements governing such transactions.

### (c)

The relevant amounts due from/to Sinopec Corp., its subsidiaries and joint venture, Sinopec Group and its subsidiaries, associates and joint ventures of the Group, arising from purchases, sales and other transactions as disclosed in Note 29(a) and 29(b), are summarised as follows:

| | As at 31 December | |
|---|---|---|
| | 2016 | 2015 |
| | RMB'000 | RMB'000 |
| Amounts due from related parties | | |
| – Sinopec Corp., its subsidiaries and joint ventures | 1,226,972 | 1,098,872 |
| – Sinopec Group and its subsidiaries | 331 | 9,263 |
| – Associates and joint ventures of the Group | 63,316 | 54,993 |
| | 1,290,619 | 1,163,128 |
| Amounts due to related parties | | |
| – Sinopec Corp., its subsidiaries and joint ventures | 2,620,546 | 1,253,940 |
| – Sinopec Group and its subsidiaries | 387,788 | 91,342 |
| – Associates and joint ventures of the Group | 35,970 | 228,685 |
| | 3,044,304 | 1,573,967 |
| Cash deposits, maturing within 3 months | | |
| – Sinopec Finance (i) | 169,261 | 5,394 |
| Short-term loans | | |
| – Sinopec Finance (ii) | – | 370,000 |

## 29 Related party transactions *(continued)*

**(d)** At 31 December 2016 and 31 December 2015, cash deposits with Sinopec Finance were at an interest rate of 0.35% per annum.

### (e) Key management personnel compensation and post-employment benefit plans

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including directors and supervisors of the Group. The key personnel compensations are as follows:

| | Year ended 31 December | |
|---|---|---|
| | **2016** | 2015 |
| | **RMB'000** | RMB'000 |
| Short-term employee benefits | **5,218** | 4,469 |
| Post-employment benefits | **148** | 147 |
| Share-based payments | **1,270** | 1,342 |
| | **6,636** | 5,958 |

### (f) Contributions to defined contribution retirement plans

The Group participates in defined contribution retirement plans organized by municipal governments for its staff. The contributions to defined contribution retirement plans are as follows:

| | Year ended 31 December | |
|---|---|---|
| | **2016** | 2015 |
| | **RMB'000** | RMB'000 |
| Municipal retirement scheme costs | **247,710** | 273,841 |
| Supplementary retirement scheme costs | **69,846** | 68,921 |

At 31 December 2016 and 31 December 2015, there was no material outstanding contribution to the above defined contribution retirement plans.

# 29 Related party transactions *(continued)*

## (g) Transactions with other state-owned entities in the PRC

The Group is a state-controlled enterprise and operates in an economic regime currently dominated by entities directly or indirectly controlled by the PRC government (collectively referred to as "state-controlled entities") through its government authorities, agencies, affiliations and other organisations.

Apart from transactions with related parties, the Group has transactions with other state-controlled entities which include, but are not limited to, the following:

- sales and purchases of goods and ancillary materials;
- rendering and receiving services;
- lease of assets, purchase of property, plant and equipment;
- placing deposits and obtaining finance; and
- use of public utilities

These transactions are conducted in the ordinary course of the Group's business on terms comparable to those with other entities that are not state controlled. The Group has established its procurement policies, pricing strategy and approval process for purchases and sales of products and services which do not depend on whether the counterparties are state-controlled entities or not.

## (h) Commitments with related parties

**(1) Construction and installation cost**

| | As at 31 December | |
|---|---|---|
| | 2016<br>RMB'000 | 2015<br>RMB'000 |
| Sinopec Group and its subsidiaries | 4,310 | 35,244 |

# 29 Related party transactions *(continued)*

## (h) Commitments with related parties *(continued)*

### (2) Operating lease commitments – Group company as lessee

| | As at 31 December | |
|---|---|---|
| | 2016 | 2015 |
| | RMB'000 | RMB'000 |
| Sinopec Group and its subsidiaries | | |
| No later than 1 year | 53,960 | – |
| Later than 1 year and no later than 2 years | 53,960 | – |
| | 107,920 | – |

The Group leases oil tanks from Sinopec Petroleum Storage and Reserve Limited with a leasing expense of RMB53,960 thousands per annum. The lease agreement is non-cancellable and will be ended at 31 December 2018.

## (i) Investment commitments with related parties

| | As at 31 December | |
|---|---|---|
| | 2016 | 2015 |
| | RMB'000 | RMB'000 |
| Capital contribution to Shanghai Secco | 111,263 | 111,263 |

Pursuant to the resolution of the 18th meeting of the 7th term of Board of Directors on 5 December 2013, the Company was approved to make capital contribution of USD30,017 thousands (RMB182,804 thousands equivalent) to Shanghai Secco, an associate of the Group. The capital to Shanghai Secco will be contributed in RMB by instalments. The capital contribution is mainly to meet the funding needs of the implementation of the "260,000 tons of AN-2 project" ("AN-2 project"), and "90,000 tons of BEU-2 project" ("BEU-2 project").

On 10 December 2013, the Company contributed the first instalment of RMB60,000 thousands for AN-2 project. On 5 March 2014, the Company contributed the first instalment of RMB11,541 thousands for BEU-2 project. According to the approval by Shanghai Municipal Commission of Commerce date 19 October 2015, the rest of the capital contribution to Shanghai Secco should be made within 50 years starting from its registration date.

Except for the above disclosed in Note 29(h) and 29(i), the Group had no other material commitments with related parties as at 31 December 2016, which are contracted, but not included in the financial statements.

## 30 Dividend

Dividend in respect of the year ended 31 December 2015 of RMB0.1 per share, amounting to a total dividend of RMB1,080,000 thousands, was approved by the Board of Directors on 16 March 2016.

Dividend in respect of the year ended 31 December 2016 of RMB0.25 per share, amounting to a total dividend of RMB2,700,000 thousands, was approved by the Board of Directors in 15 March 2017. This financial statement has not reflected such dividend payable.

## 31 Cash generated from operations

Reconciliation of profit before taxation to cash used in operation:

| | Year ended 31 December | |
|---|---|---|
| | 2016<br>RMB'000 | 2015<br>RMB'000 |
| Profit before tax | 7,778,295 | 4,237,188 |
| Adjustment items: | | |
| Interest income | (133,484) | (49,302) |
| Share of profit of investments accounted for using the equity method | (916,754) | (572,035) |
| Gain on forward contract | – | (37,154) |
| Interest expense | 27,762 | 199,908 |
| Foreign exchange (gain)/loss | (2,307) | 81,139 |
| Depreciation of property, plant and equipment | 1,624,547 | 1,708,767 |
| Depreciation of investment property | 13,556 | 13,547 |
| Amortisation of lease prepayments and other assets | 244,157 | 322,647 |
| Impairment loss on property, plant and equipment | 254,242 | 50,001 |
| Loss on disposal of property, plant and equipment-net | 42,031 | 9,393 |
| Government grant relating to disposal of property, plant and equipment | (15,000) | – |
| Share-based payment | 18,004 | 22,702 |
| Profit on operation before change of working capital | 8,935,049 | 5,986,801 |
| (Increase)/decrease in inventories | (1,981,285) | 1,752,515 |
| (Increase)/decrease in operation receivables | (483,169) | 485,167 |
| Increase/(decrease) in operation payables | 665,616 | (1,451,695) |
| Trade receivables being offset according to the offsetting master arrangements (Note 3.4) | (1,017,666) | (927,225) |
| Trade payables being offset according to the offsetting master arrangements (Note 3.4) | 1,017,666 | 927,225 |
| Increase/(decrease) in balances to related parties-net | 1,342,846 | (1,596,273) |
| Cash generated from operating activities | 8,479,057 | 5,176,515 |

*For the year ended 31 December 2016*

## 31 Cash generated from operations *(continued)*

In the statement of cash flows, proceeds from sale of property, plant and equipment comprise:

| | 2016<br>RMB'000 | 2015<br>RMB'000 |
|---|---|---|
| Net book amount | 37,133 | 26,268 |
| Loss on disposal of property, plant and equipment-net | (42,031) | (9,393) |
| Government grant relating to disposal of property, plant and equipment | 15,000 | – |
| Increase in other payables | 1,787 | – |
| | (25,244) | (9,393) |
| Net proceeds from disposal of property, plant and equipment | 11,889 | 16,875 |

## 32 Commitments

### (a) Capital commitments

| | As at 31 December | |
|---|---|---|
| | 2016<br>RMB'000 | 2015<br>RMB'000 |
| Property, plant and equipment | | |
| Contracted but not provided for | 5,300 | 39,814 |
| Authorised but not contracted for | 908,036 | 1,124,660 |
| | 913,336 | 1,164,474 |

## 32 Commitments *(continued)*

### (b) Operating lease commitments – the Group as lessee

Except the lease agreement disclosed in the forgoing Note 29(h), the Group also entered into other various non-cancellable operating lease agreements. The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

| | As at 31 December | |
|---|---|---|
| | 2016 | 2015 |
| | RMB'000 | RMB'000 |
| No later than 1 year | 60,125 | 4,576 |
| Later than 1 year and no later than 2 years | 54,438 | 510 |
| Later than 2 year and no later than 3 years | 384 | 227 |
| Later than 3 years | 3,207 | 3,453 |
| | 118,154 | 8,766 |

## 33 Subsequent event

A dividend in respect of the year ended 31 December 2016 of RMB0.25 per share, amounting to a total dividend of RMB2,700,000 thousands, was proposed by the Board of Directors on 15 March 2017.

*For the year ended 31 December 2016*

## 34 Balance sheet and reserve movement of the Company

| | As at 31 December 2016 RMB'000 | As at 31 December 2015 RMB'000 (Restatement) | As at 1 January 2015 RMB'000 (Restatement) |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | | |
| Lease prepayments and other assets | 623,455 | 694,171 | 947,859 |
| Property, plant and equipment | 13,191,911 | 14,039,077 | 15,151,067 |
| Investment properties | 413,943 | 402,581 | 412,647 |
| Construction in progress | 717,294 | 722,520 | 542,878 |
| Investments in subsidiaries | 1,445,620 | 1,445,620 | 1,445,620 |
| Investments in associates and jointly controlled entities (b) | 3,332,354 | 2,899,619 | 2,540,970 |
| Deferred income tax assets | 99,057 | 62,867 | 905,186 |
| | 19,823,634 | 20,266,455 | 21,946,227 |
| **Current assets** | | | |
| Inventories | 5,374,425 | 3,955,550 | 5,465,293 |
| Trade receivables | 3,562 | 3,768 | 11,001 |
| Bills receivable | 1,097,011 | 679,084 | 991,722 |
| Other receivables | 49,841 | 13,394 | 14,469 |
| Prepayments | 157,771 | 86,481 | 85,458 |
| Amounts due from related parties | 1,226,943 | 1,040,889 | 879,114 |
| Cash and cash equivalents | 4,421,143 | 942,264 | 186,348 |
| | 12,330,696 | 6,721,430 | 7,633,405 |
| **Total assets** | 32,154,330 | 26,987,885 | 29,579,632 |
| **Equity and liabilities** | | | |
| **Equity attributable to owners of the Company** | | | |
| Share capital | 10,800,000 | 10,800,000 | 10,800,000 |
| Reserves (a)(b) | 13,778,226 | 8,737,101 | 5,491,339 |
| **Total equity** | 24,578,226 | 19,537,101 | 16,291,339 |

## 34 Balance sheet and reserve movement of the Company *(continued)*

| | As at 31 December 2016 RMB'000 | As at 31 December 2015 RMB'000 (Restatement) | As at 1 January 2015 RMB'000 (Restatement) |
|---|---|---|---|
| **Liabilities** | | | |
| **Non-current liabilities** | | | |
| Borrowings | – | – | 1,611,900 |
| Deferred income | – | – | 16,436 |
| | – | – | 1,628,336 |
| **Current liabilities** | | | |
| Borrowings | 632,000 | 2,499,000 | 4,507,195 |
| Advance from customers | 431,134 | 891,760 | 1,908,818 |
| Trade payables | 801,804 | 428,994 | 490,790 |
| Other payables | 1,992,421 | 1,757,767 | 1,707,983 |
| Amounts due to related parties | 3,105,940 | 1,823,960 | 3,045,171 |
| Income tax payable | 612,805 | 49,303 | – |
| | 7,576,104 | 7,450,784 | 11,659,957 |
| **Total liabilities** | 7,576,104 | 7,450,784 | 13,288,293 |
| **Total equity and liabilities** | 32,154,330 | 26,987,885 | 29,579,632 |

The balance sheet of the Company was approved by the Board of Directors on 15 March 2017 and were signed on its behalf.

**Wang Zhiqing**
*Chairman and General Manager*

**Gao Jinping**
*Director and Vice General Manager*

## 34 Balance sheet and reserve movement of the Company *(continued)*

### (a) Reserve movement of the Company

| | Reserves RMB'000 (Restatement) |
|---|---|
| At 1 January 2015 (b) | 5,491,339 |
| Employees share option scheme | 22,702 |
| Net profit attributable to shareholders of the Company (b) | 3,223,060 |
| **At 31 December 2015** | 8,737,101 |
| At 1 January 2016 | 8,737,101 |
| Employees share option scheme | 18,004 |
| Net profit attributable to shareholders of the Company | 6,084,908 |
| Other comprehensive income | 18,213 |
| Dividends proposed and approved | (1,080,000) |
| **At 31 December 2016** | 13,778,226 |

### (b) Retrospective adjustments

As a result of adoption of the Amendment to IAS 27, the Company made retrospective adjustment on Investments in associates and jointly controlled entities and Reserves in separate financial statements (Note 2.1.1(a)).

A reconciliation of the Reserve in preceding year's audited separate financial statements and the retrospective one in the comparative information of current year's separate financial statements is as follows:

| | Before retrospective adjustment RMB'000 | Adoption of the Amendment to IAS 27 RMB'000 | After retrospective adjustment RMB'000 |
|---|---|---|---|
| **Balance at 1 January 2015** | 5,168,398 | 322,941 | 5,491,339 |
| Net profit attributable to shareholders of the Company | 2,864,411 | 358,649 | 3,223,060 |
| Employees share option scheme | 22,702 | – | 22,702 |
| **Balance at 31 December 2015** | 8,055,511 | 681,590 | 8,737,101 |

## 35 Benefits and interests of directors and supervisors

### (i) Directors' and supervisors' emoluments:

| | 2016 | | | | |
|---|---|---|---|---|---|
| | Salaries and other benefits RMB'000 | Retirement scheme contributions RMB'000 | Discretionary bonus RMB'000 | Share option RMB'000 | Total RMB'000 |
| **Executive Directors** | | | | | |
| Wang Zhiqing | 199 | 18 | 564 | 250 | 1,031 |
| Gao Jinping | 199 | 18 | 563 | 250 | 1,030 |
| Ye Guohua (resigned in February 2017) | 175 | 18 | 490 | 215 | 898 |
| Jin Qiang | 239 | 18 | 490 | 215 | 962 |
| Guo Xiaojun | 175 | 18 | 484 | 215 | 892 |
| **Independent non- executive directors** | | | | | |
| Choi Ting Ki | 150 | – | – | – | 150 |
| Zhang Yiming | 150 | – | – | – | 150 |
| Liu Yunhong | 150 | – | – | – | 150 |
| Du Weifeng | 150 | – | – | – | 150 |
| **Supervisors** | | | | | |
| Kuang Yuxiang (resigned in July 2017) | 140 | 11 | 320 | – | 471 |
| Zuo Qiang | 120 | 15 | 295 | – | 430 |
| Li Xiaoxia | 119 | 14 | 259 | – | 392 |
| | 1,966 | 130 | 3,465 | 1,145 | 6,706 |

## 35 Benefits and interests of directors and supervisors *(continued)*

### (i) Directors' and supervisors' emoluments *(continued)*

| | 2015 | | | | |
|---|---|---|---|---|---|
| | Salaries and other benefits RMB'000 | Retirement scheme contributions RMB'000 | Discretionary bonus RMB'000 | Share option RMB'000 | Total RMB'000 |
| **Executive Directors** | | | | | |
| Wang Zhiqing | 197 | 18 | 463 | 293 | 971 |
| Gao Jinping | 197 | 18 | 463 | 293 | 971 |
| Ye Guohua | 173 | 18 | 405 | 252 | 848 |
| Jin Qiang | 173 | 17 | 469 | 252 | 911 |
| Guo Xiaojun | 173 | 18 | 397 | 252 | 840 |
| **Independent non-executive directors** | | | | | |
| Choi Ting Ki | 150 | – | – | – | 150 |
| Zhang Yiming | 150 | – | – | – | 150 |
| Liu Yunhong | 150 | – | – | – | 150 |
| Du Weifeng | 150 | – | – | – | 150 |
| **Supervisors** | | | | | |
| Kuang Yuxiang (newly appointed as supervisor in April 2015) | 129 | 14 | 146 | – | 289 |
| Zhang Jianbo (Resigned as supervisor in March 2015) | 48 | 3 | 287 | – | 338 |
| Zuo Qiang | 105 | 14 | 281 | – | 400 |
| Li Xiaoxia | 115 | 14 | 246 | – | 375 |
| | 1,910 | 134 | 3,157 | 1,342 | 6,543 |

### (ii) Directors' retirement benefits

No specific retirement benefits were paid to directors in respect of services in connection with the management of the affairs of the company or its subsidiary undertaking (2015: Nil).

### (iii) Directors' material interests in transactions, arrangements or contracts

No significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

pwc 普华永道

[English Translation for Reference Only]

# Auditor's Report

PwC ZT Shen Zi (2017) No. 10008

(Page 1 of 5)

**To the Shareholders of Sinopec Shanghai Petrochemical Company Limited,**

We have audited the accompanying financial statements of Sinopec Shanghai Petrochemical Company Limited (hereinafter "the Company"), which comprise the consolidated and company balance sheets as at 31 December 2016, and the consolidated and company income statements, the consolidated and company statements of changes in shareholders' equity and the consolidated and company cash flow statements for the year ended 31 December 2016, and the notes to the financial statements.

## Our opinion

In our opinion, the accompanying financial statements present fairly, in all material respects, the consolidated and company's financial position of Sinopec Shanghai Petrochemical Company Limited (hereinafter "the Company") as at 31 December 2016, and their financial performance and cash flows for the year then ended in accordance with the requirements of Accounting Standards for Business Enterprises ("CASs").

## Basis for Opinion

We conducted our audit in accordance with China Standards on Auditing ("CSAs"). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

We are independent of Sinopec Shanghai Petrochemical Company Limited (hereinafter "the Company") in accordance with the Code of Ethics for Professional Accountants of the Chinese Institute of Certified Public Accountants ("CICPA Code"), and we have fulfilled our other ethical responsibilities in accordance with the CICPA Code.

## Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial statements of the current period. These matters were addressed in the context of our audit of the financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

普华永道

[English Translation for Reference Only]

# Auditor's Report (continued)

PwC ZT Shen Zi (2017) No. 10008
(Page 2 of 5)

**To the Shareholders of Sinopec Shanghai Petrochemical Company Limited,**

## Key Audit Matters *(continued)*

Key audit matters identified in our audit is summarised as follows:

- Net realisable value of work in progress and finished goods

| Key Audit Matter | How our audit addressed the Key Audit Matter |
|---|---|
| Net realisable value (NRV) of work in progress and finished goods<br><br>Refer to Notes 2.16 "Inventories", 4.1 "Critical accounting estimates and assumptions" and 20 "Inventories" to the consolidated financial statements.<br><br>The Group is principally engaged in processing of crude oil into petroleum products and other chemical products. The crude oil can be processed into various finish goods by different processing procedures. Inventories are valued at the lower of cost and NRV.<br><br>As at 31 December 2016, the gross balances of work in progress and finished goods were RMB1,004,580 thousand and RMB1,154,679 thousand, against which provisions of RMB44,453 thousand and RMB22,583 thousand were set aside, respectively.<br><br>The NRVs is determined based on the estimated selling prices less the estimated costs to completion, if relevant, other costs necessary to make the sale, and the related taxes.<br><br>Determination of estimated selling prices requires significant management judgement, taking into consideration of historical selling prices and future market trend.<br><br>We focused on this area because of the magnitude of the amounts and the significance of management judgements involved. | We evaluated and tested the key control over the determination of estimated selling prices.<br><br>For selected goods that had been sold after 31 December 2016, we compared on a sample basis the actual selling prices against the estimated selling prices.<br><br>For other inventories:<br><br>– for those goods of which selling prices were available in the domestic market, we performed independent research of the market price information and compared them against the estimated selling prices.<br><br>– for those goods of which no selling prices were available in the domestic market, we compared the estimated selling prices against the recent selling prices. We also independently evaluated the future market trend factors which management considered in determining the estimated selling prices, including possible changes in market supplies, customer demands, technology developments, the relevant State tariffs and the State's guidance prices by corroborating with public data or research information, checking subsequent outcomes of these factors and reference to our industry knowledge.<br><br>We assessed the reasonableness of the estimated costs to completion by comparing with the historical costs to completion for the similar inventories.<br><br>We found that management's judgements in determining the NRV were supported by the evidence we gathered. |

pwc 普华永道

[English Translation for Reference Only]

# Auditor's Report (continued)

PwC ZT Shen Zi (2017) No. 10008

(Page 3 of 5)

**To the Shareholders of Sinopec Shanghai Petrochemical Company Limited,**

## Other Information

The directors of the Company are responsible for the other information. The other information comprises all of the information included in the annual report other than the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

## Responsibilities of Directors and Those Charged with Governance for the Consolidated Financial Statements

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with IFRSs and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

普华永道

[English Translation for Reference Only]

# Auditor's Report (continued)

PwC ZT Shen Zi (2017) No. 10008
(Page 4 of 5)

**To the Shareholders of Sinopec Shanghai Petrochemical Company Limited,**

## Auditor's Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether these financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with CSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with CSAs, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

pwc 普华永道

[English Translation for Reference Only]

# Auditor's Report (continued)

PwC ZT Shen Zi (2017) No. 10008
(Page 5 of 5)

**To the Shareholders of Sinopec Shanghai Petrochemical Company Limited,**

## Auditor's Responsibilities for the Audit of the Consolidated Financial Statements *(continued)*

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

PricewaterhouseCoopers Zhong Tian LLP
Shanghai, the People's Republic of China

Signing CPA
Xu, Hong (Engagement Partner)

Signing CPA
Huangfu, Hao

15 March 2017

# Consolidated and Company Balance Sheets

*As At 31 December 2016*
*(All amounts in thousands of Renminbi Yuan unless otherwise stated)*
*[English translation for reference only]*

| ASSETS | Note | 31 DECEMBER 2016 Consolidated | 31 DECEMBER 2015 Consolidated | 31 DECEMBER 2016 Company | 31 DECEMBER 2015 Company |
|---|---|---|---|---|---|
| **Current assets** | | | | | |
| Cash at bank and on hand | 4(1) | 5,440,623 | 1,077,430 | 4,421,143 | 942,264 |
| Notes receivable | 4(2) | 1,267,920 | 1,007,373 | 1,097,011 | 679,084 |
| Accounts receivable | 4(4),13(1) | 1,656,580 | 1,624,571 | 1,211,039 | 1,034,286 |
| Advances to suppliers | 4(6) | 29,340 | 15,131 | 21,409 | 10,377 |
| Interest receivable | 4(3) | 11,596 | 2,491 | 11,553 | 2,420 |
| Other receivables | 4(5),13(2) | 56,545 | 29,050 | 36,345 | 10,968 |
| Inventories | 4(7) | 6,159,473 | 4,178,188 | 5,374,425 | 3,955,550 |
| Other current assets | 4(8) | 253,804 | 209,746 | 157,771 | 86,481 |
| **Total current assets** | | 14,875,881 | 8,143,980 | 12,330,696 | 6,721,430 |
| **Non-current assets** | | | | | |
| Long-term equity investments | 4(9),13(3) | 3,838,794 | 3,471,139 | 4,972,861 | 4,550,126 |
| Investment properties | 4(10) | 380,429 | 405,572 | 413,943 | 402,581 |
| Fixed assets | 4(11),13(4) | 13,502,370 | 14,424,899 | 13,219,994 | 14,080,657 |
| Construction in progress | 4(12) | 717,672 | 722,520 | 717,294 | 722,520 |
| Intangible assets | 4(13) | 406,116 | 423,529 | 335,877 | 348,193 |
| Long-term prepaid expenses | 4(14) | 299,340 | 359,487 | 287,578 | 345,978 |
| Deferred tax assets | 4(15) | 103,091 | 71,045 | 99,057 | 62,867 |
| **Total non-current assets** | | 19,247,812 | 19,878,191 | 20,046,604 | 20,512,922 |
| **Total assets** | | 34,123,693 | 28,022,171 | 32,377,300 | 27,234,352 |

*As At 31 December 2016*
*(All amounts in thousands of Renminbi Yuan unless otherwise stated)*
*[English translation for reference only]*

| LIABILITIES AND SHAREHOLDERS' EQUITY | Note | 31 DECEMBER 2016 Consolidated | 31 DECEMBER 2015 Consolidated | 31 DECEMBER 2016 Company | 31 DECEMBER 2015 Company |
|---|---|---|---|---|---|
| **Current liabilities** | | | | | |
| Short-term borrowings | 4(17) | 546,432 | 2,070,000 | 632,000 | 2,499,000 |
| Notes payable | 4(18) | 5,000 | – | – | – |
| Accounts payable | 4(19) | 5,082,470 | 3,017,878 | 3,729,702 | 2,275,922 |
| Advance from customers | 4(20) | 476,806 | 579,887 | 447,647 | 446,318 |
| Employee benefits payable | 4(21) | 37,634 | 39,999 | 30,989 | 34,264 |
| Taxes payable | 4(22) | 2,158,427 | 1,368,418 | 2,106,163 | 1,330,067 |
| Interest payable | 4(23) | 465 | 1,890 | 470 | 2,370 |
| Dividends payable | 4(24) | 20,473 | 19,119 | 20,473 | 19,119 |
| Other payables | 4(25) | 614,668 | 629,080 | 608,660 | 843,724 |
| **Total current liabilities** | | 8,942,375 | 7,726,271 | 7,576,104 | 7,450,784 |
| **Non-current liabilities** | | | | | |
| Deferred income | 4(26) | 150,000 | 160,000 | 150,000 | 160,000 |
| **Total liabilities** | | 9,092,375 | 7,886,271 | 7,726,104 | 7,610,784 |
| **Shareholders' equity** | | | | | |
| Share capital | 1,4(27) | 10,800,000 | 10,800,000 | 10,800,000 | 10,800,000 |
| Capital surplus | 4(28) | 534,628 | 516,624 | 534,628 | 516,624 |
| Other comprehensive income | 4(29) | 18,213 | – | 18,213 | – |
| Specific reserve | 4(30) | 346 | 953 | – | – |
| Surplus reserve | 4(31) | 5,100,401 | 4,493,260 | 5,100,401 | 4,493,260 |
| Undistributed profits | 4(32) | 8,296,460 | 4,028,025 | 8,197,954 | 3,813,684 |
| **Total equity attributable to equity shareholders of the Company** | | 24,750,048 | 19,838,862 | 24,651,196 | 19,623,568 |
| **Non-controlling interests** | 4(33) | 281,270 | 297,038 | – | – |
| **Total shareholders' equity** | | 25,031,318 | 20,135,900 | 24,651,196 | 19,623,568 |
| **Total liabilities and shareholders' equity** | | 34,123,693 | 28,022,171 | 32,377,300 | 27,234,352 |

The accompanying notes form an integral part of these financial statements.

| Chairman and General Manager | Deputy General Manager and Chief Financial Officer | Accounting Chief |
|---|---|---|
| **Wang Zhiqing** | **Zhou Meiyun** | **Zhang Feng** |

# Consolidated and Company Income Statements

*For the year ended 31 December 2016*
*(All amounts in thousands of Renminbi Yuan unless otherwise stated)*
*[English translation for reference only]*

| Items | Note | 2016 Consolidated | 2015 Consolidated | 2016 Company | 2015 Company |
|---|---|---|---|---|---|
| **Revenue** | 4(34),13(5) | 77,894,285 | 80,803,422 | 55,680,684 | 64,958,179 |
| Less: Cost of sales | 4(34),13(5) | 55,743,306 | 60,089,297 | 33,815,117 | 44,585,385 |
| Taxes and surcharges | 4(35) | 11,906,438 | 13,710,933 | 11,887,640 | 13,701,517 |
| Selling and distribution expenses | 4(36) | 493,289 | 516,943 | 369,215 | 392,210 |
| General and administrative expenses | 4(37) | 2,683,310 | 2,667,413 | 2,533,688 | 2,507,570 |
| Financial expenses – net | 4(38) | (55,830) | 254,114 | (53,548) | 273,736 |
| Asset impairment losses | 4(41) | 330,440 | 95,625 | 306,220 | 112,649 |
| Add: Investment income | 4(40),13(6) | 906,754 | 599,189 | 958,672 | 564,605 |
| Including: Share of profits of associates and joint ventures | | 906,754 | 562,035 | 911,939 | 520,718 |
| **Operating profit** | | 7,700,086 | 4,068,286 | 7,781,024 | 3,949,717 |
| Add: Non-operating income | 4(42) | 161,418 | 193,695 | 153,644 | 187,751 |
| Including: Profit on disposal of non-current assets | | 5,491 | 4,055 | 4,038 | 3,409 |
| Less: Non-operating expenses | 4(43) | 96,099 | 53,252 | 91,501 | 51,556 |
| Including: Losses on disposal of non-current assets | | 47,522 | 13,448 | 47,082 | 13,252 |
| **Total profit** | | 7,765,405 | 4,208,729 | 7,843,167 | 4,085,912 |
| Less: Income tax expenses | 4(44) | 1,796,822 | 926,777 | 1,771,756 | 891,622 |
| **Net profit** | | 5,968,583 | 3,281,952 | 6,071,411 | 3,194,290 |
| Attributable to shareholders of the Company | | 5,955,576 | 3,245,849 | – | – |
| Non-controlling interests | | 13,007 | 36,103 | – | – |
| **Other comprehensive income** | | 18,213 | – | 18,213 | – |
| **Total comprehensive income** | | 5,986,796 | 3,281,952 | 6,089,624 | 3,194,290 |
| Attributable to shareholders of the Company | | 5,973,789 | 3,245,849 | – | – |
| Non-controlling interests | | 13,007 | 36,103 | – | – |
| **Earnings per share** | | | | | |
| Basic earnings per share(RMB Yuan) | 4(45) | 0.551 | 0.301 | – | – |
| Diluted earnings per share(RMB Yuan) | 4(45) | 0.551 | 0.300 | – | – |

The accompanying notes form an integral part of these financial statements.

| Chairman and General Manager | Deputy General Manager and Chief Financial Officer | Accounting Chief |
|---|---|---|
| **Wang Zhiqing** | **Zhou Meiyun** | **Zhang Feng** |

# Consolidated and Company Cash Flow Statements

*For the year ended 31 December 2016*
*(All amounts in thousands of Renminbi Yuan unless otherwise stated)*
*[English translation for reference only]*

| | | Year ended 31 December | | Year ended 31 December | |
|---|---|---|---|---|---|
| | | **2016** | 2015 | **2016** | 2015 |
| **Items** | Note | **Consolidated** | Consolidated | **Company** | Company |
| **Cash flows from operating activities** | | | | | |
| Cash received from sales of goods or rendering of services | | **88,200,924** | 92,100,986 | **62,778,690** | 74,382,056 |
| Refund of taxes and surcharges | | **28,493** | 49,667 | **–** | 8,544 |
| Cash received relating to other operating activities | 4(46) | **140,235** | 150,044 | **124,606** | 133,435 |
| **Sub-total of cash inflows** | | **88,369,652** | 92,300,697 | **62,903,296** | 74,524,035 |
| Cash paid for goods and services | | **(61,448,264)** | (66,623,585) | **(36,561,565)** | (49,378,188) |
| Cash paid to and on behalf of employees | | **(2,469,097)** | (2,570,831) | **(2,285,431)** | (2,393,771) |
| Payments of taxes and surcharges | | **(16,652,018)** | (17,362,805) | **(16,568,673)** | (17,225,068) |
| Cash paid relating to other operating activities | 4(46) | **(589,316)** | (600,079) | **(778,177)** | (433,960) |
| **Sub-total of cash outflows** | | **(81,158,695)** | (87,157,300) | **(56,193,846)** | (69,430,987) |
| **Net cash flows generated from operating activities** | 4(47),13(7) | **7,210,957** | 5,143,397 | **6,709,450** | 5,093,048 |
| **Cash flows from investing activities** | | | | | |
| Cash received from entrusted lendings | | **106,000** | 82,000 | **–** | – |
| Cash received from returns on investments | | **557,312** | 216,530 | **554,150** | 198,174 |
| Net cash received from disposal of fixed assets | | **11,889** | 16,875 | **10,382** | 16,037 |
| Cash received relating to other investing activities | 4(46) | **124,379** | 46,887 | **90,768** | 30,616 |
| **Sub-total of cash inflows** | | **799,580** | 362,292 | **655,300** | 244,827 |
| Cash paid to acquire fixed assets, intangible assets and other long-term assets | | **(901,475)** | (695,277) | **(894,079)** | (692,487) |
| Cash payment of entrusted lendings | | **(88,000)** | (106,000) | **–** | – |
| **Sub-total of cash outflows** | | **(989,475)** | (801,277) | **(894,079)** | (692,487) |
| **Net cash flows used in investing activities** | | **(189,895)** | (438,985) | **(238,779)** | (447,660) |

*For the year ended 31 December 2016*
*(All amounts in thousands of Renminbi Yuan unless otherwise stated)*
*[English translation for reference only]*

| | | Year ended 31 December | | Year ended 31 December | |
|---|---|---|---|---|---|
| | | **2016** | 2015 | **2016** | 2015 |
| **Items** | Note | **Consolidated** | Consolidated | **Company** | Company |
| **Cash flows from financing activities** | | | | | |
| Cash received from borrowings | | **2,589,432** | 31,999,758 | **3,072,000** | 32,413,788 |
| **Sub-total of cash inflows** | | **2,589,432** | 31,999,758 | **3,072,000** | 32,413,788 |
| Cash repayments of borrowings | | **(4,113,000)** | (35,684,713) | **(4,939,000)** | (36,077,963) |
| Cash paid for distribution of dividends or profits and interest expenses | | **(1,142,776)** | (221,320) | **(1,124,792)** | (225,304) |
| Including: Cash payments for dividends or profit to non-controlling shareholders of subsidiaries | | **(28,775)** | (10,460) | **–** | – |
| **Sub-total of cash outflows** | | **(5,255,776)** | (35,906,033) | **(6,063,792)** | (36,303,267) |
| **Net cash flows used in financing activities** | | **(2,666,344)** | (3,906,275) | **(2,991,792)** | (3,889,479) |
| **Effect of foreign exchange rate changes on cash and cash equivalents** | | **8,475** | 95 | **–** | 7 |
| **Net increase in cash and cash equivalents** | | **4,363,193** | 798,232 | **3,478,879** | 755,916 |
| Add: Cash and cash equivalents at beginning of the year | 4(1) | **1,077,430** | 279,198 | **942,264** | 186,348 |
| **Cash and cash equivalents at end of the year** | 4(1) | **5,440,623** | 1,077,430 | **4,421,143** | 942,264 |

The accompanying notes form an integral part of these financial statements.

| Chairman and General Manager | Deputy General Manager and Chief Financial Officer | Accounting Chief |
|---|---|---|
| **Wang Zhiqing** | **Zhou Meiyun** | **Zhang Feng** |

# Consolidated Statement of Changes in Shareholders' Equity

*For the year ended 31 December 2016*
*(All amounts in thousands of Renminbi Yuan unless otherwise stated)*
*[English translation for reference only]*

| Items | Note | Attributable to equity shareholders of the Company | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | Share capital | Capital surplus | Other comprehensive income | Specific reserve | Surplus reserve | Undistributed profits | Non-controlling interests | Total shareholders' equity |
| **Balance at 1 January 2015** | | 10,800,000 | 493,922 | – | 1,265 | 4,173,831 | 1,101,605 | 271,395 | 16,842,018 |
| **Movements for the year ended 31 December 2015** | | | | | | | | | |
| Total comprehensive income | | | | | | | | | |
| Net profit for the year | | – | – | – | – | – | 3,245,849 | 36,103 | 3,281,952 |
| Employees share option scheme | | – | 22,702 | – | – | – | – | – | 22,702 |
| Appropriation of profits | | | | | | | | | |
| Appropriation to surplus reserves | 4(31) | – | – | – | – | 319,429 | (319,429) | – | – |
| Distributions to shareholders | 4(32) | – | – | – | – | – | – | (10,460) | (10,460) |
| Specific reserve | | | | | | | | | |
| Accrued | 4(30) | – | – | – | 145,895 | – | – | – | 145,895 |
| Utilised | 4(30) | – | – | – | (146,207) | – | – | – | (146,207) |
| **Balance at 31 December 2015** | | 10,800,000 | 516,624 | – | 953 | 4,493,260 | 4,028,025 | 297,038 | 20,135,900 |
| **Balance at 1 January 2016** | | 10,800,000 | 516,624 | – | 953 | 4,493,260 | 4,028,025 | 297,038 | 20,135,900 |
| **Movements for the year ended 31 December 2016** | | | | | | | | | |
| Total comprehensive income | | | | | | | | | |
| Net profit for the year | | – | – | – | – | – | 5,955,576 | 13,007 | 5,968,583 |
| Other comprehensive income | 4(29) | – | – | 18,213 | – | – | – | – | 18,213 |
| Employees share option scheme | | – | 18,004 | – | – | – | – | – | 18,004 |
| Appropriation of profits | | | | | | | | | |
| Appropriation to surplus reserves | 4(31) | – | – | – | – | 607,141 | (607,141) | – | – |
| Distributions to shareholders | 4(32) | – | – | – | – | – | (1,080,000) | (28,775) | (1,108,775) |
| Specific reserve | | | | | | | | | |
| Accrued | 4(30) | – | – | – | 106,443 | – | – | – | 106,443 |
| Utilised | 4(30) | – | – | – | (107,050) | – | – | – | (107,050) |
| **Balance at 31 December 2016** | | 10,800,000 | 534,628 | 18,213 | 346 | 5,100,401 | 8,296,460 | 281,270 | 25,031,318 |

The accompanying notes form an integral part of these financial statements.

| Chairman and General Manager | Deputy General Manager and Chief Financial Officer | Accounting Chief |
|---|---|---|
| **Wang Zhiqing** | **Zhou Meiyun** | **Zhang Feng** |

# Statement of Changes in Shareholders' Equity

*For the year ended 31 December 2016*
*(All amounts in thousands of Renminbi Yuan unless otherwise stated)*
*[English translation for reference only]*

| Items | Note | Share capital | Capital surplus | Other comprehensive income | Specific reserve | Surplus reserve | Undistributed profits | Total shareholders' equity |
|---|---|---|---|---|---|---|---|---|
| **Balance at 1 January 2015** | | 10,800,000 | 493,922 | – | – | 4,173,831 | 938,823 | 16,406,576 |
| **Movements for the year ended 31 December 2015** | | | | | | | | |
| Total comprehensive income | | | | | | | | |
| Net profit for the year | | – | – | – | – | – | 3,194,290 | 3,194,290 |
| Employees share option scheme | | – | 22,702 | – | – | – | – | 22,702 |
| Appropriation of profits | | | | | | | | |
| Distributions to shareholders | | – | – | – | – | 319,429 | (319,429) | – |
| Specific reserve | | | | | | | | |
| Accrued | | – | – | – | 139,964 | – | – | 139,964 |
| Utilised | | – | – | – | (139,964) | – | – | (139,964) |
| **Balance at 31 December 2015** | | 10,800,000 | 516,624 | – | – | 4,493,260 | 3,813,684 | 19,623,568 |
| **Balance at 1 January 2016** | | 10,800,000 | 516,624 | – | – | 4,493,260 | 3,813,684 | 19,623,568 |
| **Movements for the year ended 31 December 2016** | | | | | | | | |
| Total comprehensive income | | | | | | | | |
| Net profit for the year | | – | – | – | – | – | 6,071,411 | 6,071,411 |
| Other comprehensive income | | – | – | 18,213 | – | – | – | 18,213 |
| Employees share option scheme | | – | 18,004 | – | – | – | – | 18,004 |
| Appropriation of profits | | | | | | | | |
| Appropriation to surplus reserves | | – | – | – | – | 607,141 | (607,141) | – |
| Distributions to shareholders | | – | – | – | – | – | (1,080,000) | (1,080,000) |
| Specific reserve | | | | | | | | |
| Accrued | | – | – | – | 100,683 | – | – | 100,683 |
| Utilised | | – | – | – | (100,683) | – | – | (100,683) |
| **Balance at 31 December 2016** | | 10,800,000 | 534,628 | 18,213 | – | 5,100,401 | 8,197,954 | 24,651,196 |

The accompanying notes form an integral part of these financial statements.

| | | |
|---|---|---|
| Chairman and General Manager | Deputy General Manager and Chief Financial Officer | Accounting Chief |
| **Wang Zhiqing** | **Zhou Meiyun** | **Zhang Feng** |

## 1 General information

Sinopec Shanghai Petrochemical Company Limited ("the Company"), formerly Shanghai Petrochemical Company Limited, was established in the People's Republic of China ("the PRC") on 29 June 1993 with registered capital of RMB4,000,000,000, invested by its holding company-China National Petrochemical Corporation; these shares were converted from assets of former Shanghai Petrochemical Complex.

H shares were listed on the Hong Kong Stock Exchange on 26 July 1993, and listed on the New York Stock Exchange in the form of American Depositary Receipts at the same time; the A shares were listed on the Shanghai Stock Exchange on 8 November 1993.

Sinopec Group completed its reorganisation on 25 February 2000. After the reorganisation, China Petroleum & Chemical Corporation ("Sinopec Corp.") was established. As part of the reorganisation, Sinopec Group transferred its 4,000,000,000 of the Company's state-owned legal shares, which represented 55.56 percent of the issued share capital of the Company, to Sinopec Corp. Sinopec Corp. became the largest shareholder of the Company.

The Company changed its name to Sinopec Shanghai Petrochemical Company Limited on 12 October 2000.

As at 31 December 2016, total Share capital of the Company were 10,800,000 thousands, 1 Yuan per share.

The Company and its subsidiaries ("the Group") is a highly integrated entity which processes crude oil into synthetic fibres, resins and plastics, intermediate petrochemicals and petroleum products.

Details of the Company's principal subsidiaries are set out in Note 5 "Interests in other entities".

These financial statements were authorised for issue by the Board of Directors on 15 March 2017.

## 2 Summary of significant accounting policies and accounting estimates

The Group determines the accounting policies and accounting estimates based on its production and management features, mainly reflecting in provision for decline in the value of inventories (Note 2(11)), depreciation of fixed assets (Note 2(14)), impairment of long-term assets (Note 2(19)), and income tax (Note 2(27)) etc.

The key assumptions adopted by the Group in evaluating significant accounting policies and accounting estimate are listed in Note 2(31).

### (1) Basis of preparation

The financial statements are prepared in accordance with the Accounting Standard for Business Enterprises – Basic Standard, and the specific accounting standards and other relevant regulations issued by the Ministry of Finance on 15 February 2006 and in subsequent periods (hereafter collectively referred to as "the Accounting Standard for Business Enterprises" or "CAS").

The financial statements are prepared on a going concern basis.

*For the year ended 31 December 2016*
*(All amounts in thousands of Renminbi Yuan unless otherwise stated)*
*[English translation for reference only]*

# 2 Summary of significant accounting policies and accounting estimates *(Continued)*

## (2) Statement of compliance with the Accounting Standards for Business Enterprises

The financial statements of the Company for the year ended 31 December 2016 are in compliance with the Accounting Standards for Business Enterprises, and truly and completely present the financial position as of 31 December 2016 and the operating results, cash flows and other information for the year then ended of the Group and the Company.

## (3) Accounting period

The Company's accounting year starts on 1 January and ends on 31 December.

## (4) Recording currency

The recording currency is Renminbi (RMB).

## (5) Business combinations

### (a) Business combinations involving enterprises under common control

The consideration paid and net assets obtained by the absorbing party in a business combination are measured at the carrying amount. The difference between the carrying amount of the net assets obtained from and the carrying amount of the consideration paid for the combination is treated as an adjustment to capital surplus (capital premium). If the capital surplus (capital premium) is not sufficient to absorb the difference, the remaining balance is adjusted against undistributed profits. Costs directly attributable to the combination are included in profit or loss in the period in which they are incurred. Transaction costs associated with the issue of equity or debt securities for the business combination are included in the initially recognised amounts of the equity or debt securities.

### (b) Business combinations involving enterprises not under common control

The cost of combination and identifiable net assets obtained by the acquirer in a business combination are measured at fair value at the acquisition date. Where the cost of the combination exceeds the acquirer's interest in the fair value of the acquiree's identifiable net assets, the difference is recognised as goodwill; where the cost of combination is lower than the acquirer's interest in the fair value of the acquiree's identifiable net assets, the difference is recognised in profit or loss for the current period. Costs directly attributable to the combination are included in profit or loss in the period in which they are incurred. Transaction costs associated with the issue of equity or debt securities for the business combination are included in the initially recognised amounts of the equity or debt securities.

## 2 Summary of significant accounting policies and accounting estimates *(Continued)*

### (6) Preparation of consolidated financial statements

The consolidated financial statements comprise the financial statements of the Company and all of its subsidiaries.

Subsidiaries are consolidated from the date on which the Group obtains control and are de-consolidated from the date that such control ceases. For a subsidiary that is acquired in a business combination involving enterprises under common control, it is included in the consolidated financial statements from the date when it, together with the Company, comes under common control of the ultimate controlling party. The portion of the net profits realised before the combination date is presented separately in the consolidated income statement.

In preparing the consolidated financial statements, where the accounting policies and the accounting periods are inconsistent between the Company and subsidiaries, the financial statements of the subsidiaries are adjusted in accordance with the accounting policies and the accounting period of the Company. For subsidiaries acquired from business combinations involving enterprises not under common control, the individual financial statements of the subsidiaries are adjusted based on the fair value of the identifiable net assets at the acquisition date.

All significant intra-group balances, transactions and unrealised profits are eliminated in the consolidated financial statements. The portion of subsidiaries' owners' equity and the portion of subsidiaries' net profits and losses and comprehensive incomes for the period not attributable to the Company are recognised as non-controlling interests, net profit attributed to non-controlling interests and total comprehensive incomes attributed to non-controlling interests and presented separately in the consolidated financial statements under owners' equity, net profits and total comprehensive income respectively. Unrealised profits and losses resulting from the sale of assets by the Company to its subsidiaries are fully eliminated against net profit attributable to owners of the parent. Unrealized profits and losses resulting from the sale of assets by a subsidiary to the Company are eliminated and allocated between net profit attributable to owners of the parent and non-controlling interests in accordance with the allocation proportion of the parent in the subsidiary. Unrealized profits and losses resulting from the sale of assets by one subsidiary to another are eliminated and allocated between net profit attributable to owners of the parent and non-controlling interests in accordance with the allocation proportion of the parent in the subsidiary.

If the accounting treatment of a transaction which considers the Group as an accounting entity is different from that considers the Company or its subsidiaries as an accounting entity, it is adjusted from the perspective of the Group.

### (7) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, deposits that can be readily drawn on demand, and short-term and highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

*For the year ended 31 December 2016*
*(All amounts in thousands of Renminbi Yuan unless otherwise stated)*
*[English translation for reference only]*

## 2 Summary of significant accounting policies and accounting estimates *(Continued)*

### (8) Foreign currency translation

**Foreign currency transactions**

Foreign currency transactions are translated into RMB using the exchange rates prevailing at the dates of the transactions.

At the balance sheet date, monetary items denominated in foreign currencies are translated into RMB using the spot exchange rates on the balance sheet date. Exchange differences arising from these translations are recognised in profit or loss for the current period, except for those attributable to foreign currency borrowings that have been taken out specifically for the acquisition or construction of qualifying assets, which are capitalised as part of the cost of those assets. Non-monetary items denominated in foreign currencies that are measured at historical costs are translated into RMB at the balance sheet date using the spot exchange rates at the date of the transactions. The effect of exchange rate changes on cash is presented separately in the cash flow statement.

### (9) Financial Instruments

#### (a) Financial assets

*(i) Financial assets classification*

Financial assets are classified into the following categories at initial recognition: financial assets at fair value through profit or loss, receivables, available-for-sale financial assets and held-to-maturity investments. The classification of financial assets depends on the Group's intention and ability to hold the financial assets.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for the purpose of selling in the short term.

Receivables

Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either designated in this category or not classified in any of the other categories at initial recognition. Available-for-sale financial assets are included in other current assets on the balance sheet if management intends to dispose of them within 12 months after the balance sheet date.

## 2 Summary of significant accounting policies and accounting estimates *(Continued)*

### (9) Financial Instruments *(Continued)*

#### (a) Financial assets *(Continued)*

*(i) Financial assets classification (Continued)*

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed maturity and fixed or determinable payments that management has the positive intention and ability to hold to maturity. Held-to-maturity investments with maturities over 12 months when the investments were made but are due within 12 months at the balance sheet date are included in the current portion of non-current assets; held-to maturity investments with maturities no more than 12 months when the investments were made are included in other current assets.

*(ii) Recognition and measurement*

Financial assets are recognised at fair value on the balance sheet when the Group becomes a party to the contractual provisions of the financial instrument. In the case of financial assets at fair value through profit or loss, the related transaction costs incurred at the time of acquisition are recognised in profit or loss for the current period. For other financial assets, transaction costs that are attributable to the acquisition of the financial assets are included in their initially recognised amounts.

Financial assets at fair value through profit or loss and available-for-sale financial assets are subsequently measured at fair value. Investments in equity instruments are measured at cost when they do not have a quoted market price in an active market and whose fair value cannot be reliably measured. Receivables and held-to-maturity investments are measured at amortised cost using the effective interest method.

Gains or losses arising from change in fair value of financial assets at fair value through profit or loss are recognised in profit or loss. Interests and cash dividends received during the period in which such financial assets are held, as well as the gains or losses arising from disposal of these assets are recognised in profit or loss for the current year.

Gains or losses arising from change in fair value of available-for-sale financial assets are recognised directly in equity, except for impairment losses and foreign exchange gains and losses arising from translation of monetary financial assets. When such financial assets are derecognised, the cumulative gains or losses previously recognised directly into equity are recycled into profit or loss for the current period. Interests on available-for-sale investments in debt instruments calculated using the effective interest method during the period in which such investments are held and cash dividends declared by the investee on available-for-sale investments in equity instruments are recognised as investment income, which is recognised in profit or loss for the period.

*For the year ended 31 December 2016*
*(All amounts in thousands of Renminbi Yuan unless otherwise stated)*
*[English translation for reference only]*

# 2 Summary of significant accounting policies and accounting estimates *(Continued)*

## (9) Financial Instruments *(Continued)*

### (a) Financial assets *(Continued)*

*(iii) Impairment of financial assets*

The Group assesses the carrying amounts of financial assets other than those at fair value through profit or loss at each balance sheet date. If there is objective evidence that a financial asset is impaired, the Group shall determine the amount of impairment loss.

A financial asset is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The objective evidence that indicate the impairment of available-for-sale investment in equity instruments includes a significant or prolonged decline in the fair value of available-for-sale investment in equity instruments. The Group assesses all kinds of available-for-sale investments in equity instruments individually at balance sheet date. Impairment loss should be recognized if the fair value of investments in equity instruments is less than 50%(50% inclusive)of its initial investment cost or in the case that the fair value has been less than the initial investment cost for more than one year(one year inclusive). The Group will consider other relevant factors, such as the price volatility, to determine whether an impairment loss should be recognised for the equity instrument if the decline in the fair value of an equity instrument is more than 20% (20% inclusive) but less than 50% of its initial investment cost.

When an impairment loss on a financial asset carried at amortised cost has occurred, the amount of loss is provided for at the difference between the asset's carrying amount and the present value of its estimated future cash flows (excluding future credit losses that have not been incurred). If there is objective evidence that the value of the financial asset recovered and the recovery is related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed and the amount of reversal is recognised in profit or loss.

In the case of impairment of available-for-sale financial assets, the cumulative loss arising from the decline in fair value that had been recognised directly in equity is removed from equity and recognised in impairment loss. For an investment in debt instrument classified as available-for-sale on which impairment losses have been recognised, if, in a subsequent period, it's fair value increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the previously recognised impairment loss is reversed and recognized in profit or loss for the current year. For an investment in an equity instrument classified as available-for-sale on which impairment losses have been recognised, the increase in its fair value in a subsequent period is recognised in equity directly.

*For the year ended 31 December 2016*
*(All amounts in thousands of Renminbi Yuan unless otherwise stated)*
*[English translation for reference only]*

# 2 Summary of significant accounting policies and accounting estimates *(Continued)*

## (9) Financial Instruments *(Continued)*

### (a) Financial assets *(Continued)*

*(iii) Impairment of financial assets (Continued)*

If an impairment loss on an available-for-sale financial asset measured at cost incurs, the amount of loss is measured at the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. The previously recognised impairment loss will not be reversed in subsequent periods.

*(iv) Derecognition of financial assets*

A financial asset is derecognised when it meets one of the following conditions:

- If the Group's contractual rights to the cash flows from the financial asset expire.
- Or if the Group transfers substantially all the risks and rewards of ownership of the financial asset to another party.
- Or if the Group has neither transferred nor retained substantially all of the risks and rewards of the asset, but the Group has ceased the control over the financial asset.

On derecognition of a financial asset, the difference between the carrying amount and the aggregate consideration received and the accumulative amount of the changes of fair value originally recorded in the shareholders' equity is recognised in profit or loss.

### (b) Financial liabilities

Financial liabilities are classified into the following categories at initial recognition: financial liabilities at fair value through profit or loss and other financial liabilities. Financial liabilities of the Group mainly comprise of other financial liabilities, including payables and borrowings.

Payables include accounts payable, notes payable, other payables, etc., which are initially recorded at fair value and measured subsequently at amortised cost using the effective interest method subsequently.

Borrowings and notes payable are recorded initially at fair value, net of transaction costs incurred, and subsequently carried at amortised cost using the effective interest method.

*For the year ended 31 December 2016*
*(All amounts in thousands of Renminbi Yuan unless otherwise stated)*
*[English translation for reference only]*

# 2 Summary of significant accounting policies and accounting estimates *(Continued)*

## (9) Financial Instruments *(Continued)*

### (b) Financial liabilities *(Continued)*

Other financial liabilities with maturities no more than one year (including one year) are classified as current liabilities. Other financial liabilities with maturity over one year but are due within one year (including one year) at balance sheet date are classified as the current portion of non-current liabilities. Others are classified as non-current liabilities.

A financial liability shall be derecognised or partly derecognised when the current obligation is discharged or partly discharged. The difference between the carrying amount of the derecognised portion of the financial liability and the consideration paid shall be recognised in profit or loss.

### (c) Determination of fair value of financial instruments

The fair value of a financial instrument that is traded in an active market is determined at the quoted price in the active market. The fair value of a financial instrument that is not traded in an active market is determined by using a valuation technique which is applicable in the current situation and support with enough available data and other information. Valuation techniques mainly include market approach and income approach.

When a valuation technique is used to establish the fair value of a financial instrument, it chooses the inputs which are consistent with the asset or liability's characteristics considered by market participants in the transaction of the relevant asset or liability and makes the maximum use of relevant observable inputs. Unobservable inputs are used when it is unavailable or impracticable to obtain relevant observable inputs.

## (10) Receivables

Receivables comprise accounts receivable and other receivables. Accounts receivable arising from sale of goods or rendering of services are initially recognised at fair value of the contractual payments from the buyers or service recipients.

### (a) Receivables that are individually significant and subject to separate provision

Receivables with amounts that are individually significant are subject to separate assessment for impairment. If there exists objective evidence that the Group will not be able to collect the amount under the original terms, a provision for bad debts of that receivable is made.

Judgement basis or criteria for receivables that are individually significant is over RMB10,000 thousands.

Provision for bad debts for receivables that are individually significant and assessed individually is made at the difference between its carrying amount and the present value of its estimated future cash flows.

*For the year ended 31 December 2016*
*(All amounts in thousands of Renminbi Yuan unless otherwise stated)*
*[English translation for reference only]*

# 2 Summary of significant accounting policies and accounting estimates *(Continued)*

## (10) Receivables *(Continued)*

### (b) Receivables that are combined into certain groups and subject to provision by groups

Receivables with amounts that are not individually significant and those receivables that have been individually assessed for impairment and have not been found impaired are classified into certain groupings based on their credit risk characteristics. The provision for bad debts is determined based on the historical loss experience for the groupings of receivables with similar credit risk characteristics, taking into consideration of the current circumstances.

Basis for determination of groups is as follows:

| Group Name | Criteria |
|---|---|
| Group 1 | Groups of receivables with similar credit risk characteristics |
| Group 2 | Receivables for related parties except for the accounts receivables that are individually significant and subject to separate provision, |

Method for provision by groups are summarised as followed:

| Group Name | Method for provision |
|---|---|
| Group 1 | Ageing analysis method |
| Group 2 | Percentage of bad debt provision is 0% |

Ratios of provision for bad debts used in the ageing analysis method for groups are as follows:

| | Provisions as a percentage of accounts receivable | Provisions as a percentage of other receivables |
|---|---|---|
| Within one year | – | – |
| Over one year but within two years | 30% | 30% |
| Over two years but within three years | 60% | 60% |
| Over three years | 100% | 100% |

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*(All amounts in thousands of Renminbi Yuan unless otherwise stated)*
*[English translation for reference only]*

## 2 Summary of significant accounting policies and accounting estimates *(Continued)*

### (10) Receivables *(Continued)*

**(c) Receivables that are individually insignificant but subject to separate provision**

If there exists objective evidence that the Group will not be able to collect the amount under the original terms.

The impairment loss and the provision for bad debts are determined based on the amount of the present value of the future cash flows expected to be derived from the asset below the carrying amount.

(d) When the Group transfers the accounts receivable to the financial institutions without recourse, the difference between the proceeds received from the transaction and their carrying amounts and the related taxes is recognised in profit or loss for the current period.

### (11) Inventories

**(a) Categories of inventories**

Inventories include raw materials, work in progress, finished goods, spare parts and consumables, and are measured at the lower of cost and net realisable value.

**(b) Measurement of cost of inventories**

Cost is determined using the weighted average method. The cost of finished goods and work in progress comprise raw materials, direct labour and systematically allocated production overhead based on the normal production capacity.

**(c) Basis for determining net realisable value of inventories and method of provision for impairment of inventories**

Provision for decline in the value of inventories is determined at the excess amount of the carrying amounts of the inventories over their net realisable value. Net realisable value is determined based on the estimated selling price in the ordinary course of business, less the estimated costs to completion and estimated costs necessary to make the sale and related taxes.

**(d) The Group adopts the perpetual inventory system.**

**(e) Amortisation methods for low-value consumables**

Low value consumables are expensed upon issuance.

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*(All amounts in thousands of Renminbi Yuan unless otherwise stated)*
*[English translation for reference only]*

# 2 Summary of significant accounting policies and accounting estimates *(Continued)*

## (12) Long-term equity investments

Long-term equity investments comprise the Company's long-term equity investments in its subsidiaries, and the Group's long-term equity investments in its joint ventures and associates.

Subsidiaries are the investees over which the Company is able to exercise control. A joint venture is a joint arrangement which is structured through a separate vehicle over which the Group has joint control together with other parties and only has rights to the net assets of the arrangement based on legal forms, contractual terms and other facts and circumstances. An associates is the investee over which the Group has significant influence by participating in the financial and operating policy decisions.

Investments in subsidiaries are presented in the Company's financial statements using the cost method, and are adjusted to the equity method when preparing the consolidated financial statements. Investments in joint ventures and associates are accounted for using the equity method.

### (a) Initial recognition

For long-term equity investments acquired through a business combination: The initial investment cost of a long-term equity investment obtained through a business combination involving enterprises under common control is the Company's share of the carrying amount of the subsidiary's equity at the combination date. For a long-term equity investment obtained through a business combination not involving enterprises under common control, the initial investment cost is the combined cost issued by the Company, in exchange for control of the acquire.

For long-term equity investment acquired other than through a business combination, the initial investment cost is recognised at the actual consideration paid if the Group acquires the investment by cash, or at the fair value of the equity securities issued if an investment is acquired by issuing equity securities.

### (b) Subsequent measurement

Under the cost method of accounting, long-term equity investments are measured at initial investment cost, investment income is recognised in profit or loss for the cash dividends or profit distribution declared by the investee.

For long-term equity investments accounted for using the equity method, where the initial investment cost exceeds the fair value of the Group's share of the investee's identifiable net assets at the time of acquisition, the investment is initially measured at cost; Where the initial investment cost is less than the fair value of the Group's share of the investee's identifiable net assets at the time of acquisition, the difference is included in profit or loss for the current period and the cost of the long-term equity investment is adjusted upwards accordingly.

*For the year ended 31 December 2016*
*(All amounts in thousands of Renminbi Yuan unless otherwise stated)*
*[English translation for reference only]*

# 2 Summary of significant accounting policies and accounting estimates *(Continued)*

## (12) Long-term equity investments *(Continued)*

### (b) Subsequent measurement *(Continued)*

Under the equity method of accounting, the Group recognises the investment income according to its share of net profit or loss of the investee. The Group discontinues recognising its share of net losses of an investee after the carrying amount of the long-term equity investment together with any long-term interests that, in substance, form part of the investor's net investment in the investee are reduced to zero. However, if the Group has obligations for additional losses and the criteria with respect to recognition of provisions under the accounting standards on contingencies are satisfied, the Group continues recognising the investment losses and the provisions. For changes in shareholders' equity of the investee other than those arising from its net profit or loss, the Group records its proportionate share directly into capital surplus, provided that the Group's proportion of shareholding in the investee remains unchanged. The carrying amount of the investment is reduced by the Group's share of the profit distribution or cash dividends declared by an investee. The unrealised profits or losses arising from the intra-group transactions amongst the Group and its investees are eliminated in proportion to the Group's equity interest in the investees, and then based on which the investment gain or losses are recognised. For the loss on the intra-group transaction amongst the Group and its investees attributable to asset impairment, and the related unrealised loss is not eliminated.

### (c) Definition of control, joint control or significant influence over the investees

Control refers to the power to govern the financial and operating policies of an investee, so as to obtain benefits from their operating activities. In determining whether the Company is able to exercise control over the investee, the effect of potential voting rights of the investee shall be considered, such as convertible debts and warrants currently exercisable.

Joint control is the contractually agreed sharing of control over an economic activity, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control.

Significant influence refers to the power to participate in making decisions on the financial and operating policies of an enterprise, but not the power to control, or jointly control, the formulation of such policies with other parties.

### (d) Impairment of Long-term equity investments

The carrying amount of long-term equity investments in subsidiaries, joint ventures and associates shall be reduced to the recoverable amount if the recoverable amount is below the carrying amount (Note 2(19)).

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# 2 Summary of significant accounting policies and accounting estimates *(Continued)*

## (13) Investment properties

Investment properties, including land use rights that have already been leased out, buildings that are held for the purpose of leasing and buildings that is being constructed or developed for future use for leasing, are measured initially at cost. Subsequent expenditures incurred in relation to an investment property are included in the cost of the investment property when it is probable that the associated economic benefits will flow to the Group and their costs can be reliably measured; otherwise, the expenditures are recognised in profit or loss in the period in which they are incurred.

The Group adopts the cost model for subsequent measurement of investment properties. Buildings and land use rights are depreciated or amortised to their estimated net residual values over their estimated useful lives. The estimated useful lives, the estimated net residual values that are expressed as a percentage of cost and the annual depreciation rates of investment properties are as follows:

| | **Estimated useful lives** | **Estimated net residual values** | **Annual depreciation rates** |
|---|---|---|---|
| Buildings | 30-40 years | 3% | 2.43%-3.23% |

When an investment property is transferred to owner-occupied properties, it is reclassified as fixed asset or intangible asset at the date of the transfer. When an owner-occupied property is transferred out for earning rentals or for capital appreciation, the fixed asset or intangible asset is reclassified as investment properties at its carrying amount at the date of the transfer.

The investment property's estimated useful life, net residual value and depreciation (amortisation) method applied are reviewed and adjusted as appropriate at each year-end.

An investment property is derecognised on disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposal. The net amount of proceeds from sale, transfer, retirement or damage of an investment property after its carrying amount and related taxes and expenses is recognised in profit or loss for the current period.

When the recoverable amount of investment properties is less than its carrying amount, a provision for impairment and an impairment loss are recognised for the amount by which the asset's carrying amount exceeds its recoverable amount (Note 2(19)).

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# 2 Summary of significant accounting policies and accounting estimates *(Continued)*

## (14) Fixed assets

### (a) Recognition and initial measurement of fixed assets

Fixed assets comprise buildings, plant and machinery, vehicles, other equipment, etc.

Fixed asset is recognized when it is probable that the associated economic benefits will flow to the Group and the related cost can be reliably measured. Fixed assets purchased or constructed by the Group are initially measured at cost at the time of acquisition. The fixed assets injected by the state-owned shareholder during the restructuring were initially recorded at the valuated amount approved by the relevant authorities managing state-owned assets.

Subsequent expenditures incurred for a fixed asset are included in the cost of the fixed asset when it is probable that the associated economic benefits will flow to the Group and the related cost can be reliably measured. The carrying amount of the replaced part is derecognised. All the other subsequent expenditures are recognised in profit or loss in the period in which they are incurred.

### (b) Depreciation of fixed assets

Fixed assets are depreciated using the straight-line method to allocate the cost of the assets to their estimated residual values over their estimated useful lives. For the fixed assets that have been provided for impairment loss, the related depreciation charge is prospectively determined based upon the adjusted carrying amounts over their remaining useful lives.

The estimated useful lives, the estimated residual values expressed as a percentage of cost and the annual depreciation rates of fixed assets are as follows:

| | **Estimated useful lives** | **Estimated residual values** | **Annual depreciation rates** |
|---|---|---|---|
| Buildings | 12-40 years | 0% to 5% | 2.4% to 8.3% |
| Plant and machinery | 12-20 years | 0% to 5% | 4.8% to 8.3% |
| Vehicles and other equipment | 4-20 years | 0% to 5% | 4.8% to 25.0% |

The estimated useful life, the estimated net residual value of a fixed asset and the depreciation method applied to the asset are reviewed, and adjusted as appropriate at each year-end.

*For the year ended 31 December 2016*
*(All amounts in thousands of Renminbi Yuan unless otherwise stated)*
*[English translation for reference only]*

## 2 Summary of significant accounting policies and accounting estimates *(Continued)*

### (14) Fixed assets *(Continued)*

**(c)** When the recoverable amount of fixed assets is less than its carrying amount, a provision for impairment and an impairment loss are recognised for the amount by which the asset's carrying amount exceeds its recoverable amount (Note 2(19)).

**(d) Disposal of fixed assets**

A fixed asset is derecognised on disposal or when no future economic benefits are expected from its use or disposal. The amount of proceeds from disposals on sale, transfer, retirement or damage of a fixed asset net of its carrying amount and related taxes and expenses is recognised in profit or loss for the current period.

### (15) Construction in progress

Construction in progress is measured at actual cost. Actual cost comprises construction costs, installation costs, borrowing costs that are eligible for capitalisation and other costs necessary to bring the fixed assets ready for their intended use. Construction in progress is transferred to fixed assets when the assets are ready for their intended use, and depreciation begins from the following month. When the recoverable amount of construction in progress is less than its carrying amount, a provision for impairment and an impairment loss are recognised for the amount by which the asset's carrying amount exceeds its recoverable amount (Note 2(19)).

### (16) Borrowing costs

The borrowing costs that are directly attributable to the acquisition and construction of a fixed asset that needs a substantially long period of time for its intended use commence to be capitalised and recorded as part of the cost of the asset when expenditures for the asset and borrowing costs have been incurred, and the activities relating to the acquisition and construction that are necessary to prepare the asset for its intended use have commenced. The capitalisation of borrowing costs ceases when the asset under acquisition or construction becomes ready for its intended use and the borrowing costs incurred thereafter are recognised in profit or loss for the current period. Capitalisation of borrowing costs is suspended during periods in which the acquisition or construction of a fixed asset is interrupted abnormally and the interruption lasts for more than 3 months, until the acquisition or construction is resumed.

For the specific borrowings obtained for the acquisition or construction of a qualifying fixed asset, the amount of borrowing costs eligible for capitalisation is determined by deducting any interest earned from depositing the unused specific borrowings in the banks or any investment income arising on the temporary investment of those borrowing during the capitalisation period.

For the general borrowings obtained for the acquisition or construction of a qualifying fixed asset, the amount of borrowing costs eligible for capitalisation is determined by applying the weighted average effective interest rate of general borrowings used, to the weighted average of the excess amount of cumulative expenditures on the asset over the amount of specific borrowings. The effective interest rate is the rate at which estimated future cash flows during the period of expected duration or shorter period applied discounted to the initial amount of the borrowings.

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*(All amounts in thousands of Renminbi Yuan unless otherwise stated)*
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## 2 Summary of significant accounting policies and accounting estimates *(Continued)*

### (17) Intangible assets

Intangible assets include land use rights and patents, and are measured at cost. The intangible assets injected by the state-owned shareholder during the restructuring were initially recorded at the valuated amount approved by the relevant authorities managing state-owned assets.

**(a) Land use rights**

Land use rights are amortised on the straight-line basis over their approved use period of 30-50 years. If the acquisition costs of the land use rights and the buildings located thereon cannot be reasonably allocated between the land use rights and the buildings, all of the acquisition costs are recognised as fixed assets.

**(b) Patents**

Patents are amortised on a straight-line basis over the patent protection of 10-28 years as stipulated by the laws.

**(c) Periodical review of useful life and amortisation method**

For an intangible asset with a finite useful life, review of its useful life and amortisation method is performed at each year-end, with adjustment made as appropriate.

**(d) Research and development**

The expenditure on an internal research and development project is classified into expenditure on the research phase and expenditure on the development phase based on its nature and whether there is material uncertainty that the research and development activities can form an intangible asset at end of the project.

Expenditure on the research phase is recognised in profit or loss in the period in which it is incurred. Expenditure on the development phase is capitalised only if all of the following conditions are satisfied:

- it is technically feasible to complete the research and development project so that it will be available for use or sale;
- management intends to complete the research and development project, and use or sell it;
- it can be demonstrated how the research and development project will generate economic benefits;
- there are adequate technical, financial and other resources to complete the development and the ability to use or sell the research and development project; and
- the expenditure attributable to the research and development project during its development phase can be reliably measured.

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*(All amounts in thousands of Renminbi Yuan unless otherwise stated)*
*[English translation for reference only]*

# 2 Summary of significant accounting policies and accounting estimates *(Continued)*

## (17) Intangible assets *(Continued)*

### (d) Research and development *(Continued)*

Other development expenditures that do not meet the conditions above are recognised in profit or loss in the period in which they are incurred. Development costs previously recognised as expenses are not recognised as an asset in a subsequent period. Capitalised expenditure on the development phase is presented as development costs in the balance sheet and transferred to intangible assets at the date that the asset is ready for its intended use.

### (e) Impairment of intangible assets

When the recoverable amount of an intangible asset is less than its carrying amount, a provision for impairment and an impairment loss are recognised for the amount by which the asset's carrying amount exceeds its recoverable amount (Note 2(19)).

## (18) Long-term prepaid expenses

Long-term prepaid expenses mainly include the catalyst expenditures, leasehold improvements and other expenditures that have been incurred but should be recognised as expenses over more than one year in the current and subsequent periods. Long-term prepaid expenses with the book value net of estimated residual value are amortised on the straight-line basis over the expected beneficial periods and are presented at actual expenditure net of accumulated amortisation.

Catalyst expenditures are amortized on a straight-line method within 2 to 5 years.

The leasehold improvement of the rented fixed assets through commercial lease is amortized according to the average duration of 5 years

## (19) Impairment of long-term assets

Fixed assets, construction in progress, intangible assets with finite useful lives, long-term prepaid expenses, investment properties measured using the cost model and long-term equity investments in subsidiaries, joint ventures and associates are tested for impairment if there is any indication that the assets may be impaired at the balance sheet date. If the result of the impairment test indicates that the recoverable amount of an asset is less than its carrying amount, a provision for impairment and an impairment loss are recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and the present value of the future cash flows expected to be derived from the asset. Provision for asset impairment is determined and recognised on the individual asset basis. If it is not possible to estimate the recoverable amount of an individual asset, the recoverable amount of a group of assets to which the asset belongs is determined. A group of assets is the smallest group of assets that is able to generate independent cash inflows.

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*(All amounts in thousands of Renminbi Yuan unless otherwise stated)*
*[English translation for reference only]*

# 2 Summary of significant accounting policies and accounting estimates *(Continued)*

## (19) Impairment of long-term assets *(Continued)*

Once the above asset impairment loss is recognised, it will not be reversed for the value recovered in the subsequent periods.

## (20) Safety production costs

According to the decision of the State Council on Further Strengthening the work of production safety (Guofa No.2 2004), Shanghai Municipal Government to implement the State Council on Further Strengthening corporate safety work notice (Hufufa No.35 2010) and Safe production costs extraction and use of management practices (Caiqi No.16 2012) issued by the Ministry of Finance and the national production safety supervision administration on 2 February 2012, The Group extracted safety production costs in a certain percentage of sales revenue from the dangerous goods in previous year, which is used for safety costs.

The safety production costs, accrued in accordance with the above regulations, shall be charged in relevant costs or profit and loss, and in the specific reserve. Safety production costs, which belong to expenses, directly offset the special reserves. If the costs formed into fixed assets, the special reserves shall be offset according to the cost forming into fixed assets, and recognize the same amount of accumulated depreciation. This fixed asset shall no longer accrue depreciation in the following period.

## (21) Employee benefits

Employee benefits include short-term employee benefits, post-employment benefit and termination benefits provided in various forms of consideration in exchange for service rendered by employees or compensations for the termination of employment relationship.

### (a) Short-term employee benefits

Short-term employee benefits include employee wages or salaries, bonus, allowances and subsidies, staff welfare, premiums or contributions on medical insurance, work injury insurance and maternity insurance, housing funds, union running costs and employee education costs, short-term paid absences. The employee benefit liabilities are recognised in the accounting period in which the service is rendered by the employees, with a corresponding charge to the profit or loss for the current period or the cost of relevant assets. Employee benefits which are non-monetary benefits are measured at fair value.

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## 2 Summary of significant accounting policies and accounting estimates *(Continued)*

### (21) Employee benefits *(Continued)*

#### (b) Post-employment benefits

The Group classifies post-employment benefit plans as either defined contribution plans or defined benefit plans. Defined contribution plans are post-employment benefit plans under which the Group pays fixed contributions into a separate fund and will have no obligation to pay further contributions; and Defined benefit plans are post-employment benefit plans other than defined contribution plans. During the reporting period, the Group's post-employment benefits mainly include basic pensions, unemployment insurance and supplemental basic pensions, all of which belong to the defined contribution plans.

*Basic pensions*

The Group's employees participate in the basic pension plan set up and administered by local authorities of Ministry of Human Resource and Social Security. Monthly payments of premiums on the basic pensions are calculated according to prescribed bases and percentage by the relevant local authorities. When employees retire, the relevant local authorities are obliged to pay the basic pensions to them. The amounts based on the above calculations are recognised as liabilities in the accounting period in which the service has been rendered by the employees, with a corresponding charge to the profit or loss for the current period or the cost of relevant assets.

#### (c) Termination benefits

When the Group terminates the employment relationship with employees before the employment contracts expire, or provides compensation as an offer to encourage employees to accept voluntary redundancy, a provision for the termination benefits provided is recognised in profit or loss when both of the following conditions are satisfied:

- The Group has a formal plan for the termination of employment or has made an offer to employees for voluntary redundancy, which will be implemented shortly.

- The Group is not allowed to withdraw from termination plan or redundancy offer unilaterally.

Termination benefits expected to be paid in one year are listed as current liabilities.

### (22) Profit distribution

Proposed profit distribution is recognised as a liability in the period in which it is approved by the Shareholders' meeting.

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*(All amounts in thousands of Renminbi Yuan unless otherwise stated)*
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# 2 Summary of significant accounting policies and accounting estimates *(Continued)*

## (23) Share-based payments

### (a) Types of Share-based payment

The term "share-based payment" refers to a transaction in which an enterprise grants equity instruments or undertakes equity-instrument-based liabilities in return for services from employee or other parties. Equity instruments include equity instruments of the Company itself or its subsidiaries.

*Equity-settled share-based payment transactions*

The Group's stock option incentive plans are equity-settled share-based payments and are measured at fair value of equity instruments granted to employees on the date of the grant. If the right cannot be exercised until the vesting period comes to an end and until the prescribed performance conditions are met, then within the vesting period, the services obtained in the current period shall, based on the best estimate of the number of vested equity instruments, be included in the relevant costs or expenses and the capital reserves shall be increased accordingly at the fair value of the equity instruments on the date of the grant. If the subsequent information indicates that the number of vested equity instruments is different from the previous estimate, an adjustment shall be made and on the vesting date, and the estimate shall be adjusted to equal the number of the actually vested equity instruments. On the vesting date, an enterprise shall, based on the number of the equity instruments of which the right is actually exercised, confirm share capital and share premium, and carry forward the capital surplus recognised within the vesting period.

### (b) Method for determining the fair value of share options

The Group uses Black-Scholes valuation model to determine the fair value of the share options.

### (c) Estimate basis of the the number of options

At the end of each reporting period, the Group revises its estimates of the number of options that are expected to vest based on the non-marketing performance and service conditions. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity. As at the vesting date, the estimates of the number of options should be same with the actual exercised number.

### (d) Accounting treatment for share-based payments exercise

When the options are exercised at the vesting date, the Company issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital (and share premium).

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# 2 Summary of significant accounting policies and accounting estimates *(Continued)*

## (24) Provisions

Provisions for contingent liabilities etc. are recognised when the Group has a present obligation, it is probable that an outflow of economic benefits will be required to settle the obligation, and the amount of the obligation can be measured reliably.

A provision is initially measured at the best estimate of the expenditure required to settle the related present obligation. Factors surrounding a contingency, such as the risks, uncertainties and the time value of money, are taken into account as a whole in reaching the best estimate of a provision. Where the effect of the time value of money is material, the best estimate is determined by discounting the related future cash outflows. The increase in the discounted amount of the provision arising from passage of time is recognised as interest expense.

The carrying amount of provisions is reviewed at each balance sheet date and adjusted to reflect the current best estimate.

## (25) Revenue recognition

The amount of revenue is determined in accordance with the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of discounts and returns.

Revenue is recognised when the economic benefits associated with the transaction will flow to the Group, the related revenue can be reliably measured, and the specific revenue recognition criteria have been met for each type of the Group's activities as described below:

### (a) Sale of goods

Revenue from sale is recognised when all of the general conditions stated above and the following conditions are satisfied: the significant risks and rewards of ownership of goods have been transferred to the buyer, as well as the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold. The Group recognizes revenue when goods are sent to designated place or customer take delivery of the goods from Group's designated warehouse, and confirmed receipt by customers according to the terms of contract.

### (b) Rendering of services

Revenue from the rendering of services is recognised using the percentage of completion method, with the stage of completion being determined based on proportion of costs incurred to date to the estimated total costs.

### (c) Transfer of asset use rights

Interest income is recognised on a time-proportion basis using the effective interest method.

Income from an operating lease is recognised on a straight-line basis over the period of the lease.

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## 2 Summary of significant accounting policies and accounting estimates *(Continued)*

### (26) Government grants

Government grants are transfers of monetary assets or non-monetary assets from the government to the Group at no consideration, including tax refund, financial subsidies etc.

A government grant is recognised when there is reasonable assurance that the grant will be received and that the Group will comply with the conditions attaching to the grant. If a government grant is in the form of a transfer of a monetary asset, it is measured at the amount that is received or receivable. If a government grant is in the form of a transfer of a non-monetary asset, it is measured at its fair value, or nominal amount when fair value not reliably measured.

A government grant related to an asset means grant that used for acquisition, construction or otherwise to form long-term assets. A government grant related to income is grant in addition to government grant related to an asset.

A government grant related to an asset is recognised initially as deferred income and amortised to profit or loss on a straight-line basis over the useful life of the asset. A grant measured at nominal amount is recognised in profit or loss for the period immediately.

A government grant related to income that compensates the Group for expenses to be incurred in the subsequent periods is recognised initially as deferred income and recognised in profit or loss in the same periods in which the expenses are recognised. A grant that compensates the Group for expenses incurred is recognised in profit or loss immediately.

### (27) Deferred tax assets and deferred tax liabilities

Deferred tax assets and deferred tax liabilities are calculated and recognised based on the differences arising between the tax bases of assets and liabilities and their carrying amounts (temporary differences). Deferred tax asset is recognised for the deductible losses that can be carried forward to subsequent years for deduction of the taxable profit in accordance with the tax laws. No deferred tax liability is recognised for a temporary difference arising from the initial recognition of goodwill. No deferred tax asset or deferred tax liability is recognised for the temporary differences resulting from the initial recognition of assets or liabilities due to a transaction other than a business combination, which affects neither accounting profit nor taxable profit (or deductible loss). At the balance sheet date, deferred tax assets and deferred tax liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled.

Deferred tax assets are only recognised for deductible temporary differences, deductible losses and tax credits to the extent that it is probable that taxable profit will be available in the future against which the deductible temporary differences, deductible losses and tax credits can be utilised.

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## 2 Summary of significant accounting policies and accounting estimates *(Continued)*

### (27) Deferred tax assets and deferred tax liabilities *(Continued)*

Deferred tax liabilities are recognised for temporary differences arising from investments in subsidiaries, associates and joint ventures, except where the Group is able to control the timing of reversal of the temporary difference, and it is probable that the temporary difference will not reverse in the foreseeable future. When it is probable that the temporary differences arising from investments in subsidiaries, associates and joint ventures will be reversed in the foreseeable future and that the taxable profit will be available in the future against which the temporary differences can be utilised, the corresponding deferred tax assets are recognised.

Deferred tax assets and liabilities are offset when:

- the deferred taxes are related to the same tax payer within the Group and the same taxation authority; and
- that tax payer within the Group has a legally enforceable right to offset current tax assets against current tax liabilities.

### (28) Leases

A finance lease is a lease that transfers substantially all the risks and rewards incidental to ownership of an asset. An operating lease is a lease other than a finance lease. Lease payments under an operating lease are recognised on a straight-line basis over the period of the lease, and are either capitalised as part of the cost of related assets, or charged as an expense for the current period.

### (29) Related parties

If a party has the power to control, jointly control or exercise significant influence over another party, or vice versa, or where two or more parties are subject to common control or joint control from another party, they are considered to be related parties. Related parties may be individuals or enterprises. Enterprises with which the Company is under common control only from the State and that have no other related party relationships are not regarded as related parties of the Group. Related parties of the Group and the Company include, but are not limited to:

a. the Company's parent;

b. the Company's subsidiaries;

c. enterprises that are controlled by the Company's parent;

d. investors that have joint control or exercise significant influence over the Group;

e. enterprises or individuals if a party has control or joint control over both the enterprises or individuals and the Group;

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## 2 Summary of significant accounting policies and accounting estimates *(Continued)*

### (29) Related parties *(Continued)*

f. joint ventures of the Group, including subsidiaries of joint ventures;

g. associates of the Group, including subsidiaries of associates;

h. principal individual investors of the Group and close family members of such individuals;

i. key management personnel of the Group and close family members of such individuals;

j. key management personnel of the Company's parent company;

k. close family members of key management personnel of the Company's parents; and

l. other enterprises that are controlled or jointly controlled by principal individual investors, key management personnel of the Group, or close family members of such individuals.

In addition to the related parties stated above determined in accordance with the requirements of CAS, the following enterprises and individuals(but not limited to) are considered as related parties based on the disclosure requirements of Administrative Procedures on the Information Disclosures of Listed Companies issued by the CSRC:

m. enterprises or individuals that act a concert, that hold 5% or more of the Company's shares;

n. individuals who directly or indirectly hold more than 5% of the Company's shares and their close family members, supervisors of the listed companies and their close family members;

o. enterprises that satisfied any of the aforesaid conditions in (a), (c) or (m) during the past 12 months or will satisfy them within the next 12 months pursuant to a relevant agreement;

p. individuals who satisfied any of the aforesaid conditions in (i), (j) or (n) during the past 12 months or will satisfy them within the next 12 months pursuant to a relevant agreement; and

q. enterprises, other than the Company and the subsidiaries controlled by the Company, which are controlled directly or indirectly by an individual defined in (i), (j), (n) or (p), or in which such an individual assumes the position of a director or senior executive.

# 2 Summary of significant accounting policies and accounting estimates *(Continued)*

## (30) Segment information

The Group identifies operating segments based on the internal organisation structure, management requirements and internal reporting system, and discloses segment information of reportable segments which is determined on the basis of operating segments.

An operating segment is a component of the Group that satisfies all of the following conditions: (1) the component is able to earn revenues and incur expenses from its ordinary activities; (2) whose operating results are regularly reviewed by the Group's management to make decisions about resources to be allocated to the segment and to assess its performance, and (3) for which the information on financial position, operating results and cash flows is available to the Group. If two or more operating segments have similar economic characteristics and satisfy certain conditions, they are aggregated into one single operating segment.

## (31) Significant accounting policies and accounting estimates

The Group continually evaluates the critical accounting estimates and key judgments applied based on historical experience and other factors, including expectations of future events that are believed to be reasonable.

The critical accounting estimates and key assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next accounting year are outlined below:

### (i) Estimated useful life and residual value of fixed assets

The Group assessed the reasonableness of estimated useful life of fixed assets in line with the historical experience on the basis of similar function or characteristic for the assets. If there are significant changes in estimated useful lives and residual value from previous years, the depreciation expenses for future periods are adjusted.

The Group reviews and adjusts the useful lives and estimated residual value of the assets regularly at the end of each year end.

### (ii) Impairment of long-term assets

Long-term assets are reviewed for impairment at each balance sheet date when events or changes in circumstance have indicated that their carrying amounts may not be recoverable. If any such evidence indicated that their carrying amounts may not be recoverable, the carrying amounts exceed the recoverable amounts would be recognized as impairment loss and accounted in current profit or loss.

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*(All amounts in thousands of Renminbi Yuan unless otherwise stated)*
*[English translation for reference only]*

## 2 Summary of significant accounting policies and accounting estimates *(Continued)*

### (31) Significant accounting policies and accounting estimates *(Continued)*

#### (ii) Impairment of long-term assets *(Continued)*

The recoverable amount of an asset (or an asset group) is the greater of its net selling price and its present value of expected future cash flows. In assessing value in use, significant judgements are exercised over the assets' (or the asset group's) production and sales, selling prices, related operating expenses and discount rate to calculate the present value. All relevant materials which can be obtained are used for estimation of the recoverable amount, including the estimation of the production, selling prices and related operating expenses based on reasonable and supportable assumptions.

#### (iii) Inventory provision

Any excess of the cost over the net realisable value of each item of inventories is recognised as a provision for diminution in the value of inventories. Net realisable value represents the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale. Management bases the estimates on all available information, including the current market prices of the finished goods and raw materials, and historical cost of sales. If the actual selling prices were to be lower or the costs of completion were to be higher than estimated, the actual allowance for diminution in value of inventories could be higher than estimated.

#### (iv) Income taxes

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

In addition, the Group recognises deferred tax assets only to the extent that it is probable that future taxable profit will be available against the assets which can be realised or utilized. If profit forecasts deviate from original estimates, the deferred tax assets will need to be adjusted in future, which has significant impact on profit.

In making the assessment of whether it is probable the Group will realise or utilise the deferred tax assets, management primarily relies on the generation of future taxable income to support the recognition of deferred tax assets. In order to fully utilise the deferred tax assets recognised at 31 December 2016, the Group would need to generate future taxable income of at least RMB412 million. Based on estimated forecast and historical experience, management believes that it is probable that the Group will generate sufficient taxable income.

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*(All amounts in thousands of Renminbi Yuan unless otherwise stated)*
*[English translation for reference only]*

## 3 Taxation

The main categories and rates of taxes applicable to the Group are set out below:

| Category | Tax base | Tax rate |
|---|---|---|
| Enterprise income tax | Taxable income | 25% |
| Value added tax ("VAT") (a) | Taxable value added amount (Tax payable is calculated using the taxable sales amount multiplied by the applicable tax rate less deductible VAT input of current year) | 6%, 11%, 13% and 17% |
| Business tax (a) | Taxable turnover amount | 5% |
| Consumption tax | Taxable sales amount | Gasoline: RMB2,110 per ton; Diesel oil: RMB1,411 per ton |
| City maintenance and construction tax | Consumption tax payable, business tax payable and VAT payable | 1% and 7% |

(a) Pursuant to the Circular on the Pilot Plan for Levying VAT in Place of Business Tax (Caishui No.110, 2011) and the Circular on the Pilot Practice of Levying VAT in Place of Business Tax for the Transportation Industry and Some Modern Service Industries in Shanghai (Caishui No.111, 2011) jointly issued by the Ministry of Finance and the State Administration of Taxation, revenue from transportation industry, modern service industries tangible asset's rental income, port service and warehousing service are subject to VAT since 1 January 2012, the applicable tax rate of tangible assets' rental income is 17%, revenue from transportation industry is 11%, modern service, port service and warehousing service income is 6%.

## 4 Notes to the consolidated financial statements

### (1) Cash at bank and on hand

| | **31 December 2016** | 31 December 2015 |
|---|---|---|
| Cash on hand | **5** | 7 |
| Cash at bank | **5,440,410** | 1,077,229 |
| Other monetary funds | **208** | 194 |
| | **5,440,623** | 1,077,430 |

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# 4 Notes to the consolidated financial statements *(Continued)*

## (2) Notes receivable

| | 31 December 2016 | 31 December 2015 |
|---|---|---|
| Trade acceptance notes | – | 4,680 |
| Bank acceptance notes | 1,267,920 | 1,002,693 |
| | 1,267,920 | 1,007,373 |

All of the above notes held are short-term acceptance notes due within six months. No notes receivables, included in the above, were pledged or transferred to accounts receivable due to non-performance of the issuers in 2016.

**(a)** As at 31 December 2016, the Group had no pledged bank acceptance notes to issue letters of credit (31 December 2015: nil).

**(b)** As at 31 December 2016, unmatured notes receivable that have been endorsed or discounted by the Group is as follows:

| | Derecognized | Not derecognized |
|---|---|---|
| Bank acceptance notes | 603,055 | – |

## (3) Interest receivable

| | 31 December 2016 | 31 December 2015 |
|---|---|---|
| Interest on bank deposits | 11,553 | 2,420 |
| Interest on entrusted loans | 43 | 71 |
| | 11,596 | 2,491 |

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# 4 Notes to the consolidated financial statements *(Continued)*

## (4) Accounts receivable

| | 31 December 2016 | 31 December 2015 |
|---|---|---|
| Amounts due from related parties (Note 7(6)) | **1,241,636** | 1,136,011 |
| Amounts due from third parties | **414,962** | 488,584 |
| | **1,656,598** | 1,624,595 |
| Less: provision for bad debts | **(18)** | (24) |
| | **1,656,580** | 1,624,571 |

**(a)** The ageing of accounts receivable is analysed as follows:

| | 31 December 2016 | 31 December 2015 |
|---|---|---|
| Within one year | **1,656,559** | 1,624,530 |
| Over one year but within two years | **24** | 55 |
| Over two years but within three years | **10** | 7 |
| Over three years | **5** | 3 |
| | **1,656,598** | 1,624,595 |
| Less: provision for bad debts | **(18)** | (24) |
| | **1,656,580** | 1,624,571 |

As at 31 December 2016 and 31 December 2015, the Group has no any significant overdue accounts receivable.

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# 4 Notes to the consolidated financial statements *(Continued)*

## (4) Accounts receivable *(Continued)*

**(b)** Accounts receivable by categories are analysed as follows:

| | 31 December 2016 | | | | 31 December 2015 | | | |
|---|---|---|---|---|---|---|---|---|
| | Gross carrying amount | | Provision for bad debts | | Gross carrying amount | | Provision for bad debts | |
| | Amount | Percent-age (%) | Amount | Percent-age (%) | Amount | Percent-age (%) | Amount | Percent-age (%) |
| Individually significant and subject to separate provision | - | - | - | - | – | – | – | – |
| Subject to provision by groups: | | | | | | | | |
| -group 1 | 414,962 | 25.05 | 18 | 0.01 | 488,584 | 30.07 | 24 | 0.01 |
| -group 2 | 1,241,636 | 74.95 | - | - | 1,136,011 | 69.93 | – | – |
| Individually insignificant but subject to separate provision | - | - | - | - | – | – | – | – |
| | 1,656,598 | 100.00 | 18 | - | 1,624,595 | 100.00 | 24 | – |

Classification of accounts receivable, refer to Note 2(10(b)).

**(c)** Subject to provision by group 1 are as follows:

| | 31 December 2016 | | | 31 December 2015 | | |
|---|---|---|---|---|---|---|
| | Gross carrying amount | Provision for bad debts | | Gross carrying amount | Provision for bad debts | |
| | Amount | Amount | Percentage (%) | Amount | Amount | Percentage (%) |
| Within one year | 414,923 | – | – | 488,519 | – | – |
| Over one year but within two years | 24 | 7 | 30.00 | 55 | 17 | 30.00 |
| Over two years but within three years | 10 | 6 | 60.00 | 7 | 4 | 60.00 |
| Over three years | 5 | 5 | 100.00 | 3 | 3 | 100.00 |
| | 414,962 | 18 | — | 488,584 | 24 | — |

There are no collateral over the above accounts receivable with provision for bad debts.

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# 4 Notes to the consolidated financial statements *(Continued)*

## (4) Accounts receivable *(Continued)*

**(d)** In 2016, the Group assessed the impairment on an individual basis in accordance with the accounting policy as described in Note 2(10), and there were no provision for accounts receivable that are individually significant or insignificant but assessed for impairment individually.

**(e)** In 2016, the Group had no accounts receivable with fully or substantially write-off or write-back of bad debts which had been fully or substantially provided for in prior years.

**(f)** The Group had no material accounts receivable that are written off during the year.

**(g)** As at 31 December 2016, the top five accounts receivable are summarized as follows:

| | Amount | Provision for bad debts | Percentage of total accounts receivable (%) |
|---|---|---|---|
| Total amount of the top five accounts receivable | 1,278,669 | – | 77.19% |

**(h)** Accounts receivable derecognized due to the transfer of financial assets this year amounted to RMB2,563,556 thousands (2015: RMB526,764 thousands),the relating amount recorded in financial expenses was RMB10,204 thousands (2015: RMB657 thousands).

**(i)** As at 31 December 2016, the Group had no accounts receivable which are pledged for the issuance of letters of credit (31 December 2015: nil).

## (5) Other receivables

| | 31 December 2016 | 31 December 2015 |
|---|---|---|
| Amounts due from related parties (Note 7(6)) | 1,486 | 4,052 |
| Amounts due from third parties | 56,033 | 26,243 |
| | 57,519 | 30,295 |
| Less: provision for bad debts | (974) | (1,245) |
| | 56,545 | 29,050 |

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## 4 Notes to the consolidated financial statements *(Continued)*

### (5) Other receivables *(Continued)*

**(a)** The ageing of other receivables is analysed as follows

| | 31 December 2016 | 31 December 2015 |
|---|---|---|
| Within one year | 56,448 | 29,050 |
| Over one year but within two years | 139 | – |
| Over two years but within three years | – | – |
| Over three years | 932 | 1,245 |
| | 57,519 | 30,295 |
| Less: provision for bad debts | (974) | (1,245) |
| | 56,545 | 29,050 |

As at 31 December 2016 and 31 December 2015, the Group has no any significant overdue other receivables.

**(b)** Other receivables by categories are analysed as follows

| | 31 December 2016 | | | | 31 December 2015 | | | |
|---|---|---|---|---|---|---|---|---|
| | Gross carrying amount | | Provision for bad debts | | Gross carrying amount | | Provision for bad debts | |
| | Amount | Percent-age (%) | Amount | Percent-age (%) | Amount | Percent-age (%) | Amount | Percent-age (%) |
| Individually significant and subject to separate provision | – | – | – | – | – | – | – | – |
| Subject to provision by groups: | | | | | | | | |
| -group 1 | 56,033 | 97.42 | 974 | 1.74 | 26,243 | 86.62 | 1,245 | 4.74 |
| -group 2 | 1,486 | 2.58 | – | – | 4,052 | 13.38 | – | – |
| Individually insignificant but subject to separate provision | – | – | – | – | – | – | – | – |
| | 57,519 | 100.00 | 974 | – | 30,295 | 100.00 | 1,245 | – |

Classification of other receivable, refer to Note 2 (10(b)).

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# 4 Notes to the consolidated financial statements *(Continued)*

## (5) Other receivables *(Continued)*

**(c)** The groups of other receivable in which provisions are made using ageing analysis method are analysed as follows

| | 31 December 2016 | | | 31 December 2015 | | |
|---|---|---|---|---|---|---|
| | Gross carrying amount | Provision for bad debts | | Gross carrying amount | Provision for bad debts | |
| | Amount | Amount | Percent-age (%) | Amount | Amount | Percent-age (%) |
| Within one year | 54,962 | – | – | 24,998 | – | – |
| Over one year but within two years | 139 | 42 | 30.00 | – | – | – |
| Over two years but within three years | – | – | – | – | – | – |
| Over three years | 932 | 932 | 100.00 | 1,245 | 1,245 | 100.00 |
| | 56,033 | 974 | – | 26,243 | 1,245 | – |

**(d)** In 2016, the Group assessed the impairment on an individual basis in accordance with the accounting policy as described in Note 2(10), and there were no provision for other receivables that are individually significant or insignificant but assessed for impairment individually.

**(e)** In 2016, the Group had no material other receivables with fully or substantially write-off or write-back of bad debts which had been fully or substantially provided for in prior years.

**(f)** The Group had no material other receivable that are written off during the year.

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## 4 Notes to the consolidated financial statements *(Continued)*

### (5) Other receivables *(Continued)*

**(g)** As at 31 December 2016, the top five other receivables are as follows:

| | Nature | Amount | Ageing | Percentage of total other receivables | Provision for bad debts |
|---|---|---|---|---|---|
| Jinshan Tax Bureau | Consumption tax refund and export tax refund | 50,987 | Within one year | 88.64% | – |
| Sinopec Huadong Sales Company Limited | Business transaction | 1,307 | Within one year | 2.27% | – |
| Shanghai Guangfa Environmental Protection Materials Company Limited | Business transaction | 432 | Within one year | 0.75% | – |
| Shanghai Secco Petrochemical Company Limited ("Shanghai Secco") | Business transaction | 179 | Within one year | 0.31% | – |
| Shanghai Sanyan Shiye Company Limited | Business transaction | 139 | Over three years | 0.24% | 139 |
| | | 53,044 | | 92.21% | 139 |

### (6) Advances to suppliers

| | 31 December 2016 | 31 December 2015 |
|---|---|---|
| Amounts advance to related parties (Note 7(6)) | 18,197 | 6,966 |
| Amounts advance to third parties | 11,143 | 8,165 |
| | 29,340 | 15,131 |

**(a)** The ageing of advances to suppliers is analysed as follows:

| | 31 December 2016 | | 31 December 2015 | |
|---|---|---|---|---|
| | Amount | % of total balance | Amount | % of total balance |
| Within one year | 29,340 | 100.00% | 15,131 | 100.00% |

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# 4 Notes to the consolidated financial statements *(Continued)*

## (6) Advances to suppliers *(Continued)*

**(b)** As at 31 December 2016, the total amount of the top five advances to suppliers are summarized as follows:

| | Amount | Percentage of total advances to suppliers (%) |
|---|---|---|
| Total amount of the top five advances to suppliers | 23,379 | 79.68% |

## (7) Inventories

**(a)** Inventories by categories are as follows:

| | 31 December 2016 | | | 31 December 2015 | | |
|---|---|---|---|---|---|---|
| | Book value | Provision for declines in the value of inventories | Carrying amount | Book value | Provision for declines in the value of inventories | Carrying amount |
| Raw materials | 3,863,647 | (309) | 3,863,338 | 2,517,806 | (1,564) | 2,516,242 |
| Work in progress | 1,004,580 | (44,453) | 960,127 | 898,694 | (28,081) | 870,613 |
| Finished goods | 1,154,679 | (22,583) | 1,132,096 | 554,171 | (25,424) | 528,747 |
| Spare parts and consumables | 266,189 | (62,277) | 203,912 | 332,652 | (70,066) | 262,586 |
| | 6,289,095 | (129,622) | 6,159,473 | 4,303,323 | (125,135) | 4,178,188 |

**(b)** Provision for declines in the value of inventories is analysed as follows:

| | 31 December 2015 | Increases | Decreases | | 31 December 2016 |
|---|---|---|---|---|---|
| | | | Reversal | Sold/write-off | |
| Raw materials | 1,564 | – | (1,255) | – | 309 |
| Work in progress | 28,081 | 28,932 | – | (12,560) | 44,453 |
| Finished goods | 25,424 | 10,149 | – | (12,990) | 22,583 |
| Spare parts and consumables | 70,066 | 38,442 | – | (46,231) | 62,277 |
| | 125,135 | 77,523 | (1,255) | (71,781) | 129,622 |

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# 4 Notes to the consolidated financial statements *(Continued)*

## (7) Inventories *(Continued)*

**(c)** Provision for declines in the value of inventories are analysed as follows:

| | Basis for determining net realisable value | Main reasons for reversal/write-off |
|---|---|---|
| Raw materials | The estimated selling price in the ordinary course of business, less the estimated costs to completion and estimated costs necessary to make the sale and related taxes. | Value recovery |
| Work in progress | Same as above | Sold in current year |
| Spare parts and consumables | The estimated selling price in the ordinary course of business, less the estimated costs necessary to make the sale and related taxes. | Disposal in current year |
| Finished goods | Same as above | Sold in current year |

## (8) Other current assets

| | 31 December 2016 | 31 December 2015 |
|---|---|---|
| Entrusted lendings due within one year | 88,000 | 106,000 |
| Catalyst – the current part (Note 4(15)) | 157,926 | 86,481 |
| VAT deductible | 7,878 | 17,265 |
| | 253,804 | 209,746 |

## (9) Long-term equity investments

| | 31 December 2016 | 31 December 2015 |
|---|---|---|
| Joint Ventures (a) | 190,697 | 236,983 |
| Associates (b) | 3,648,097 | 3,234,156 |
| | 3,838,794 | 3,471,139 |
| Less: provision for impairment of long-term equity investment | – | – |
| | 3,838,794 | 3,471,139 |

There are no significant restrictions over the realization of the Group's long-term equity investment.

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# 4 Notes to the consolidated financial statements *(Continued)*

## (9) Long-term equity investments *(Continued)*

### (a) Joint Ventures

| | | Current year movement | | | | | |
|---|---|---|---|---|---|---|---|
| | 31 December 2015 | Additional/ negative investment | Net profit/ (loss) adjusted by equity method | Cash dividends declared in current year | Impairment provision | **31 December 2016** | Impairment provision |
| **Joint ventures of subsidiaries** | | | | | | | |
| Shanghai Jinpu Plastic Packing Materials Company Limited ("Jinpu") | 39,981 | – | (39,981) | – | – | **–** | – |
| Shanghai Petrochemical Yangu Gas Development Company Limited ("Yangu Gas") | 52,483 | – | (1,325) | (600) | – | **50,558** | – |
| BOC-SPC Gases Company Limited ("BOC") | 144,519 | – | 28,745 | (33,125) | – | **140,139** | – |
| | 236,983 | – | (12,561) | (33,725) | – | **190,697** | – |

Interests in joint ventures, refer to Note 5(2).

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# 4 Notes to the consolidated financial statements *(Continued)*

## (9) Long-term equity investments *(Continued)*

### (b) Associates

| | | Current year movement | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 31 December 2015 | Additional/ negative investment | Net profit/ (loss) adjusted by equity method | Cash dividends declared in current year | Impairment provision | Change in other equity | 31 December 2016 | Impairment provision |
| **Associates of the Company** | | | | | | | | |
| Shanghai Secco Petrochemical Company Limited ("Shanghai Secco") | 1,778,760 | – | 742,717 | (490,200) | – | – | 2,031,277 | – |
| Shanghai Chemical Industry Park Development Company Limited ("Chemical Industry") | 1,280,859 | – | 169,222 | (17,217) | – | 18,213 | 1,451,077 | – |
| **Associates of subsidiaries** | | | | | | | | |
| Shanghai Jinsen Hydrocarbon Resins Company Limited ("Jinsen") | 82,794 | – | (6,558) | (2,935) | – | – | 73,301 | – |
| Shanghai Azbil Automation Company Limited ("Azbil") | 44,926 | – | 6,511 | (7,200) | – | – | 44,237 | – |
| Others | 46,817 | – | 7,423 | (6,035) | – | – | 48,205 | – |
| | 3,234,156 | – | 919,315 | (523,587) | – | 18,213 | 3,648,097 | – |

Interests in associates, refer to Note 5(2).

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# 4 Notes to the consolidated financial statements *(Continued)*

## (10) Investment properties

| | Buildings |
|---|---|
| **Cost** | |
| 31 December 2015 | 556,883 |
| Transferred from fixed assets (Note 4(11)) | (16,390) |
| 31 December 2016 | 540,493 |
| **Accumulated depreciation** | |
| 31 December 2015 | 151,311 |
| Transferred from fixed assets (Note 4(11)) | (4,803) |
| Depreciation charged in current year | 13,556 |
| 31 December 2016 | 160,064 |
| **Carrying amount** | |
| 31 December 2016 | 380,429 |
| 31 December 2015 | 405,572 |

In 2016, depreciation charges amounted to RMB13,556 thousands (2015: RMB13,547 thousands), without impairment provided (2015: Nil).

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*[English translation for reference only]*

# 4 Notes to the consolidated financial statements *(Continued)*

## (11) Fixed assets

| | Buildings | Plant and machinery | Vehicles and other equipment | Total |
|---|---|---|---|---|
| **Cost** | | | | |
| 31 December 2015 | 3,815,817 | 41,041,036 | 1,904,001 | 46,760,854 |
| Reclassification in current year | (3,808) | (6,558) | 10,366 | – |
| Transfer from investment properties (Note 4(10)) | 16,390 | – | – | 16,390 |
| Increase in current year | 195 | 149,691 | 16,826 | 166,712 |
| Transfer from construction in progress (Note 4(12)) | 28,652 | 757,157 | 42,782 | 828,591 |
| Decrease in current year | (13,698) | (505,508) | (49,592) | (568,798) |
| 31 December 2016 | 3,843,548 | 41,435,818 | 1,924,383 | 47,203,749 |
| **Accumulated depreciation** | | | | |
| 31 December 2015 | 2,216,539 | 27,649,951 | 1,495,427 | 31,361,917 |
| Reclassification in current year | 384 | (985) | 601 | – |
| Transfer from investment properties (Note 4(10)) | 4,803 | – | – | 4,803 |
| Current year charges | 94,253 | 1,480,854 | 62,937 | 1,638,044 |
| Decrease in current year | (12,398) | (415,119) | (47,419) | (474,936) |
| 31 December 2016 | 2,303,581 | 28,714,701 | 1,511,546 | 32,529,828 |
| **Provision for impairment** | | | | |
| 31 December 2015 | 279,099 | 640,896 | 54,043 | 974,038 |
| Current year charges | – | 247,058 | 7,184 | 254,242 |
| Decrease in current year | – | (56,729) | – | (56,729) |
| 31 December 2016 | 279,099 | 831,225 | 61,227 | 1,171,551 |
| **Carrying amount** | | | | |
| 31 December 2016 | 1,260,868 | 11,889,892 | 351,610 | 13,502,370 |
| 31 December 2015 | 1,320,179 | 12,750,189 | 354,531 | 14,424,899 |

*For the year ended 31 December 2016*
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*[English translation for reference only]*

# 4 Notes to the consolidated financial statements *(Continued)*

## (11) Fixed assets *(Continued)*

During the year ended 31 December 2016, the Company and its subsidiaries made impairment provision of RMB254,242 thousands against these property, plant and equipment which will be redundant and replaced by new facilities (2015: RMB50,001 thousands).

As at 31 December 2016 and 31 December 2015, the Group had no pledged fixed assets.

In 2016, the depreciation expenses amounted to RMB1,638,044 thousands (2015: RMB1,737,539 thousands). The depreciation expenses charged to cost of sales, selling and distribution expenses, general and administrative expenses were RMB1,547,271 thousands, RMB8,430 thousands, and RMB82,343 thousands, respectively (2015: RMB1,645,418 thousands, RMB2,172 thousands, and RMB89,949 thousands, respectively).

The amount of fixed assets transferred from construction in progress was RMB828,591 thousands (2015: RMB479,381 thousands).

## (12) Construction in progress

| | 31 December 2016 | | | 31 December 2015 | | |
|---|---|---|---|---|---|---|
| | Original cost | Provision for impairment | Carrying amount | Original cost | Provision for impairment | Carrying amount |
| Construction in progress | 727,847 | (10,175) | 717,672 | 732,695 | (10,175) | 722,520 |

*(All amounts in thousands of Renminbi Yuan unless otherwise stated)*

# 4 Notes to the consolidated financial statements *(Continued)*

## (12) Construction in progress *(Continued)*

**(a) The movement of the Group's major construction in progress is listed as follows:**

| Projects name | Budget | 31 December 2015 | Increase in current year | Transferred to fixed assets in current year (Note 4(11)) | 31 December 2016 | Percentage of actual cost to budget | Project progress | Accumulative capitalized borrowing costs | Current year capitalized borrowing costs | Current year borrowing cost capitalizing rate | Source of funds |
|---|---|---|---|---|---|---|---|---|---|---|---|
| 100,000 tons/year EVA production plant | 1,131,520 | 115,379 | 121,528 | – | 236,907 | 20.94% | 20.94% | 1,081 | 275 | 2.95% | Equity funds and borrowings |
| 1 # ~ 6 # boiler desulphurization project of Thermoelectricity Department | 164,050 | 113,959 | 17,954 | (131,913) | – | 100.00% | 100.00% | 1,915 | 1,243 | 2.95% | Equity funds and borrowings |
| Desulfurization and denitrification project for the boiler of Olefins Department | 80,540 | 30,170 | 30,648 | (60,818) | – | 100.00% | 100.00% | 501 | 501 | 2.95% | Equity funds and borrowings |
| 2 # diesel hydrogenation unit quality upgrading project | 98,500 | 3,873 | 81,481 | (85,354) | – | 100.00% | 100.00% | 444 | 444 | 2.95% | Equity funds and borrowings |
| Oil Tank's odors control project of Storage and Transportation Department | 62,640 | 36,262 | 17,090 | (53,352) | – | 100.00% | 100.00% | – | – | – | Equity funds |
| Oil refining department equipment update in 2016 | 51,090 | – | 26,746 | (8,764) | 17,982 | 35.20% | 35.20% | – | – | – | Equity funds |
| Olefin department equipment update in 2016 | 42,590 | – | 24,923 | (4,241) | 20,682 | 48.56% | 48.56% | – | – | – | Equity funds |
| The Improvement works of circulating water's clean-up and shunting of Sinopec Shanghai Petrochemical | 41,670 | 24,769 | 7,410 | (32,179) | – | 100.00% | 100.00% | – | – | – | Equity funds |
| Storage and transportation department finished oil shipping factory facilities expansion project | 35,420 | – | 22,000 | – | 22,000 | 62.11% | 62.11% | – | – | – | Equity funds |
| Public utilities department equipment update in 2016 | 32,430 | – | 15,894 | (1,708) | 14,186 | 43.74% | 43.74% | – | – | – | Equity funds |

*(All amounts in thousands of Renminbi Yuan unless otherwise stated)*

# 4 Notes to the consolidated financial statements *(Continued)*

## (12) Construction in progress *(Continued)*

(a) **The movement of the Group's major construction in progress is listed as follows:** *(Continued)*

| Projects name | Budget | 31 December 2015 | Increase in current year | Transferred to fixed assets in current year (Note 4(11)) | 31 December 2016 | Percentage of actual cost to budget | Project progress | Accumulative capitalized borrowing costs | Current year capitalized borrowing costs | Current year borrowing cost capitalizing rate | Source of funds |
|---|---|---|---|---|---|---|---|---|---|---|---|
| The fire station project of Weiliu Road | 24,920 | 22,424 | – | (22,424) | – | 100.00% | 100.00% | – | – | – | Equity funds |
| Storage and transportation department chemical terminal 1#,3#, berth to increase oil and gas recycling facilities project | 23,430 | – | 7,511 | – | 7,511 | 32.06% | 32.06% | – | – | – | Equity funds |
| Thermoelectricity department equipment update in 2016 | 19,080 | – | 6,687 | (1,472) | 5,215 | 27.33% | 27.33% | – | – | – | Equity funds |
| Thermoelectricity department furnace 1#,4#, slag transformation | 19,070 | – | 16,364 | – | 16,364 | 85.81% | 85.81% | – | – | – | Equity funds |
| The transformation project for the chemical sewage pipeline, sewage of Unit 2# olefin device | 9,120 | 5,591 | 907 | (6,498) | – | 100.00% | 100.00% | – | – | – | Equity funds |
| The transformation project of burning tank of Unit 2# olefin device | 9,110 | 7,153 | 1,048 | (8,201) | – | 100.00% | 100.00% | – | – | – | Equity funds |
| Other Business Unit Minor Project | | 373,115 | 425,552 | (411,667) | 387,000 | | | | | | |
| | | 732,695 | 823,743 | (828,591) | 727,847 | | | | 2,463 | | |
| Less: provision for impairment | | (10,175) | – | – | (10,175) | | | | | | |
| | | 722,520 | 823,743 | (828,591) | 717,672 | | | | | | |

*For the year ended 31 December 2016*
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# 4 Notes to the consolidated financial statements *(Continued)*

## (12) Construction in progress *(Continued)*

**(a) The movement of the Group's major construction in progress is listed as follows:**

In 2016, the Group has capitalised borrowing costs amounted to RMB2,463 thousands (2015: RMB3,518 thousands) on qualifying assets.

In 2016 and 2015, the Group ceased the construction of 50,000 tons per year ethanolamine project and fully provided impairment for this project at its carrying amounts of RMB10,175 thousands.

## (13) Intangible assets

| | Land use rights | Other intangible assets | Total |
|---|---|---|---|
| **Cost** | | | |
| 31 December 2015 and 31 December 2016 | 708,972 | 95,370 | 804,342 |
| **Accumulated amortization** | | | |
| 31 December 2015 | 314,776 | 66,037 | 380,813 |
| Charge in current year | 14,491 | 2,922 | 17,413 |
| 31 December 2016 | 329,267 | 68,959 | 398,226 |
| **Carrying amount** | | | |
| 31 December 2016 | 379,705 | 26,411 | 406,116 |
| 31 December 2015 | 394,196 | 29,333 | 423,529 |

In 2016, amortization expenses of intangible assets amounted to RMB17,413 thousands (2015: RMB17,611 thousands).

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# 4 Notes to the consolidated financial statements *(Continued)*

## (14) Long-term prepaid expenses

| | 31 December 2015 | Increase in current year | Amortisation in current year | Other decrease in current year (Note 4(8)) | **31 December 2016** | Reason for other decrease |
|---|---|---|---|---|---|---|
| Catalysts | 345,978 | 324,522 | (225,151) | (157,926) | **287,423** | Reclassification to other current assets |
| Leaseholding improvements | 12,315 | – | (1,110) | – | **11,205** | |
| Others | 1,194 | – | (482) | – | **712** | |
| | 359,487 | 324,522 | (226,743) | (157,926) | **299,340** | |

## (15) Deferred tax assets and deferred tax liabilities

### (a) Deferred tax assets before offsetting

| | **31 December 2016** | | 31 December 2015 | |
|---|---|---|---|---|
| | **Deductible temporary differences and deductible losses** | **Deferred tax assets** | Deductible temporary differences and deductible losses | Deferred tax assets |
| Provision for bad debts and inventory | **83,491** | **20,873** | 79,139 | 19,785 |
| Provision for impairment of fixed assets | **684,928** | **171,232** | 541,459 | 135,364 |
| Difference in depreciation | **(396,301)** | **(99,076)** | (365,285) | (91,321) |
| Provision for impairment of construction in progress | **10,175** | **2,544** | 10,175 | 2,544 |
| Share-based payments | **40,706** | **10,176** | 22,702 | 5,675 |
| Other deferred tax assets | **15,764** | **3,942** | 19,294 | 4,824 |
| Deductible tax losses | **–** | **–** | 11,500 | 2,875 |
| | **438,763** | **109,691** | 318,984 | 79,746 |
| Including: | | | | |
| To be recovered within 12 months | | **40,309** | | 31,862 |
| To be recovered over 12 months | | **69,382** | | 47,884 |
| | | **109,691** | | 79,746 |

*For the year ended 31 December 2016*
*(All amounts in thousands of Renminbi Yuan unless otherwise stated)*
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# 4 Notes to the consolidated financial statements *(Continued)*

## (15) Deferred tax assets and deferred tax liabilities *(Continued)*

### (b) Deferred tax liabilities before offsetting

| | 31 December 2016 | | 31 December 2015 | |
|---|---|---|---|---|
| | Taxable temporary differences | Deferred tax liabilities | Taxable temporary differences | Deferred tax liabilities |
| Capitalized borrowing costs | (26,396) | (6,600) | (34,802) | (8,701) |
| Including: | | | | |
| To be recovered within 12 months | | (2,101) | | (2,889) |
| To be recovered over 12 months | | (4,499) | | (5,812) |
| | | (6,600) | | (8,701) |

(c) Deductible temporary differences and deductible losses that are not recognised as deferred tax assets are analysed as follows:

| | 31 December 2016 | 31 December 2015 |
|---|---|---|
| Deductible temporary differences | 534,585 | 480,685 |
| Deductible losses | 432,634 | 411,284 |
| | 967,219 | 891,969 |

As accounting policies stated in Note 2(27), and it is not probable that future taxable income against which the deductible temporary differences and deductible losses can be utilised in some subsidiaries of the Company, such subsidiaries have not recognised deferred tax assets.

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# 4 Notes to the consolidated financial statements *(Continued)*

## (15) Deferred tax assets and deferred tax liabilities *(Continued)*

**(c)** *(Continued)*

As at 31 December 2016 and 31 December 2015, Zhejiang Jinyong Acrylic Fibre Company Limited ("Jinyong") has not recognised deferred tax assets in respect of its fixed assets impairment provision of RMB456,623 thousands(31 December 2015: RMB432,579 thousands), inventory provision of RMB46,190 thousands(31 December 2015: RMB46,190 thousands).

As at 31 December 2016, other subsidiaries of the Company have not recognised deferred tax assets of RMB31,772 thousands (31 December 2015: RMB1,916 thousands).

As accounting policies stated in Note 2(27), the Group not recognised deferred tax assets as it is not probable that future taxable profit against which the losses can be utilized will be available for the Group pursuant to latest tax laws, these accumulated losses will expire from 2017 to 2021.

| | 31 December 2016 | 31 December 2015 |
|---|---|---|
| Jinyong | 161,887 | 172,224 |
| Shanghai Golden Conti Petrochemical Company Limited ("Jindi") | 171,800 | 124,288 |
| Shanghai Petrochemical Investment Development Company Limited ("Toufa") | 72,813 | 81,363 |
| Shanghai Jinshan Hotel Company Limited ("Jinshan Hotel") | 26,134 | 33,409 |
| | 432,634 | 411,284 |

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# 4 Notes to the consolidated financial statements *(Continued)*

## (15) Deferred tax assets and deferred tax liabilities *(Continued)*

**(d)** Deductible losses that are not recognised as deferred tax assets will expire in the following years:

| | 31 December 2016 | 31 December 2015 |
|---|---|---|
| 2016 | – | 79,526 |
| 2017 | 68,211 | 68,211 |
| 2018 | 63,733 | 63,733 |
| 2019 | 70,723 | 70,723 |
| 2020 | 140,591 | 129,091 |
| 2021 | 89,376 | – |
| | 432,634 | 411,284 |

**(e)** The net balance of deferred tax assets and liabilities after offsetting is as follows:

| | 31 December 2016 | | 31 December 2015 | |
|---|---|---|---|---|
| | Offsetting amount of deferred tax assets and deferred tax liabilities | Deferred tax assets – net | Offsetting amount of deferred tax assets and deferred tax liabilities | Deferred tax assets – net |
| Deferred tax assets | (6,600) | 103,091 | (8,701) | 71,045 |
| Deferred tax liabilities | 6,600 | – | 8,701 | – |

*For the year ended 31 December 2016*
*(All amounts in thousands of Renminbi Yuan unless otherwise stated)*
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# 4 Notes to the consolidated financial statements *(Continued)*

## (16) Provision for assets impairment

| | 31 December 2015 | Increase in current year | Decrease in current year: Reversal | Decrease in current year: Sold/write-off | 31 December 2016 |
|---|---|---|---|---|---|
| Bad-debt provision | 1,269 | 71 | (141) | (207) | 992 |
| Including: Accounts receivable bad debts (Note 4(4)) | 24 | 29 | (35) | – | 18 |
| Other receivable bad debts (Note 4(5)) | 1,245 | 42 | (106) | (207) | 974 |
| Provision for declines in value of inventories (Note 4(7)) | 125,135 | 77,523 | (1,255) | (71,781) | 129,622 |
| Impairment provision for fixed assets (Note 4(11)) | 974,038 | 254,242 | – | (56,729) | 1,171,551 |
| Impairment provision for construction in progress (Note 4(12)) | 10,175 | – | – | – | 10,175 |
| | 1,110,617 | 331,836 | (1,396) | (128,717) | 1,312,340 |

## (17) Short-term borrowings

| | Currency | 31 December 2016 | 31 December 2015 |
|---|---|---|---|
| Unsecured | | | |
| – bank borrowings | RMB | 546,432 | 1,700,000 |
| – borrowings from related party (Note 7(6)) | RMB | – | 370,000 |
| | | 546,432 | 2,070,000 |

As at 31 December 2016, the weighted average interest rate of short-term borrowings ranged from 2.65% to 4.50% per annum (31 December 2015: from 2.90% to 5.60% per annum).

As at 31 December 2016, there are no short-term borrowings which are due but have not been repaid (31 December 2015: nil).

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# 4 Notes to the consolidated financial statements *(Continued)*

## (18) Notes payable

| | 31 December 2016 | 31 December 2015 |
|---|---|---|
| Bank acceptance notes | 5,000 | – |

## (19) Accounts payable

| | 31 December 2016 | 31 December 2015 |
|---|---|---|
| Related parties (Note 7(6)) | 2,958,566 | 1,455,646 |
| Third parties | 2,123,904 | 1,562,232 |
| | 5,082,470 | 3,017,878 |

As at 31 December 2016 and 31 December 2015, there are no individually significant accounts payable aged over one year.

## (20) Advance from customers

| | 31 December 2016 | 31 December 2015 |
|---|---|---|
| Related parties (Note 7(6)) | 13,814 | 18,166 |
| Third parties | 462,992 | 561,721 |
| | 476,806 | 579,887 |

Advances from customers are mainly advances on sales.

As at 31 December 2016 and 31 December 2015, there are no advances from customers that are individually significant aged over one year.

*(All amounts in thousands of Renminbi Yuan unless otherwise stated)*

# 4 Notes to the consolidated financial statements *(Continued)*

## (21) Employee benefits payable

| | 31 December 2016 | 31 December 2015 |
|---|---|---|
| Short-term employee benefits payable (a) | 16,960 | 16,813 |
| Defined contribution plans payable (b) | 20,674 | 23,186 |
| | 37,634 | 39,999 |

### (a) Short-term employee benefits payable

| | 31 December 2015 | Increase in current year | Decrease in current year | 31 December 2016 |
|---|---|---|---|---|
| Wages and salaries, bonuses, allowances and subsidies | – | 1,373,767 | (1,373,767) | – |
| Staff welfare | – | 273,839 | (273,839) | – |
| Social insurances | 12,887 | 163,030 | (163,859) | 12,058 |
| Including: Medical insurance | 11,338 | 124,175 | (125,673) | 9,840 |
| Work injury insurance | 516 | 17,479 | (16,768) | 1,227 |
| Maternity insurance | 1,033 | 12,383 | (12,425) | 991 |
| Supplementary medical insurance | – | 8,993 | (8,993) | – |
| Housing funds | – | 147,638 | (147,638) | – |
| Compensation for lay-off | – | 19,200 | (19,200) | – |
| Others | 3,926 | 162,014 | (161,038) | 4,902 |
| | 16,813 | 2,139,488 | (2,139,341) | 16,960 |

In accordance with the Group voluntary employee reduction plan, employee reduction expenses amounted to RMB19,200 thousands in 2016 (2015: RMB24,892 thousands).

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# 4 Notes to the consolidated financial statements *(Continued)*

## (21) Employee benefits payable *(Continued)*

### (b) Defined contribution plans payable

| | 31 December 2015 | Increase in current year | Decrease in current year | 31 December 2016 |
|---|---|---|---|---|
| Basic pensions | 21,644 | 247,710 | (249,670) | **19,684** |
| Unemployment insurance | 1,542 | 12,486 | (13,038) | **990** |
| Supplemental basic pensions | – | 69,846 | (69,846) | **–** |
| | 23,186 | 330,042 | (332,554) | **20,674** |

As stipulated by the regulations of the PRC, the Group participates in a defined contribution retirement plan organised by the Shanghai Municipal Government for its staff.

In addition, pursuant to the document "Order of the Ministry of Labour and Social Security No.20" dated 6 January 2004 issued by the Ministry of Labour of the PRC, the Group has set up a supplementary defined contribution retirement plan for the benefit of employees. Employees who have served the Group for more than one year may participate in this plan. The Group and participating employees make defined contributions to their pension saving accounts according to the plan. The assets of this plan are held separately from those of the Group in an independent fund administered by a committee consisting of representatives from the employees and the Group.

The Group has no other material obligation for the payment of pension benefits associated with these plans beyond the annual contributions described above. In 2016, the Group's contribution to the above two plans amounted to RMB247,710 thousands and RMB69,846 thousands respectively (2015: RMB273,841 thousands and RMB72,101 thousands, respectively).

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*[English translation for reference only]*

# 4 Notes to the consolidated financial statements *(Continued)*

## (22) Taxes payable

| | 31 December 2016 | 31 December 2015 |
|---|---|---|
| Consumption tax payable | 938,495 | 1,001,250 |
| Enterprise income tax payable | 620,365 | 59,597 |
| Value added tax payable | 345,894 | 86,691 |
| City maintenance and construction tax payable | 89,511 | 76,656 |
| Educational surcharge payable | 64,316 | 54,843 |
| Land use tax payable | 25,493 | 23,263 |
| Housing property tax payable | 21,794 | 19,892 |
| Individual income tax payable | 16,933 | 14,136 |
| Business tax payable | – | 1,647 |
| Others | 35,626 | 30,443 |
| | 2,158,427 | 1,368,418 |

## (23) Interest payable

| | 31 December 2016 | 31 December 2015 |
|---|---|---|
| Interest payable for short-term borrowings | 465 | 1,890 |

## (24) Dividends payable

| | 31 December 2016 | 31 December 2015 |
|---|---|---|
| A share dividends | 20,473 | 19,119 |

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*[English translation for reference only]*

# 4 Notes to the consolidated financial statements *(Continued)*

## (25) Other payables

| | 31 December 2016 | 31 December 2015 |
|---|---|---|
| Related parties (Note 7(6)) | 71,924 | 99,907 |
| Third parties | 542,744 | 529,173 |
| | 614,668 | 629,080 |

**(a)** As at 31 December 2016, there are no other payables that are individually significant aged over 1 year besides unpaid project guaranty deposit.

**(b)** Other payables by categories are analysed as follows:

| | 31 December 2016 | 31 December 2015 |
|---|---|---|
| Equipment project | 191,043 | 205,714 |
| Accrued expenses | 90,394 | 45,788 |
| Payable to related parties (Note 7(6)) | 71,924 | 99,907 |
| Guaranty deposit | 38,352 | 56,200 |
| Sales discount | 25,700 | 19,297 |
| Deposits | 12,828 | 11,556 |
| Social insurance withholding | 9,723 | 10,194 |
| Others | 174,704 | 180,424 |
| | 614,668 | 629,080 |

## (26) Deferred income

| Government grants project | 31 December 2015 | Increase in current year | Recognized in non-operating income in current year | 31 December 2016 | related to assets/ related to income |
|---|---|---|---|---|---|
| Investment subsidies for Chemical Industry | 160,000 | – | (10,000) | 150,000 | related to assets |

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# 4 Notes to the consolidated financial statements *(Continued)*

## (27) Share capital

| | 31 December 2015 | Increase or decrease in current year: Issue of new shares | Stock dividend | Transfer from capital surplus to paid-in capital | Other | Subtotal | 31 December 2016 |
|---|---|---|---|---|---|---|---|
| Restricted Shares – | | | | | | | |
| Domestic legal person shares | 4,380,000 | – | – | – | (4,380,000) | (4,380,000) | – |
| Non-restricted Shares – | | | | | | | |
| RMB ordinary A shares listed in PRC | 2,925,000 | – | – | – | 4,380,000 | 4,380,000 | 7,305,000 |
| Foreign investment H shares listed overseas | 3,495,000 | – | – | – | – | 3,495,000 | 3,495,000 |
| | 10,800,000 | – | – | – | – | – | 10,800,000 |

The Company was founded in Shanghai, PRC on 29 June 1993 with registered capital of RMB4,000,000,000 invested by its holding company-China National Petrochemical Corporation; these shares were converted from assets of former Shanghai Petrochemical Complex.

Approved by Zheng Wei Fa No. [1993]30 issued by the State Council Securities Committee, the Company launched its initial public offering ("IPO") in July 1993 and September 1993 in Hong Kong, New York and Shanghai to issue 2.23 billion shares, including 1.68 billion H shares and 550 million A shares. The 550 million A shares included 400 million individual shares (including 150 million shares issued to SPC employees) and 150 million legal person shares. H shares were listed on the Hong Kong Stock Exchange on 26 July 1993, and listed on the New York Stock Exchange in the form of American Depositary Shares at the same time; the A shares were listed on the Shanghai Stock Exchange on 8 November 1993.

After the IPO, the total quantity of shares issued by the Company was 6.23 billion, including 4 billion state-owned shares, 150 million legal person shares, 400 million individual shares, and 1.68 billion H shares.

According to the plan stated in the prospectus issued in July 1993, and approved by the China Securities Regulatory Commission, the Company issued 320 million ordinary A shares with a par value of RMB1 each at an issuing price of RMB2.4 each during the period from 5 April to 10 June 1994. These shares were listed on the Shanghai Stock Exchange on 4 July 1994. By then, the total quantity of shares issued was expanded from 6.23 billion to 6.55 billion.

On 22 August 1996, the Company issued 500 million H shares to overseas investors; on 6 January 1997, another 150 million H shares were issued to overseas investors. By then, the total quantity of shares issued was expanded to 7.2 billion, including 2.33 billion H shares.

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# 4 Notes to the consolidated financial statements *(Continued)*

## (27) Share capital *(Continued)*

In 1998, China National Petrochemical Corporation was restructured to Sinopec Group.

Sinopec Corp. was founded on 28 February 2000 based on the approved assets restructuring of Sinopec Group. As part of the restructuring, the shares of the Company held by the Sinopec Group were injected in Sinopec Corp.; after the restructuring, the ownership of 4 billion state-owned shares of the Company held by the Sinopec Group were transferred to Sinopec Corp., and the shares were changed to state-owned legal person shares in nature.

All the A and H shares rank pari passu in all respects.

Pursuant to the 'Approval on matters relating to the Share Segregation Reform of Sinopec Shanghai Petrochemical Company Limited' issued by the State-owned Assets Supervision and Administration Commission of the State Council (State Owned Property [2013] No.443), a General Meeting of A share shareholders was held on 8 July 2013 and passed the resolution of 'Share Segregation Reform of Sinopec Shanghai Petrochemical Company Limited (Amendment)' ("the share segregation reform resolution") which was published by the Company on Shanghai Stock Exchange ("SSE") website on 20 June 2013.

According to the Share Segregation Reform Resolution, the controlling shareholder of the Company, Sinopec Corp., offered shareholders of circulating A shares 5 shares for every 10 circulating A shares they held on 16 August 2013, aggregating 360,000,000 A shares, for the purpose of obtaining the listing rights of its non-circulating shares in the A Shares market. From 20 August 2013 ("the circulation date"), all the Company's non-circulating A shares have been granted circulating rights on Shanghai Stock Exchange ("SSE"). As part of the restricted conditions, Sinopec Corp. committed that all the 3,640,000,000 A shares held were not allowed to be traded on SSE or transferred within 12 months from the circulation date ("the restriction period"). After the restriction period, Sinopec Corp. can only sell no more than 5 and 10 percent of its total shares within 12 and 24 months, respectively. The former 150,000,000 non-circulating A shares held by social legal persons were also prohibited to be traded on SSE or transferred within 12 months from the circulation date. Meanwhile, Sinopec Corp. also committed in the Share Segregation Reform Resolution that a scheme of converting surplus to share capital (no less than 4 shares for every 10 shares) will be proposed on the board of directors and shareholders meetings within 6 months after the circulation date.

The resolution were approved by the extraordinary general meeting of shareholders, A share class shareholders meeting and H share class shareholders meeting on 22 October 2013, respectively. As at 31 December 2016, total shares of the Company were 10,800,000,000 shares.

Since the implementation of share segregation reform resolution on 20 August 2013, the Company's non-circulating A shares had been granted circulating rights. As part of the restricted conditions, 5,460,000,000 A shares held by Sinopec Corp. and 225,000,000 A shares held by social legal persons had achieved circulation as at 31 December 2016.

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# 4 Notes to the consolidated financial statements *(Continued)*

## (27) Share capital *(Continued)*

| | | Increase or decrease in current year | | | | | |
|---|---|---|---|---|---|---|---|
| | 31 December 2014 | Issue of new shares | Stock dividend | Transfer from capital surplus to paid-in capital | Other | Subtotal | 31 December 2015 |
| Restricted Shares – | | | | | | | |
| Domestic legal person shares | 4,920,000 | – | – | – | (540,000) | (540,000) | 4,380,000 |
| Non-restricted Shares – | | | | | | | |
| RMB ordinary A shares listed in PRC | 2,385,000 | – | – | – | 540,000 | 540,000 | 2,925,000 |
| Foreign investment H shares listed overseas | 3,495,000 | – | – | – | – | – | 3,495,000 |
| | 10,800,000 | – | – | – | – | – | 10,800,000 |

## (28) Capital surplus

| | 31 December 2015 | Increase in current year | Decrease in current year | **31 December 2016** |
|---|---|---|---|---|
| Government grants | 412,370 | – | – | **412,370** |
| Refund of harbor construction charge | 32,485 | – | – | **32,485** |
| Share-based payments (a) | 22,702 | 18,004 | – | **40,706** |
| Others | 49,067 | – | – | **49,067** |
| | 516,624 | 18,004 | – | **534,628** |

| | 31 December 2014 | Increase in current year | Decrease in current Year | 31 December 2015 |
|---|---|---|---|---|
| Government grants | 412,370 | – | – | 412,370 |
| Refund of harbor construction charge | 32,485 | – | – | 32,485 |
| Share-based payments (a) | – | 22,702 | – | 22,702 |
| Others | 49,067 | – | – | 49,067 |
| | 493,922 | 22,702 | – | 516,624 |

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*(All amounts in thousands of Renminbi Yuan unless otherwise stated)*
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# 4 Notes to the consolidated financial statements *(Continued)*

## (28) Capital surplus *(Continued)*

### (a) Summary

Pursuant to the resolution of the fifth meeting of the eighth session of the Board of Directors of the Company on 6 January 2015, the proposal regarding the list of participants and the number of share options under the share option incentive scheme was approved.

According to the Company's share option incentive scheme, the grant date of share options was 6 January 2015, and there were a total of 38,760 thousand share options granted to 214 participants (0.359% of the total ordinary share capital issued). Each share option has a right to purchase an ordinary A share listed in PRC on vesting date at the exercise price under vesting conditions. The options were exercisable by three tranches of 40%, 30% and 30% of the total share options granted, respectively. Each tranche has independent vesting conditions relevant to year 2015, 2016 and 2017, respectively, which were listed out as following:

- weighted average rate of return on equity of the Group should be no less than 9% for 2015, 9.5% for 2016 and 10% for 2017 in respect to the three tranche;

- for each year of 2015, 2016 and 2017, the compound annual growth rate in net profit based on the net profit of 2013 should achieve 5%;

- for each year of 2015, 2016 and 2017, proportion of the main business revenue in the total revenue should be no less than 99%;

- for each year of 2015, 2016 and 2017, each of the above three conditions should be no lower than the 75% level of peer companies; and

- achieving the target budget set by the Sinopec Corp. in 2015, 2016 and 2017, respectively.

The participant should serve the Group at the required position from the grant date. Exercisable amount of each tranche depended on the time for which the participant served the Group during each year of 2015, 2016 and 2017. Upon the fulfilment of relevant vesting conditions, the share options of each tranche shall become exercisable at its exercisable date.

*For the year ended 31 December 2016*
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*[English translation for reference only]*

# 4 Notes to the consolidated financial statements *(Continued)*

## (28) Capital surplus *(Continued)*

### (a) Share-based payments *(Continued)*

As at the grant date, the exercise price of each share option was RMB4.2. During the vesting period, the exercise price would be adjusted according to the declaration of dividends or any changes of total shares. As at 31 December 2016, the outstanding share options of each tranche, their exercisable date and exercise price are as follows. These outstanding share options will expire in twelve months after each exercisable date.

| Vesting date | Exercise price per share in RMB | Outstanding shares |
|---|---|---|
| 6 January 2017 | 4.10 | 15,404,000 |
| 6 January 2018 | 4.10 | 11,553,000 |
| 6 January 2019 | 4.10 | 11,553,000 |

### (b) Changes in number of share options in current year

| | 2016 |
|---|---|
| Outstanding stock options issued in the beginning of the year | 38,760,000 |
| Number of share options granted in current year | – |
| Number of share options exercised in current year | – |
| Number of share options invalid in current year | (250,000) |
| Outstanding stock options issued in the end of the year | 38,510,000 |

### (c) Fair value of share options as at grant date

The total fair value of share options has been valued by an external valuation expert using Black-Scholes valuation model. As at the grant date, the significant inputs into the model were as follows:

| | |
|---|---|
| Exercise price (Renminbi:Yuan) | 4.20 |
| Maturity (years) | 5.00 |
| Spot share price (Renminbi:Yuan) | 4.51 |
| Expected volatility | 41.20% |
| Dividend yield | 1.00% |
| Risk-free interest rate | 3.39%-3.67% |

The total fair value of share options at the grant date was RMB65,412 thousands.

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*(All amounts in thousands of Renminbi Yuan unless otherwise stated)*
*[English translation for reference only]*

# 4 Notes to the consolidated financial statements *(Continued)*

## (28) Capital surplus *(Continued)*

### (d) Effect of share-based payment transactions on the financial position and financial performance

| | 2016 |
|---|---|
| Total expense recognised for the Equity-settled share-based payment in consolidated income statement | 18,004 |
| Accumulated amount recognised for the Equity-settled share-based payment in capital surplus | 40,706 |

## (29) Other comprehensive income

| | Other comprehensive income in Balance Sheet | | | Other comprehensive income in 2016 Income Statement | | | | |
|---|---|---|---|---|---|---|---|---|
| | 31 December 2015 | After-tax attributable to the parent company | 31 December 2016 | Current year before income tax amount | Less: Pre-included other comprehensive income transferred out this year | Less: income tax expense | After-tax attributable to the parent company | After-tax attributable to minority shareholders |
| Other comprehensive income reclassificated in the future Under the equity method after the invested entity will be reclassified into the share of profits and losses of other comprehensive income | – | 18,213 | 18,213 | 18,213 | – | – | 18,213 | – |

## (30) Specific reserve

| | 31 December 2015 | Accrued during the year | Utilised during the year | 31 December 2016 |
|---|---|---|---|---|
| Safety production costs | 953 | 106,443 | (107,050) | 346 |

| | 31 December 2014 | Accrued during the year | Utilised during the year | 31 December 2015 |
|---|---|---|---|---|
| Safety production costs | 1,265 | 145,895 | (146,207) | 953 |

Specific reserve represents unutilised safety production costs accrued in accordance with state regulations (Note 2(20)).

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*(All amounts in thousands of Renminbi Yuan unless otherwise stated)*
*[English translation for reference only]*

# 4 Notes to the consolidated financial statements *(Continued)*

## (31) Surplus reserve

| | 31 December 2015 | Increase in current year | Decrease in current year | **31 December 2016** |
|---|---|---|---|---|
| Statutory surplus reserve | 4,391,905 | 607,141 | – | **4,999,046** |
| Discretionary surplus reserve | 101,355 | – | – | **101,355** |
| | 4,493,260 | 607,141 | – | **5,100,401** |

| | 31 December 2014 | Increase in current year | Decrease in current year | 31 December 2015 |
|---|---|---|---|---|
| Statutory surplus reserve | 4,072,476 | 319,429 | – | 4,391,905 |
| Discretionary surplus reserve | 101,355 | – | – | 101,355 |
| | 4,173,831 | 319,429 | – | 4,493,260 |

In accordance with the Company Law and the Company's Articles of Association, the Company should appropriate 10% of net profit for the year to the statutory surplus reserve, and the Company can cease appropriation when the statutory surplus reserve accumulated to more than 50% of the registered capital. The statutory surplus reserve can be used to make up for the loss or increase the share capital after approval from the appropriate authorities. Statutory surplus reserve amounted to RMB607,141 thousands was provided in current year (2015: RMB319,429 thousands).

The Company appropriates for the discretionary surplus reserve should be proposed by the board of directors and approved by the General Meeting of Shareholders. The discretionary surplus reserve can be used to make up for the loss or increase the share capital after approval from the appropriate authorities. No discretionary surplus reserve was provided in current year (2015: Nil).

*For the year ended 31 December 2016*
*(All amounts in thousands of Renminbi Yuan unless otherwise stated)*
*[English translation for reference only]*

# 4 Notes to the consolidated financial statements *(Continued)*

## (32) Undistributed profits

| | 2016 | 2015 |
|---|---|---|
| Undistributed profits at the beginning of the year | **4,028,025** | 1,101,605 |
| Add: Net profit attributable to equity shareholders of the Company | **5,955,576** | 3,245,849 |
| Less:Appropriation to statutory reserve (Note 4(31)) | **(607,141)** | (319,429) |
| Less: Ordinary shares dividend payable (a) | **(1,080,000)** | – |
| Undistributed profits at the end of the year | **8,296,460** | 4,028,025 |

(a) Pursuant to the resolution of the shareholders' meeting on 15 June 2016, the Company distributed 2015 cash dividend to all the shareholders, RMB0.1 per share (including tax), calculated according to the issued shares 10,800,000,000 shares, total RMB10,800,000 thousand (2015: nil).

Pursuant to the resolution of the shareholders' meeting on 15 March 2017, board of directors proposed a dividend in respect of the year ended 31 December 2016 of RMB0.25 per share (including tax), amounting to a total dividend of RMB2,700,000 thousands, the proposal is to be approved.

## (33) Non-controlling interests

Attributable to the non-controlling interests of the Group:

| | 31 December 2016 | 31 December 2015 |
|---|---|---|
| Shanghai Golden Phillips Petrochemical Company Limited ("Jinfei") | **173,212** | 196,067 |
| China Jinshan Associated Trading Corporation | **70,841** | 63,723 |
| Shanghai Jinchang Engineering Plastics Company Limited ("Jinchang") | **43,228** | 37,248 |
| Zhejiang Jinyong Acrylic Company limited ("Jinyong") | **(6,011)** | – |
| | **281,270** | 297,038 |

*For the year ended 31 December 2016*
*(All amounts in thousands of Renminbi Yuan unless otherwise stated)*
*[English translation for reference only]*

# 4 Notes to the consolidated financial statements *(Continued)*

## (34) Revenue and cost of sales

| | 2016 | | 2015 | |
|---|---|---|---|---|
| | **Revenue** | **Cost of sales** | Revenue | Cost of sales |
| Main operations | **77,372,310** | **55,299,838** | 80,293,406 | 59,716,913 |
| Other operations | **521,975** | **443,468** | 510,016 | 372,384 |
| | **77,894,285** | **55,743,306** | 80,803,422 | 60,089,297 |

### (a) Main operations revenue and main operations cost

Analysis by product is as follows:

| | 2016 | | 2015 | |
|---|---|---|---|---|
| | **Main operations revenue** | **Main operations cost** | Main operations revenue | Main operations cost |
| Synthetic fibres | **1,915,242** | **1,920,884** | 2,397,015 | 2,368,244 |
| Resins and plastics | **10,072,760** | **7,217,955** | 10,241,960 | 7,921,164 |
| Intermediate petrochemicals | **9,112,004** | **5,994,941** | 9,607,799 | 7,223,860 |
| Petroleum products | **35,261,722** | **19,506,920** | 43,894,359 | 28,377,878 |
| Trading of petrochemical products | **20,596,948** | **20,423,854** | 13,719,716 | 13,573,180 |
| All others | **413,634** | **235,284** | 432,557 | 252,587 |
| | **77,372,310** | **55,299,838** | 80,293,406 | 59,716,913 |

*For the year ended 31 December 2016*
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# 4 Notes to the consolidated financial statements *(Continued)*

## (35) Taxes and surcharges

| | 2016 | 2015 | Tax base and rate |
|---|---|---|---|
| Consumption tax | 10,167,862 | 11,846,860 | According to relevant PRC tax regulations, since 1 January 2009, the Group is required to pay consumption tax based on the Group's sales of gasoline and diesel rate according to the applicable tax rate (Note 3(a)) |
| City maintenance and construction tax | 966,451 | 1,076,885 | 1% or 7% of actual payments of consumption, business tax and VAT during the year |
| Educational surcharge and others | 704,562 | 778,807 | 5% of actual payments of consumption, business tax and VAT during the year |
| Business tax | 2,354 | 8,381 | 5% of taxable turnover amount |
| Others | 65,209 | – | |
| | 11,906,438 | 13,710,933 | |

## (36) Selling and distribution expenses

| | 2016 | 2015 |
|---|---|---|
| Transportation fee | 262,810 | 262,403 |
| Sales commission | 100,221 | 112,245 |
| Storage and logistics expenses | 60,868 | 75,083 |
| Staff costs | 59,685 | 57,258 |
| Others | 9,705 | 9,954 |
| | 493,289 | 516,943 |

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# 4 Notes to the consolidated financial statements *(Continued)*

## (37) General and administrative expenses

| | 2016 | 2015 |
|---|---|---|
| Repair and maintenance expense | 1,192,203 | 978,845 |
| Staff costs | 847,059 | 945,243 |
| Administrative expenses | 155,288 | 164,325 |
| Research and development costs | 102,104 | 87,629 |
| Depreciation and amortisation | 96,910 | 98,959 |
| Security and fire extinguishment expenses | 61,130 | 67,802 |
| Information system operation maintenance | 33,656 | 28,629 |
| Taxation charges | 29,379 | 101,706 |
| Others | 165,581 | 194,275 |
| | 2,683,310 | 2,667,413 |

## (38) Financial expenses – net

| | 2016 | 2015 |
|---|---|---|
| Interest paid | 56,080 | 215,460 |
| Less: Capitalized borrowing costs | (2,463) | (3,518) |
| Interest expenses | 53,617 | 211,942 |
| Less: Interest income | (133,484) | (49,302) |
| Exchange losses net | 8,033 | 80,261 |
| Others | 16,004 | 11,213 |
| | (55,830) | 254,114 |

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*(All amounts in thousands of Renminbi Yuan unless otherwise stated)*
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# 4 Notes to the consolidated financial statements *(Continued)*

## (39) Expenses by nature

The cost of sales, selling and administrative expenses, general and administrative expenses in the income statements are listed as follows by nature:

| | 2016 | 2015 |
|---|---|---|
| Changes in inventories of finished goods and work in progress | **(731,944)** | 855,692 |
| Consumed raw materials and low value consumables, etc. | **31,922,984** | 41,483,278 |
| Cost of trading products | **20,423,854** | 13,573,180 |
| Employee benefits | **2,487,534** | 2,595,646 |
| Depreciation and amortization expenses | **1,895,756** | 2,073,732 |
| Repair and maintenance expenses | **1,192,203** | 978,845 |
| Transportation expenses | **323,678** | 337,454 |
| Administrative expenses | **155,288** | 164,325 |
| Agency commission | **100,221** | 112,245 |
| Rental fee | **73,852** | 23,477 |
| Audit fee | **7,800** | 7,800 |
| Others | **1,068,679** | 1,067,979 |
| | **58,919,905** | 63,273,653 |

## (40) Investment income

| | 2016 | 2015 |
|---|---|---|
| Investment income on disposal of long-term equity investment | **906,754** | 562,035 |
| Forward exchange contract income (a) | **–** | 37,154 |
| | **906,754** | 599,189 |

There are no severe restrictions on the investee's ability to transfer investment income to the Group.

(a) During the year 2016, the Group has no any undue forward exchange contract.

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# 4 Notes to the consolidated financial statements *(Continued)*

## (41) Asset impairment losses

| | 2016 | 2015 |
|---|---|---|
| Impairment of fixed assets | 254,242 | 50,001 |
| Inventories write-down | 76,268 | 44,868 |
| Provision for bad debt (back)/provision | (70) | 756 |
| | 330,440 | 95,625 |

## (42) Non-operating income

| | 2016 | 2015 | Recognized as extraordinary profit and loss of current year |
|---|---|---|---|
| Government grants (a) | 154,631 | 160,116 | 154,631 |
| Gains on disposal of fixed assets | 5,491 | 4,055 | 5,491 |
| Others | 1,296 | 29,524 | 1,296 |
| | 161,418 | 193,695 | 161,418 |

**(a) Government grants mainly include:**

| | 2016 | 2015 |
|---|---|---|
| Local education surcharges refund | 103,821 | 101,405 |
| Amortization of deferred income (Note 4(26)) | 10,000 | 26,436 |
| Fiscal subsidy for incurred scientific research expenditure, energy saving and environmental protection | 19,165 | 21,140 |
| Fixed assets disposal subsidy | 15,000 | – |
| Others | 6,645 | 11,135 |
| | 154,631 | 160,116 |

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*[English translation for reference only]*

# 4 Notes to the consolidated financial statements *(Continued)*

## (43) Non-operating expenses

| | 2016 | 2015 | Recognized as extraordinary profit and loss of current year |
|---|---|---|---|
| Loss on disposal of fixed assets | 47,522 | 13,448 | 47,522 |
| Allowances | 40,313 | 36,850 | 40,313 |
| Others | 8,264 | 2,954 | 8,264 |
| | 96,099 | 53,252 | 96,099 |

## (44) Income tax expenses

| | 2016 | 2015 |
|---|---|---|
| Current tax expense for the year based on tax law and regulations | 1,828,868 | 82,753 |
| Movement of deferred tax | (32,046) | 844,024 |
| | 1,796,822 | 926,777 |

*For the year ended 31 December 2016*
*(All amounts in thousands of Renminbi Yuan unless otherwise stated)*
*[English translation for reference only]*

# 4 Notes to the consolidated financial statements *(Continued)*

## (44) Income tax expenses *(Continued)*

The reconciliation from income tax calculated based on the applicable tax rates and total profit presented in the consolidated financial statements to the income tax expenses is listed below:

| | 2016 | 2015 |
|---|---|---|
| Total profit | 7,765,405 | 4,208,729 |
| Income tax expenses calculated at applicable tax rates | 1,941,351 | 1,052,182 |
| Tax effect of share of profit of investments accounted for using the equity method | (225,813) | (140,509) |
| Other non-taxable profit | (13,235) | (11,985) |
| Tax effect of non-deductible expenses | 23,426 | 5,408 |
| Under provision for income tax expense in respect of preceding years | 32,457 | 1,752 |
| Utilisation of previously unrecognized tax losses | (58) | – |
| Utilisation of previously unrecognised temporary differences | (36) | (12,359) |
| Temporary differences for which no deferred income tax asset was recognized in the year | 13,511 | 15 |
| Tax losses for which no deferred income tax asset was recognized in the year | 25,219 | 32,273 |
| Income tax expenses | 1,796,822 | 926,777 |

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*(All amounts in thousands of Renminbi Yuan unless otherwise stated)*
*[English translation for reference only]*

# 4 Notes to the consolidated financial statements *(Continued)*

## (45) Earnings per share

### (a) Basic earnings per share

Basic earnings per share is calculated by dividing the consolidated net profit attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding:

| | 2016 | 2015 |
|---|---|---|
| Consolidated net profit attributable to ordinary shareholders of the Company | 5,955,576 | 3,245,849 |
| Weighted average number of the Company's ordinary shares outstanding (thousands) | 10,800,000 | 10,800,000 |
| Basic earnings per share | 0.551 | 0.301 |

### (b) Diluted earnings per share:

As there are no diluted ordinary shares outstanding, the diluted earnings per share equals the basic earnings per share.

| | 2016 | 2015 |
|---|---|---|
| Diluted consolidated net profit attributable to ordinary shareholders of the parent company | 5,955,576 | 3,245,849 |
| Weighted average number of the Company's ordinary shares outstanding (thousands) | 10,800,000 | 10,800,000 |
| Adjustment for share option incentive (thousands) (i) | 8,632 | 9,041 |
| Diluted weighted average number of the Company's ordinary shares outstanding (thousands) | 10,808,632 | 10,809,041 |
| Diluted earnings per share | 0.551 | 0.300 |

(i) The Company has dilutive potential ordinary shares from share options. A calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average market share price of the Company's A shares for year ended 31 December 2016) based on the monetary value of the outstanding share options. The number of ordinary shares in issue is compared with the number of shares that would have been issued assuming the exercise of the share options.

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*(All amounts in thousands of Renminbi Yuan unless otherwise stated)*
*[English translation for reference only]*

# 4 Notes to the consolidated financial statements *(Continued)*

## (46) Notes to consolidated cash flow statement

### (a) Cash received relating to other operating activities

| | 2016 | 2015 |
|---|---|---|
| Subsidy income | 129,631 | 133,680 |
| Others | 10,604 | 16,364 |
| | 140,235 | 150,044 |

### (b) Cash paid relating to other operating activities

| | 2016 | 2015 |
|---|---|---|
| Administrative expenses | 155,288 | 164,325 |
| Sales commission | 100,221 | 112,245 |
| Research and development costs | 102,104 | 87,629 |
| Storage and logistics expenses | 60,868 | 75,083 |
| Security and fire extinguishment expenses | 61,130 | 67,802 |
| Information system operation and maintenance expenses | 33,656 | 28,629 |
| Others | 76,049 | 64,366 |
| | 589,316 | 600,079 |

### (c) Cash received relation to other investment activities

| | 2016 | 2015 |
|---|---|---|
| Interest income | 124,379 | 46,887 |

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*(All amounts in thousands of Renminbi Yuan unless otherwise stated)*
*[English translation for reference only]*

# 4 Notes to the consolidated financial statements *(Continued)*

## (47) Supplementary materials to consolidated cash flow statement

### (a) Reconciliation from net profit to cash flows from operating activities

| | 2016 | 2015 |
|---|---|---|
| Net profit | 5,968,583 | 3,281,952 |
| Add: Provisions for assets impairment | 330,440 | 95,625 |
| Depreciation of investment properties | 13,556 | 13,547 |
| Depreciation of fixed assets | 1,638,044 | 1,737,539 |
| Amortisation of intangible assets | 17,413 | 17,611 |
| Amortisation of long-term prepaid expenses | 226,743 | 305,035 |
| Fixed assets disposal subsidy | (15,000) | – |
| Losses on disposal of fixed assets | 42,031 | 9,393 |
| Financial expenses-net | (108,029) | 231,745 |
| Investment income | (906,754) | (599,189) |
| (Increase)/Decrease in deferred tax assets | (32,046) | 844,024 |
| Decrease in deferred income | (10,000) | (26,436) |
| (Increase)/Decrease in inventories | (2,057,553) | 1,707,647 |
| (Increase)/Decrease in operating receivables | (610,588) | 356,367 |
| Increase/(Decrease) in operating payables | 2,696,720 | (2,853,853) |
| Offsetted accounts receivable in the offset agreements (note 11) | (1,017,666) | 927,225 |
| Offsetted accounts payable in the offset agreements (note 11) | 1,017,666 | (927,225) |
| Decrease in specific reserve | (607) | (312) |
| Share-based payments expense | 18,004 | 22,702 |
| Net cash flows generated from operating activities | 7,210,957 | 5,143,397 |

### (b) Net increase in cash and cash equivalents

| | 2016 | 2015 |
|---|---|---|
| Cash and cash equivalents at the end of the year | 5,440,623 | 1,077,430 |
| Less: cash and cash equivalents at the beginning of the year | (1,077,430) | 279,198 |
| Net increase in cash and cash equivalents | 4,363,193 | 798,232 |

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*(All amounts in thousands of Renminbi Yuan unless otherwise stated)*
*[English translation for reference only]*

# 4 Notes to the consolidated financial statements *(Continued)*

## (47) Supplementary materials to consolidated cash flow statement *(Continued)*

### (c) Cash and cash equivalents

| | 31 December 2016 | 31 December 2015 |
|---|---|---|
| Cash | | |
| Including: Cash on hand | 5 | 7 |
| Bank deposits available on demand | 5,440,410 | 1,077,229 |
| Other monetary fund available on demand | 208 | 194 |
| Cash and cash equivalents at the end of the year | 5,440,623 | 1,077,430 |

## (48) Foreign monetary items

| | 31 December 2016 | | |
|---|---|---|---|
| | Foreign currency | Exchange rate | RMB currency |
| Cash at bank and on hand— | | | |
| USD | 35,935 | 6.9370 | 249,281 |
| Account receivables— | | | |
| USD | 59,082 | 6.9370 | 409,852 |
| Account payables— | | | |
| USD | 183,939 | 6.9370 | 1,275,985 |
| EUR | 17 | 7.3068 | 124 |
| | | | 1,276,109 |
| Other payable— | | | |
| USD | 8 | 6.9370 | 55 |

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*(All amounts in thousands of Renminbi Yuan unless otherwise stated)*
*[English translation for reference only]*

# 5 Interests in other entities

## (1) Interests in subsidiaries

### (a) Main components of the Group

| | Main business area | Place of registry | Principal activities | Percentage of equity directly held | Percentage of equity indirectly | Way of acquisition |
|---|---|---|---|---|---|---|
| Toufa | Shanghai | Shanghai | Investment | 100.00% | – | Establish |
| Jinmao Company | Shanghai | Shanghai | Trading | 67.33% | – | Establish |
| Jinchang | Shanghai | Shanghai | Manufacturing | – | 74.25% | Establish |
| Jinfei | Shanghai | Shanghai | Manufacturing | – | 60.00% | Establish |
| Jinyong | Zhejiang Ningbo | Zhejiang Ningbo | Manufacturing | 75.00% | – | Investment |
| Jindi | Shanghai | Shanghai | Manufacturing | – | 100.00% | Establish |
| Jinmao International | Shanghai | Shanghai | Trading | – | 67.33% | Establish |

(b) As at 31 December 2016 and 31 December 2015, attributable to non-controlling interests of subsidiaries' non-controlling shareholders were not significant (Note 4(33)).

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*(All amounts in thousands of Renminbi Yuan unless otherwise stated)*
*[English translation for reference only]*

# 5 Interests in other entities *(Continued)*

## (2) Interests in joint ventures and associates

### (a) Nature of interest in major joint ventures and associates

| | Place of main business | Place of registry | Principal activities | Whether it is strategic to group activities | % of ownership interest Directly | Indirectly |
|---|---|---|---|---|---|---|
| Joint ventures – | | | | | | |
| BOC | Shanghai | Shanghai | Production and sales of industrial gases | Yes | – | 50.00% |
| Jinpu | Shanghai | Shanghai | Production of polypropylene film | Yes | – | 50.00% |
| Yangu Gas | Shanghai | Shanghai | Production and sales of industrial gases | Yes | – | 50.00% |
| Associates – | | | | | | |
| Shanghai Secco | Shanghai | Shanghai | Manufacturing and distribution of chemical products | Yes | 20.00% | – |
| Chemical Industry | Shanghai | Shanghai | Planning, development and operation of the Chemical Industry Park in Shanghai, PRC | Yes | 38.26% | – |
| Jinsen | Shanghai | Shanghai | Production of resins products | Yes | – | 40.00% |
| Azbil | Shanghai | Shanghai | Service and maintenance of building automation systems and products | Yes | – | 40.00% |

Set out below are the summarised financial information for the above companies which are accounted for using the equity method.

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*(All amounts in thousands of Renminbi Yuan unless otherwise stated)*
*[English translation for reference only]*

# 5 Interests in other entities *(Continued)*

## (2) Interests in joint ventures and associates *(Continued)*

### (b) Summarised financial information for major joint ventures

| | At 31 December 2016 | | | At 31 December 2015 | | |
|---|---|---|---|---|---|---|
| | BOC | Jinpu | Yangu Gas | BOC | Jinpu | Yangu Gas |
| **Current Assets** | 80,778 | 4,327 | 39,575 | 84,451 | 32,676 | 32,149 |
| Including: Cash and cash equivalents | 43,356 | 2,587 | 27,174 | 28,563 | 1,790 | 19,224 |
| Non-current Assets | 273,096 | 17,945 | 66,757 | 313,884 | 81,985 | 78,622 |
| Total Assets | 353,874 | 22,272 | 106,332 | 398,335 | 114,661 | 110,771 |
| **Current Liabilities** | (42,067) | (24,999) | (5,219) | (70,763) | (34,698) | (5,807) |
| Non-current liabilities | – | – | – | – | – | – |
| Total liabilities | (42,067) | (24,999) | (5,219) | (70,763) | (34,698) | (5,807) |
| **Net Assets** | 311,807 | (2,727) | 101,113 | 327,572 | 79,963 | 104,964 |
| Net assets calculated by proportion of shareholding (i) (ii) | 155,903 | – | 50,558 | 163,786 | 39,981 | 52,483 |
| Adjustment – unrealized downstream transactions | (15,764) | – | – | (19,267) | – | – |
| Book value of joint ventures | 140,139 | – | 50,558 | 144,519 | 39,981 | 52,483 |

*For the year ended 31 December 2016*
*(All amounts in thousands of Renminbi Yuan unless otherwise stated)*
*[English translation for reference only]*

# 5 Interests in other entities *(Continued)*

## (2) Interests in joint ventures and associates *(Continued)*

### (b) Summarised financial information for major joint ventures *(Continued)*

| | At 31 December 2016 | | | At 31 December 2015 | | |
|---|---|---|---|---|---|---|
| | BOC | Jinpu | Yangu Gas | Jinpu | Yangu Gas | BOC |
| Revenue | 370,171 | 31,794 | 59,904 | 396,176 | 118,966 | 68,469 |
| Financial (expense)/income | (648) | (785) | 238 | (3,677) | (1,058) | (82) |
| Income tax | (16,679) | – | – | (14,392) | – | – |
| Net profit/(loss) | 50,485 | (82,690) | (2,651) | 58,386 | (24,213) | 1,830 |
| Other comprehensive income | – | – | – | – | – | – |
| Total comprehensive income/(loss) | 50,485 | (82,690) | (2,651) | 58,386 | (24,213) | 1,830 |
| Dividends declared by joint venture | 33,125 | – | 600 | – | – | 650 |

(i) The information above reflects the amounts presented in the financial statements of the joint ventures (and not the Group's share of those amounts) adjusted for differences in accounting policies between the group and the associates.

(ii) The Group's share of losses in Jinpu exceeded RMB2,727 thousands to its interest during the year ended 31 December. The Group has no obligations and does not need to make payments on behalf of Jinpu. As a result, the Group did not recognize further losses and the carrying amount of the investment in Jinpu was solely decreased to zero.

*For the year ended 31 December 2016*
*(All amounts in thousands of Renminbi Yuan unless otherwise stated)*
*[English translation for reference only]*

# 5 Interests in other entities *(Continued)*

## (2) Interests in joint ventures and associates *(Continued)*

### (c) Summarised financial information for major associates

| | As at 31 December 2016 | | | | As at 31 December 2015 | | | |
|---|---|---|---|---|---|---|---|---|
| | Shanghai Secco | Chemical Industry | Jinsen | Azbil | Shanghai Secco | Chemical Industry | Jinsen | Azbil |
| **Current Assets** | 5,596,573 | 4,265,139 | 110,499 | 153,980 | 4,879,596 | 2,486,929 | 128,354 | 150,672 |
| Including:Cash and cash equivalents | 2,342,720 | 2,695,719 | 62,450 | 86,394 | 598,397 | 981,308 | 75,881 | 74,867 |
| Non-current Assets | 6,582,633 | 3,393,160 | 83,077 | 3,145 | 8,033,469 | 3,111,311 | 86,514 | 3,444 |
| Total Assets | 12,179,206 | 7,658,299 | 193,576 | 157,125 | 12,913,065 | 5,598,240 | 214,868 | 154,116 |
| **Current Liabilities** | (1,982,932) | (1,299,046) | (10,324) | (46,532) | (3,532,247) | (404,115) | (7,882) | (41,801) |
| Non-current liabilities | – | (1,655,448) | – | – | (487,020) | (980,583) | – | – |
| Total liabilities | (1,982,932) | (2,954,494) | (10,324) | (46,532) | (4,019,267) | (1,384,698) | (7,882) | (41,801) |
| **Net Assets** | 10,196,274 | 4,703,805 | 183,252 | 110,593 | 8,893,798 | 4,213,542 | 206,986 | 112,315 |
| Net assets calculated by proportion of shareholding (i) | 2,039,256 | 1,799,677 | 73,301 | 44,237 | 1,778,760 | 1,612,101 | 82,794 | 44,926 |
| Adjustment-internal unrealized transaction offset | (7,979) | – | – | – | – | – | – | – |
| Adjustment (ii) | – | (348,600) | – | – | – | (331,242) | – | – |
| Book value of associates | 2,031,277 | 1,451,077 | 73,301 | 44,237 | 1,778,760 | 1,280,859 | 82,794 | 44,926 |

*For the year ended 31 December 2016*
*(All amounts in thousands of Renminbi Yuan unless otherwise stated)*
*[English translation for reference only]*

# 5 Interests in other entities *(Continued)*

## (2) Interests in joint ventures and associates *(Continued)*

### (c) Summarised financial information for major associates *(Continued)*

| | 2016 | | | | 2015 | | | |
|---|---|---|---|---|---|---|---|---|
| | Shanghai Secco | Chemical Industry | Jinsen | Azbil | Shanghai Secco | Chemical Industry | Jinsen | Azbil |
| Revenue | 23,969,408 | 2,471,027 | 167,956 | 180,108 | 23,848,576 | 1,032 | 245,060 | 186,657 |
| Net profit/(loss) | 3,753,476 | 442,296 | (16,394) | 16,278 | 2,185,268 | 218,674 | 8,155 | 20,507 |
| Other comprehensive income | – | 47,603 | – | – | – | – | – | – |
| Total comprehensive income | 3,753,476 | 489,899 | (16,394) | 16,278 | 2,185,268 | 218,674 | 8,155 | 20,507 |
| Dividends declared by associates | 490,200 | 17,217 | 2,935 | 7,200 | 156,000 | 16,069 | 2,926 | 12,000 |

(i) The information above reflects the amounts presented in the financial statements of the associates (and not the Group's share of those amounts) adjusted for differences in accounting policies between the Group and the associates.

(ii) Unentitled portion represented some piece of lands injected by Government in Chemical Industry as capital reserve and the earnings from this land cannot be shared by other shareholders.

### (d) Summarised financial information for immaterial associates

| | 2016 | 2015 |
|---|---|---|
| Total net book value of long-term investment as at 31 December | 48,205 | 46,817 |
| Total amount calculated by proportion of shareholding | | |
| Net profit (i) | 7,423 | 8,347 |
| Other comprehensive income (i) | – | – |
| Total comprehensive income | 7,423 | 8,347 |

(i) Net profit and other comprehensive income had considered the fair value of assets and liabilities at the acquisition date and the adjustment for differences in accounting policies between the Group and the associates.

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*(All amounts in thousands of Renminbi Yuan unless otherwise stated)*
*[English translation for reference only]*

## 6 Segment information

Segment information is presented in respect of the Group's business segments, the format of which is based on the structure of the Group's internal organisation, management requirement, and internal reporting system.

In a manner consistent with the way in which information is reported internally to the Group's chief operating decision maker for the purposes of resource allocation and performance assessment, the Group identified the following five reportable segments. No operating segments have been aggregated to form the following reportable segments.

The Group evaluates the performance and allocates resources to its operating segments on an operating income basis, without considering the effects of finance expenses, investment income, non-operating income and non-operating expenses. The accounting policies adopted by the operating segments are the same with the policies in summary of significant accounting policies and accounting estimates. The transfer price of intersegment is recognised with cost plus profit method.

The Group principally operates in five operating segments: petroleum products, intermediate petrochemicals, synthetic fibres, resins and plastics and trading of petrochemical products. Petroleum products, intermediate petrochemicals, synthetic fibres and resins and plastics are produced through intermediate steps from crude oil, the principal raw material. The specific products of each segment are as follows:

(i) The Group's petroleum products segment is equipped with crude oil distillation facilities used to produce vacuum and atmospheric gas oils used as feedstocks of the Group's downstream processing facilities. Residual oil and low octane gasoline fuels are co-products of the crude oil distillation process. Part of the residual oil is further processed into qualified refined gasoline and diesel oil. In addition, the Group produces a variety of fuels for transportation, industry and household heating usage, such as diesel oil, jet fuel, heavy oil and liquefied petroleum gas.

(ii) The intermediate petrochemicals segment primarily produces p-xylene, benzene and ethylene oxide. Most of the intermediate petrochemicals produced by the Group are used by the Group as raw materials in the production of other petrochemicals, resins, plastics and synthetic fibres. A portion of the intermediate petrochemicals as well as certain by-products of the production process are sold to outside customers.

(iii) The synthetic fibres segment produces primarily polyester and acrylic fibres, which are mainly used in the textile and apparel industries.

(iv) The resins and plastics segment produces primarily polyester chips, low-density polyethylene resins and films, polypropylene resins and PVA granules. The polyester chips are used to produce polyester fibres, coating and containers. Polyethylene resins and plastics are used to produce insulated cable, mulching films and moulded products such as housewares and toys. Polypropylene resins are used for films, sheets and moulded products such as housewares, toys, consumer electronics and automobile parts.

(v) The Group's trading of petrochemical products segment primarily engages in importing and exporting of petrochemical products.

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*(All amounts in thousands of Renminbi Yuan unless otherwise stated)*
*[English translation for reference only]*

## 6 Segment information *(Continued)*

(vi) All other operating segments represent the operating segments which do not meet the quantitative threshold for determining reportable segments. These include rental, providing services and a variety of other commercial activities, which are not allocated to the above five operating segments.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items mainly comprise long-term equity investments, deferred tax assets, cash and cash equivalents and its related interest income, investment properties and related depreciation expense, interest-bearing borrowings, interest expenses, and corporate assets and related expenses.

**(a)** Segment information as at and for the year ended 31 December 2016 is as follows:

| | Synthetic fibres | Resins and plastics | Intermediate petrochemicals | Petroleum products | Trading of petrochemical products | Others | Unallocated | Elimination | Total |
|---|---|---|---|---|---|---|---|---|---|
| Revenue from external customers | 1,915,242 | 10,072,760 | 9,112,004 | 35,261,722 | 20,596,948 | 935,609 | – | – | 77,894,285 |
| Inter-segment revenue | – | 91,673 | 11,248,718 | 3,514,487 | 1,551,453 | 485,441 | – | (16,891,772) | – |
| Cost of sales | (1,920,884) | (7,217,955) | (5,994,941) | (19,506,920) | (20,423,854) | (678,752) | – | – | (55,743,306) |
| Interest income | – | – | – | – | – | – | 133,484 | – | 133,484 |
| Interest expenses | – | – | – | – | – | – | (53,617) | – | (53,617) |
| Investment income from associates and joint ventures | – | – | – | – | – | – | 906,754 | – | 906,754 |
| Asset impairment losses | (223,846) | 1,575 | (14,993) | (53,155) | – | (40,021) | – | – | (330,440) |
| Depreciation and amortisation | (139,159) | (120,641) | (537,185) | (886,787) | (176) | (211,808) | – | – | (1,895,756) |
| Total (loss)/profit | (610,896) | 1,637,578 | 1,798,523 | 3,813,576 | 51,168 | 47,553 | 1,027,903 | – | 7,765,405 |
| Income tax expenses | – | – | – | – | – | – | (1,796,822) | – | (1,796,822) |
| Net (loss)/profit | (610,896) | 1,637,578 | 1,798,523 | 3,813,576 | 51,168 | 47,553 | (768,919) | – | 5,968,583 |
| Total assets | 1,422,262 | 1,821,576 | 4,453,009 | 13,426,897 | 1,186,590 | 2,323,376 | 9,489,983 | – | 34,123,693 |
| Total liabilities | 344,287 | 1,118,166 | 1,126,031 | 4,323,580 | 1,407,484 | 76,395 | 696,432 | – | 9,092,375 |
| Investment in associates and joint ventures | – | – | – | – | – | – | 3,838,794 | – | 3,838,794 |
| Non-current assets increase (i) | 106,872 | 169,330 | 261,291 | 740,520 | – | 36,966 | – | – | 1,314,979 |

(i) Non-current assets do not include financial assets and investment, and deferred income tax assets.

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*(All amounts in thousands of Renminbi Yuan unless otherwise stated)*
*[English translation for reference only]*

# 6 Segment information *(Continued)*

**(b)** Segment information as at and for the year ended 31 December 2015 is as follows:

| | Synthetic fibres | Resins and plastics | Intermediate petrochemicals | Petroleum products | Trading of petrochemical products | Others | Unallocated | Elimination | Total |
|---|---|---|---|---|---|---|---|---|---|
| Revenue from external customers | 2,397,015 | 10,241,960 | 9,607,799 | 43,894,359 | 13,719,716 | 942,573 | – | – | 80,803,422 |
| Inter-segment revenue | – | 106,042 | 13,697,886 | 3,579,131 | 3,220,905 | 542,028 | – | (21,145,992) | – |
| Cost of sales | (2,368,244) | (7,921,164) | (7,223,860) | (28,377,878) | (13,573,180) | (624,971) | – | – | (60,089,297) |
| Interest income | – | – | – | – | – | – | 49,302 | – | 49,302 |
| Interest expenses | – | – | – | – | – | – | (211,942) | – | (211,942) |
| Investment income from associates and joint ventures | – | – | – | – | – | – | 599,189 | – | 599,189 |
| Asset impairment losses | (4,768) | (339) | (50,430) | (3,168) | (13,150) | (23,770) | – | – | (95,625) |
| Depreciation and amortisation | (161,477) | (122,558) | (579,593) | (979,916) | (175) | (230,013) | – | – | (2,073,732) |
| Total (loss)/profit | (362,069) | 1,206,679 | 917,552 | 1,805,633 | 9,831 | 54,111 | 576,992 | – | 4,208,729 |
| Income tax expenses | – | – | – | – | – | – | (926,777) | – | (926,777) |
| Net (loss)/profit | (362,069) | 1,206,679 | 917,552 | 1,805,633 | 9,831 | 54,111 | (349,785) | – | 3,281,952 |
| Total assets | 1,642,815 | 1,578,493 | 4,580,839 | 12,164,463 | 1,027,230 | 2,296,097 | 4,732,234 | – | 28,022,171 |
| Total liabilities | 272,717 | 646,347 | 675,470 | 3,059,334 | 948,775 | 53,628 | 2,230,000 | – | 7,886,271 |
| Investment in associates and joint ventures | – | – | – | – | – | – | 3,471,139 | – | 3,471,139 |
| Non-current assets increase (i) | 38,629 | 94,935 | 180,806 | 546,996 | – | 96,886 | – | – | 958,252 |

(i) Non-current assets do not include financial assets and investment, and deferred income tax assets.

In view of the fact that the Group operates mainly in the PRC, no geographical segment information is presented.

In 2016, revenue from the same customer accounted for 41% of total Group revenue (2015: 49%). The revenue from the customer derived from the following segments: petroleum products and other segment.

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*[English translation for reference only]*

# 7 Related parties and related party transactions

## (1) Information on the parent company

### (a) General information of the parent company

| | Place of registration | Business nature |
|---|---|---|
| China Petroleum & Chemical Corporation | No.22 Chaoyangmen North Street, Chaoyang District, Beijing | Exploring for, extracting and selling crude oil and natural gas; oil refining; production, sale and transport of petrochemical, chemical fibres and other chemical products; pipe transport of crude oil and natural gas; research and development and application of new technologies and information. |

The Company's ultimate controlling party is China Petrochemical Corporation.

### (b) Registered capital and changes in registered capital of the parent company

| | 31 December 2015 | Increase in current year | Decrease in current year | 31 December 2016 |
|---|---|---|---|---|
| China Petroleum & Chemical Corporation | RMB121.1billion | – | – | RMB121.1billion |

### (c) The percentages of share holding and voting rights in the Company held by the parent company

| | 31 December 2016 | | 31 December 2015 | |
|---|---|---|---|---|
| | Share holding | Voting rights | Share holding | Voting rights |
| China Petroleum & Chemical Corporation | 50.56% | 50.56% | 50.56% | 50.56% |

## (2) Information on the Company's subsidiaries

The general information and other related information of the subsidiaries is set out in Note 5.

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*[English translation for reference only]*

# 7 Related parties and related party transactions *(Continued)*

## (3) Basic information of associate and joint venture

In addition to the major joint ventures and associates disclosed in Note 5(2), related transactions between the Group and other associates are as follows:

| | Place of business/ country of incorporation | Place of registry | Business nature | Whether it is strategic for group activities | % of ownership interest Directly | % of ownership interest Indirectly |
|---|---|---|---|---|---|---|
| Shanghai Nanguang Petrochemical Co., Ltd. | Shanghai | Shanghai | Petrochemical products import and export | Yes | – | 35% |
| Shanghai Jinhuan Petroleum Naphthalene Development Company Limited | Shanghai | Shanghai | Production of petrochemical products | Yes | – | 25% |
| Shanghai Chemical Industry Park Logistics Company Limited | Shanghai | Shanghai | Products freight | Yes | – | 33.33% |

## (4) Information on other related parties

| Names of other related parties | Relationship with the Company |
|---|---|
| Petro-CyberWorks Information Technology Company Limited | Subsidiary of the immediate parent company |
| China International United Petroleum and Chemical Company Limited | Subsidiary of the immediate parent company |
| China Petrochemical International Company Limited | Subsidiary of the immediate parent company |
| Sinopec Sales Company Limited | Subsidiary of the immediate parent company |
| Sinopec Refinery Product Sales Company Limited | Subsidiary of the immediate parent company |
| Sinopec Fuel Oil Sales Corporation Limited | Subsidiary of the immediate parent company |
| Sinopec Yangzi Petrochemical Company Limited | Subsidiary of the immediate parent company |
| Sinopec Yizheng Chemical Fibre Company Limited | Subsidiary of the immediate parent company |
| China Petrochemical International Beijing Company Limited | Subsidiary of the immediate parent company |
| China Petrochemical International Ningbo Company Limited | Subsidiary of the immediate parent company |
| China Petrochemical International Tianjin Company Limited | Subsidiary of the immediate parent company |
| China and South Korea (Wuhan) Petrochemical Company Limited | Subsidiary of the immediate parent company |
| Sinopec Chemical Commercial Holding Company Limited | Subsidiary of the immediate parent company |
| Sinopec Chemical Commercial Holding (Hongkong) Company Limited | Subsidiary of the immediate parent company |

*For the year ended 31 December 2016*
*(All amounts in thousands of Renminbi Yuan unless otherwise stated)*
*[English translation for reference only]*

# 7 Related parties and related party transactions *(Continued)*

## (4) Information on other related parties *(Continued)*

| Names of other related parties | Relationship with the Company |
|---|---|
| China Petrochemical International Russia Company Limited | Subsidiary of the immediate parent company |
| Sinopec Huadong Supplies and Equipment Company Limited | Subsidiary of the immediate parent company |
| Sinopec Europe Company Limited | Subsidiary of the immediate parent company |
| Sinopec USA Company Limited | Subsidiary of the immediate parent company |
| BASF-YPC Company Limited | Joint venture of the immediate parent company |
| Zhejiang Baling Hengyi Caprolactam Limited Company | Joint venture of the immediate parent company |
| Shanghai Petrochemical Machine Manufacturing Company Limited | Subsidiary of the ultimate parent company |
| Sinopec Finance Company Limited ("Sinopec Finance") | Subsidiary of the ultimate parent company |
| Sinopec Engineering Incorporation | Subsidiary of the ultimate parent company |
| Sinopec Petroleum Storage and Reserve Limited | Subsidiary of the ultimate parent company |
| Sinopec Tending Company Limited | Subsidiary of the ultimate parent company |
| Sinopec Assets Management Corporation | Subsidiary of the immediate parent company |
| The Tenth Construction Company of Sinopec | Subsidiary of the ultimate parent company |
| The Fourth Construction Company of Sinopec | Subsidiary of the ultimate parent company |
| The Fifth Construction Company of Sinopec | Subsidiary of the ultimate parent company |
| Sinopec Ningbo Engineering Company Limited | Subsidiary of the ultimate parent company |
| Sinopec Shanghai Engineering Company Limited | Subsidiary of the ultimate parent company |
| Sinopec Petroleum Storage and Reserve Limited | Subsidiary of the ultimate parent company |

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*[English translation for reference only]*

## 7 Related parties and related party transactions *(Continued)*

### (5) Major related party transactions

Most of the transactions undertaken by the Group during the year ended 31 December 2016 have been affected on such terms as determined by Sinopec Corp. and relevant PRC authorities.

Sinopec Corp. negotiates and agrees the terms of crude oil supply with suppliers on a group basis, which is then allocated among its subsidiaries, including the Group, on a discretionary basis. Sinopec Corp. also owns a widespread petroleum products sales network and possesses a fairly high market share in domestic petroleum products market, which is subject to extensive regulation by the PRC government.

The Group has entered into a mutual product supply and sales services framework agreement with Sinopec Corp. Pursuant to the agreement, Sinopec Corp. provides the Group with crude oil, other petrochemical raw materials and agent services. On the other hand, the Group provides Sinopec Corp. with petroleum products, petrochemical products and property leasing services.

The pricing policy for these services and products provided under the agreement is as follows:

If there are applicable State (central and local government) tariffs, the pricing shall follow the State tariffs;

If there are no State tariffs, but there are applicable State's guidance prices, the pricing shall follow the State's guidance prices; or

If there are no State tariffs or State's guidance prices, the pricing shall be determined in accordance with the prevailing market prices (including any bidding prices).

*For the year ended 31 December 2016*
*(All amounts in thousands of Renminbi Yuan unless otherwise stated)*
*[English translation for reference only]*

# 7 Related parties and related party transactions *(Continued)*

## (5) Major related party transactions *(Continued)*

In addition to the related transaction disclosed in Note 4(9), Note 4(24), Note 4(28), Note 4(32), Note 4(40), other major related transactions between the Group and its related parties are as follows:

### (a) Purchases and sales of goods, rendering and receiving services

*Purchases of goods and receiving services:*

The Group

| Name of Related Parties | Category | Transaction type | 2016 Amount | 2016 Percentage of the same category (%) | 2015 Amount | 2015 Percentage of the same category (%) |
|---|---|---|---|---|---|---|
| Sinopec Corp., its subsidiaries and joint ventures | Purchases | Trade | 25,347,410 | 43.55% | 27,996,502 | 51.72% |
| Sinopec Group and its subsidiaries | Purchases | Trade | 1,002,777 | 1.73% | 421,803 | 0.78% |
| Associates of the Company | Purchases | Trade | 3,254,332 | 5.59% | 3,237,127 | 5.98% |
| Joint ventures of the Company | Purchases | Trade | 348,459 | 0.60% | 370,446 | 0.68% |
| Key management personnel | Short-term employee benefits | Compensation for services | 5,218 | 0.37% | 4,469 | 0.20% |
| Key management personnel | Retirement scheme contributions | Compensation for services | 148 | 0.01% | 147 | 0.01% |
| Key management personnel | Share-based payments | Compensation for services | 1,270 | 0.08% | 1,342 | 0.06% |

*Sales of goods, rendering services:*

The Group

| Name of Related Parties | Category | Transaction type | 2016 Amount | 2016 Percentage of the same category (%) | 2015 Amount | 2015 Percentage of the same category (%) |
|---|---|---|---|---|---|---|
| Sinopec Corp., its subsidiaries and joint ventures | Sales/ Service income | Trade | 38,898,236 | 49.94% | 45,742,257 | 56.61% |
| Sinopec Group and its subsidiaries | Sales/ Service income | Trade | 38,389 | 0.05% | 151,417 | 0.19% |
| Associates of the Company | Sales/ Service income | Trade | 1,812,651 | 2.33% | 1,167,099 | 1.44% |
| Joint ventures of the Company | Sales | Trade | 238,969 | 0.31% | 299,412 | 0.37% |

*For the year ended 31 December 2016*
*(All amounts in thousands of Renminbi Yuan unless otherwise stated)*
*[English translation for reference only]*

# 7 Related parties and related party transactions *(Continued)*

## (5) Major related party transactions *(Continued)*

### (b) Related party funding

In 2016, the Group and the Company did not borrow from Sinopec Finance Company Limited (2015: RMB5,720,000 thousands).

In 2016, the Group and the Company repaid to Sinopec Finance Company Limited amounting to RMB370,000 thousands (2015: RMB6,420,000 thousands).

### (c) Other related transactions

The Group

| | Transaction Type | 2016 | 2015 |
|---|---|---|---|
| Sinopec Group and its subsidiaries | Insurance premiums | 123,621 | 117,914 |
| Sinopec Group and its subsidiaries | Rental cost | 53,960 | – |
| Sinopec Finance Company Limited | Interests received and receivable | 243 | 595 |
| Sinopec Finance Company Limited | Interests paid and payable | 3,322 | 31,328 |
| Sinopec Group and its subsidiaries | Construction and installation cost | 177,792 | 158,822 |
| Sinopec Chemical Commercial Holding Company Limited | Sales commission | 100,221 | 112,245 |
| Sinopec Corp. and its subsidiaries | Rental income | 28,160 | 29,071 |

*For the year ended 31 December 2016*
*(All amounts in thousands of Renminbi Yuan unless otherwise stated)*
*[English translation for reference only]*

# 7 Related parties and related party transactions *(Continued)*

## (6) Receivables from and payables to related parties

**Receivables from related parties:**

The Group

| | | 31 December 2016 | 31 December 2015 |
|---|---|---|---|
| | | Amount | Amount |
| Cash at bank and on hand | Sinopec Group and its subsidiaries | 169,261 | 5,366 |
| Notes receivable | Sinopec Corp., its subsidiaries and joint ventures | 29,300 | 16,100 |
| Accounts receivable | Sinopec Corp., its subsidiaries and joint ventures | 1,178,168 | 1,074,194 |
| | Associates of the Group | 44,678 | 23,826 |
| | Joint ventures of the Group | 18,459 | 28,728 |
| | Sinopec Group and its subsidiaries | 331 | 9,263 |
| | | 1,241,636 | 1,136,011 |
| Other receivables | Sinopec Corp., its subsidiaries and joint ventures | 1,307 | 1,613 |
| | Associates of the Group | 179 | 735 |
| | Joint ventures of the Group | – | 1,704 |
| | | 1,486 | 4,052 |
| Advances to suppliers | Sinopec Corp., its subsidiaries and joint ventures | 18,197 | 6,966 |

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*(All amounts in thousands of Renminbi Yuan unless otherwise stated)*
*[English translation for reference only]*

# 7 Related parties and related party transactions *(Continued)*

## (6) Receivables from and payables to related parties *(Continued)*

**Payables to related parties:**

The Group

| | | 31 December 2016 | 31 December 2015 |
|---|---|---|---|
| Short-term borrowings | Sinopec Group and its subsidiaries | – | 370,000 |
| Interest payable | Sinopec Group and its subsidiaries | – | 248 |
| Accounts payable | Sinopec Corp., its subsidiaries and joint ventures | 2,589,376 | 1,226,822 |
| | Sinopec Group and its subsidiaries | 334,707 | 1,330 |
| | Associates of the Group | 19,332 | 191,395 |
| | Joint ventures of the Group | 15,151 | 36,099 |
| | | 2,958,566 | 1,455,646 |
| Other payables | Sinopec Group and its subsidiaries | 52,553 | 89,233 |
| | Sinopec Corp., its subsidiaries and joint ventures | 19,371 | 10,674 |
| | | 71,924 | 99,907 |
| Advances from customers | Sinopec Corp., its subsidiaries and joint ventures | 11,799 | 16,444 |
| | Associates of the Group | 1,485 | 1,191 |
| | Sinopec Group and its subsidiaries | 528 | 531 |
| | Joint ventures of the Group | 2 | – |
| | | 13,814 | 18,166 |

*For the year ended 31 December 2016*
*(All amounts in thousands of Renminbi Yuan unless otherwise stated)*
*[English translation for reference only]*

# 7 Related parties and related party transactions *(Continued)*

## (7) Commitments with related parties

Commitments with related parties contracted for by the Group at the balance sheet date but are not yet necessary to be recognized on the balance sheet are as follows:

### (i) Construction and installation cost:

| | 31 December 2016 | 31 December 2015 |
|---|---|---|
| Sinopec Group and its subsidiaries | 4,310 | 35,244 |

### (ii) Investment commitments with related parties

| | 31 December 2016 | 31 December 2015 |
|---|---|---|
| Capital contribution to Shanghai Secco | 111,263 | 111,263 |

Pursuant to the resolution of the 18th meeting of the 7th term of Board of Directors on 5 December 2013, it was approved to make capital contribution of USD30,017 thousands (RMB182,804 thousands equivalent) to Shanghai Secco, an associate of the Group. The capital to Shanghai Secco will be contributed in RMB by instalments. The capital contribution is mainly to meet the funding needs of the implementation of the "260,000 tons of AN-2 project" ("AN-2 project"), and "90,000 tons of BEU-2 project" ("BEU-2 project").

As at 10 December 2013, the Company contributed the first instalment of RMB60,000 thousands for AN-2 project. As at 5 March 2014, the Company contributed the first instalment of RMB11,541 thousands for BEU-2 project. According to the approval by Shanghai Municipal Commission of Commerce as issued on 19 October 2015, the rest of the capital contribution to Shanghai Secco should be within 50 years starting from its registration date.

Except for the above, the Group and the Company had no other material commitments with related parties at 31 December 2016, which are contracted, but not included in the financial statements.

### (iii) Operating lease commitments

| | 31 December 2016 | 31 December 2015 |
|---|---|---|
| | 53,960 | – |
| Within a year | 53,960 | – |
| | 107,920 | – |

*For the year ended 31 December 2016*
*(All amounts in thousands of Renminbi Yuan unless otherwise stated)*
*[English translation for reference only]*

# 8 Commitments

## (1) Capital commitments

Capital expenditures contracted for by the Group at the balance sheet date but are not yet necessary to be recognised on the balance sheet are as follows:

| | 31 December 2016 | 31 December 2015 |
|---|---|---|
| Purchase of fixed assets contracted but not provided for | 5,300 | 39,814 |
| Purchase of fixed assets authorised but not contracted for | 908,036 | 1,124,660 |
| | 913,336 | 1,164,474 |

## (2) Operating lease commitments

According to the irrevocable operating lease contracts that have been signed, the group should pay the future minimum rent payment summarized as follows:

| | 31 December 2016 | 31 December 2015 |
|---|---|---|
| Within a year | 60,125 | 4,576 |
| One to two years | 54,438 | 510 |
| Two to three years | 384 | 227 |
| More than three years | 3,207 | 3,453 |
| | 118,154 | 8,766 |

# 9 Financial instrument and risk

The Group's activities expose it to a variety of financial risks: market risk (primarily currency risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the Group's financial performance.

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*(All amounts in thousands of Renminbi Yuan unless otherwise stated)*
*[English translation for reference only]*

# 9 Financial instrument and risk *(Continued)*

## (1) Market risk

### (a) Foreign exchange risk

The Group's major operational activities are carried out in Mainland China and a majority of the transactions are denominated in RMB. Nevertheless the Group is exposed to foreign exchange risk arising from the recognised assets and liabilities, and future transactions denominated in foreign currencies, primarily with respect to US dollars. The Group's finance department at its headquarters is responsible for monitoring the amount of assets and liabilities, and transactions denominated in foreign currencies to minimise the foreign exchange risk.

The foreign exchange risk of the Group is arising from borrowings denominated in EUR. The Group purchased forward exchange contract to avoid foreign exchange risk arising from borrowing denominated in EUR. As at 31 December 2016, the Group does not have undue forward exchange contract.

As at 31 December 2016 and 31 December 2015, the carrying amounts in RMB equivalent of the Group's assets and liabilities denominated in foreign currencies are summarized below:

| | 31 December 2016 | | |
|---|---|---|---|
| | USD | Others | Total |
| Financial assets in foreign currencies– | | | |
| Cash at bank and on hand | 249,281 | – | 249,281 |
| Accounts receivable | 409,852 | – | 409,852 |
| | 659,133 | – | 659,133 |
| Financial liabilities in foreign currencies– | | | |
| Accounts payable | 1,275,985 | 124 | 1,276,109 |
| Other payables | 55 | – | 55 |
| | 1,276,040 | 124 | 1,276,164 |

*For the year ended 31 December 2016*
*(All amounts in thousands of Renminbi Yuan unless otherwise stated)*
*[English translation for reference only]*

# 9 Financial instrument and risk *(Continued)*

## (1) Market risk *(Continued)*

### (a) Foreign exchange risk *(Continued)*

| | 31 December 2015 | | |
|---|---|---|---|
| | USD | Others | Total |
| Financial assets in foreign currencies– | | | |
| Cash at bank and on hand | 86,109 | – | 86,109 |
| Accounts receivable | 406,006 | – | 406,006 |
| | 492,115 | – | 492,115 |
| Financial liabilities in foreign currencies– | | | |
| Accounts payable | 588,123 | 121 | 588,244 |
| Other payables | 16,020 | – | 16,020 |
| | 604,143 | 121 | 604,264 |

As at 31 December 2016, if the foreign currencies had weakened/strengthened by 5% against RMB with all other variables held constant, the Group's net profit for the year would have been 23,139 thousands increased/decreased (2015: RMB4,206 thousands increased/decreased in net profit) as a result of foreign exchange gains/losses which is mainly resulted from the translation of USD and EUR denominated short-term borrowings and trade payables.

# 9 Financial instrument and risk *(Continued)*

## (1) Market risk *(Continued)*

### (b) Interest rate risk

The Group's interest rate risk arises from short-term and long-term interest bearing borrowings. Financial liabilities issued at floating rates expose the Group to cash flow interest rate risk. Financial liabilities issued at fixed rates expose the Group to fair value interest rate risk. The Group determines the relative proportions of its fixed rate and floating rate contracts depending on the prevailing market conditions. As at 31 December 2016, the Group's short-term and long-term interest bearing borrowings denominated with floating rates amounting to RMB46,432 thousands (31 December 2015: RMB2,000,000 thousands).

The Group's finance department at its headquarters continuously monitors the interest rate position of the Group. Increases in interest rates will increase the cost of new borrowing and the interest expenses with respect to the Group's outstanding floating rate borrowings, and therefore could have a material adverse effect on the Group's financial position. The Group makes adjustments timely with reference to the latest market conditions and may enter into interest rate swap agreements to mitigate its exposure to interest rate risk. During the year 2016 and 2015, the Group did not enter into any interest rate swap agreements.

As at 31 December 2016, if interest rates on the floating rate borrowings had risen/fallen by 50 basis points while all other variables had been held constant, the Group's net profit would have decreased/increased by approximately RMB174 thousands (31 December 2015: RMB7,500 thousands decreased/increased in net profit).

## (2) Credit risk

Credit risk is managed on the grouping basis. Credit risk mainly arises from cash at bank, accounts receivable, other receivables, notes receivable etc.

The Group expects that there is no significant credit risk associated with cash at bank since they are deposited at state-owned banks and other medium or large size listed banks. Management does not expect that there will be any significant losses from non-performance by these counterparties.

In addition, the Group has policies to limit the credit exposure on accounts receivable, other receivables and notes receivable. The Group assesses the credit quality of and sets credit limits on its customers by taking into account their financial position, the availability of guarantee from third parties, their credit history and other factors such as current market conditions. The credit history of the customers is regularly monitored by the Group. In respect of customers with a poor credit history, the Group will use written payment reminders, or shorten or cancel credit periods, to ensure the overall credit risk of the Group is limited to a controllable extent.

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*(All amounts in thousands of Renminbi Yuan unless otherwise stated)*
*[English translation for reference only]*

## 9 Financial instrument and risk *(Continued)*

### (3) Liquidity risk

Cash flow forecasting is performed by each subsidiary of the Group and aggregated by the Group's finance department in its headquarters. The Group's finance department at its headquarters monitors rolling forecasts of the Group's short-term and long-term liquidity requirements to ensure it has sufficient cash and securities that are readily convertible to cash to meet operational needs, while maintaining sufficient headroom on its undrawn committed borrowing facilities from major financial institutions so that the Group does not breach borrowing limits or covenants on any of its borrowing facilities to meet the short-term and long-term liquidity requirements.

At 31 December 2016, the Group had facilities up to RMB23,664,190 thousands to issue letters of credit, of which RMB21,959,224 thousands was unutilised.

The financial assets and liabilities of the Group at the balance sheet date are analysed by their maturity date below at their undiscounted contractual cash flows:

| | 31 December 2016 | | | | |
|---|---|---|---|---|---|
| | **Within 1 year** | **1 to 2 years** | **2 to 5 years** | **Over 5 years** | **Total** |
| Short-term borrowings | **546,432** | **–** | **–** | **–** | **546,432** |
| Notes payable | **5,000** | **–** | **–** | **–** | **5,000** |
| Accounts payable | **5,082,470** | **–** | **–** | **–** | **5,082,470** |
| Interest payable | **12,617** | **–** | **–** | **–** | **12,617** |
| Dividends payable | **20,473** | **–** | **–** | **–** | **20,473** |
| Other payables | **614,668** | **–** | **–** | **–** | **614,668** |
| | **6,281,660** | **–** | **–** | **–** | **6,281,660** |

| | 31 December 2015 | | | | |
|---|---|---|---|---|---|
| | Within 1 year | 1 to 2 years | 2 to 5 years | Over 5 years | Total |
| Short-term borrowings | 2,070,000 | – | – | – | 2,070,000 |
| Accounts payable | 3,017,878 | – | – | – | 3,017,878 |
| Interest payable | 35,771 | – | – | – | 35,771 |
| Dividends payable | 19,119 | – | – | – | 19,119 |
| Other payables | 629,080 | – | – | – | 629,080 |
| | 5,771,848 | – | – | – | 5,771,848 |

*For the year ended 31 December 2016*
*(All amounts in thousands of Renminbi Yuan unless otherwise stated)*
*[English translation for reference only]*

## 10 Fair value estimation

The level in which fair value measurement is categorised is determined by the level of the fair value hierarchy of the lowest level input that is significant to the entire fair value measurement:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities.

Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3: Unobservable inputs for the asset or liability.

(1) The Group does not have assets measured at fair value on a recurring or non-recurring basis.

(2) Financial assets and financial liabilities not measured at fair value but disclosed it

Financial assets and liabilities measured at amortised cost mainly include notes receivable, trade receivables and other receivables, current portion of entrust lendings, short-term borrowings, trade and other payables, notes payable.

As at 31 December 2016, the carrying amounts of these financial assets and liabilities not measured at fair value are a reasonable approximation of their fair value.

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*(All amounts in thousands of Renminbi Yuan unless otherwise stated)*
*[English translation for reference only]*

# 11 Offsetting financial assets and financial liabilities

## (1) Financial assets

The following financial assets are subject to offsetting arrangements:

| | **31 December 2016** | 31 December 2015 |
|---|---|---|
| Gross amounts of recognised amounts due from related parties | **1,769,403** | 1,688,463 |
| Gross amounts of recognised amounts due to related parties set off in the balance sheet | **(112,823)** | (63,892) |
| Net amounts of amounts due from related parties presented in the balance sheet | **1,656,580** | 1,624,571 |

## (2) Financial liabilities

The following financial liabilities are subject to offsetting arrangements:

| | **31 December 2016** | 31 December 2015 |
|---|---|---|
| Gross amounts of recognised amounts due to related parties | **5,195,293** | 3,081,770 |
| Gross amounts of recognised amounts due from related parties set off in the balance sheet | **(112,823)** | (63,892) |
| Net amounts of amounts due to related parties presented in the balance sheet | **5,082,470** | 3,017,878 |

According to the offsetting master arrangements entered into in October 2014 between the Company and its related party, Shanghai Secco Petrochemical Company Limited ("Shanghai Secco") and in December 2016 between the Company and its related party, BOC-SPC Gases Company Limited ("BOC"), the relevant financial assets and liabilities of each operating agreement between the Company and Shanghai Secco and those between the Company and BOC, are settled on a net basis periodically.

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*(All amounts in thousands of Renminbi Yuan unless otherwise stated)*
*[English translation for reference only]*

## 12 Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings (including 'current and non-current borrowings' as shown in the consolidated balance sheet) less cash and cash equivalents. Total capital is calculated as 'equity' as shown in the consolidated balance sheet plus net debt.

As cash and cash equivalents exceed total borrowings, which was resulted primarily from the significantly improved profitability and the early repayment of some bank loans before its maturity, there was no net debt as at 31 December 2016.

The gearing ratios at 31 December 2016 and 31 December 2015 were as follows:

| | 31 December 2015 |
|---|---|
| Short-term borrowings (Note 4(17)) | 2,070,000 |
| Less: cash and cash equivalents (Note 4(1)) | (1,077,430) |
| Net debt | 992,570 |
| Add: total Equity | 20,135,900 |
| Total Capital | 21,128,470 |
| Gearing ratio | 4.70% |

*For the year ended 31 December 2016*
*(All amounts in thousands of Renminbi Yuan unless otherwise stated)*
*[English translation for reference only]*

## 13 Notes to major items of the Company's financial statements

### (1) Accounts receivable

| | 31 December 2016 | 31 December 2015 |
|---|---|---|
| Amounts due from related parties | 1,207,477 | 1,030,518 |
| Amounts due from third parties | 3,580 | 3,792 |
| | 1,211,057 | 1,034,310 |
| Less: provision for bad debts | (18) | (24) |
| | 1,211,039 | 1,034,286 |

**(a)** The ageing of accounts receivable is analysed as follows:

| | 31 December 2016 | 31 December 2015 |
|---|---|---|
| Within one year | 1,211,018 | 1,034,245 |
| Over one year but within two years | 24 | 55 |
| Over two years but within three years | 10 | 7 |
| Over three years | 5 | 3 |
| | 1,211,057 | 1,034,310 |
| Less: Provision for bad debts | (18) | (24) |
| | 1,211,039 | 1,034,286 |

As at 31 December 2016 and at 31 December 2016, the Company has no any significant overdue accounts receivable.

*For the year ended 31 December 2016*
*(All amounts in thousands of Renminbi Yuan unless otherwise stated)*
*[English translation for reference only]*

# 13 Notes to major items of the Company's financial statements *(Continued)*

## (1) Accounts receivable *(Continued)*

**(b)** Accounts receivables are analysed by categories as follows:

| | 31 December 2016 | | | | 31 December 2015 | | | |
|---|---|---|---|---|---|---|---|---|
| | Gross carrying amount | | Provision for bad debts | | Gross carrying amount | | Provision for bad debts | |
| | Amount | Percentage (%) | Amount | Percentage (%) | Amount | Percentage (%) | Amount | Percentage (%) |
| Individually significant and subject to separate provision | – | – | – | – | – | – | – | – |
| Subject to provision by groups: | | | | | | | | |
| -Group 1 | 3,580 | 0.30 | 18 | 0.50 | 3,792 | 0.37 | 24 | 0.63 |
| -Group 2 | 1,207,477 | 99.70 | – | – | 1,030,518 | 99.63 | – | – |
| Individually insignificant but subject to separate provision | – | – | – | – | – | – | – | – |
| | 1,211,057 | 100.00 | 18 | – | 1,034,310 | 100.00 | 24 | – |

Classification of accounts receivable: refer to Note 2(10)(b)

**(c)** Subject to provision by group 1 are as follows:

| | 31 December 2016 | | | 31 December 2015 | | |
|---|---|---|---|---|---|---|
| | Gross carrying amount | Provision for bad debts | | Gross carrying amount | Provision for bad debts | |
| | Amount | Amount | Percentage (%) | Amount | Amount | Percentage (%) |
| Within one year | 3,541 | – | – | 3,727 | – | – |
| Over one year but within two years | 24 | 7 | 30.00 | 55 | 17 | 30.00 |
| Over two years but within three years | 10 | 6 | 60.00 | 7 | 4 | 60.00 |
| Over three years | 5 | 5 | 100.00 | 3 | 3 | 100.00 |
| | 3,580 | 18 | – | 3,792 | 24 | – |

There are no collateral over the above accounts receivable with provision for bad debts.

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*(All amounts in thousands of Renminbi Yuan unless otherwise stated)*
*[English translation for reference only]*

# 13 Notes to major items of the Company's financial statements *(Continued)*

## (1) Accounts receivable *(Continued)*

**(d)** In 2016, the Company assessed the impairment on an individual basis in accordance with the accounting policy as described in Note 2(10), and there were no provision for accounts receivable that are individually significant or insignificant but assessed for impairment individually.

**(e)** In 2016, the Company had no accounts receivable with fully or substantially write-off or write-back of bad debts which had been fully or substantially provided for in prior years.

**(f)** In 2016, the Company had no significant accounts receivable that are written off.

**(g)** As at 31 December 2016, top five accounts receivable are summarized as follows:

| | Amount | Bad debt | Percentage of total accounts receivable |
|---|---|---|---|
| Total amount of top five accounts receivable | 1,159,322 | – | 95.73% |

**(h)** Accounts receivable from related parties are analysed as below:

| | 31 December 2016 | | | 31 December 2015 | | |
|---|---|---|---|---|---|---|
| | Amount | Percentage of total accounts receivable | Provision for bad debts | Amount | Percentage of total accounts receivable | Provision for bad debts |
| Sinopec Corp., its subsidiaries and joint ventures | 1,113,313 | 91.93 | – | 988,850 | 95.60 | – |
| Sinopec Group and its subsidiaries | 331 | 0.03 | – | 1,454 | 0.14 | – |
| Subsidiaries of the Company | 30,696 | 2.53 | – | 11,275 | 1.09 | – |
| Associates of the Company | 44,678 | 3.69 | – | 211 | 0.02 | – |
| Joint ventures of the Company | 18,459 | 1.52 | – | 28,728 | 2.78 | – |
| | 1,207,477 | 99.70 | – | 1,030,518 | 99.63 | – |

**(i)** There are no accounts receivables derecognized due to the transfer of financial assets during the current year.

**(j)** As at 31 December 2016, there are no accounts receivables pledged (31 December 2015: Nil).

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*(All amounts in thousands of Renminbi Yuan unless otherwise stated)*
*[English translation for reference only]*

## 13 Notes to major items of the Company's financial statements *(Continued)*

### (2) Other receivables

| | 31 December 2016 | 31 December 2015 |
|---|---|---|
| Amounts due from related parties | 827,158 | 801,124 |
| Amounts due from third parties | 34,901 | 7,436 |
| | 862,059 | 808,560 |
| Less: provision for bad debts | (825,714) | (797,592) |
| | 36,345 | 10,968 |

**(a)** The ageing of other receivables is analysed as follows:

| | 31 December 2016 | 31 December 2015 |
|---|---|---|
| Within one year | 64,498 | 41,528 |
| Over one year but within two years | 30,699 | 30,950 |
| Over two years but within three years | 30,950 | 31,230 |
| Over three years | 735,912 | 704,852 |
| | 862,059 | 808,560 |
| Less: provision for bad debts | (825,714) | (797,592) |
| | 36,345 | 10,968 |

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*(All amounts in thousands of Renminbi Yuan unless otherwise stated)*
*[English translation for reference only]*

# 13 Notes to major items of the Company's financial statements *(Continued)*

## (2) Other receivables *(Continued)*

**(b)** Other receivables by categories are analysed as follows:

| | 31 December 2016 | | | | 31 December 2015 | | | |
|---|---|---|---|---|---|---|---|---|
| | Gross carrying amount | | Provision for bad debts | | Gross carrying amount | | Provision for bad debts | |
| | Amount | Percent-age (%) | Amount | Percent-age (%) | Amount | Percent-age (%) | Amount | Percent-age (%) |
| Individually significant and subject to separate provision | 825,672 | 95.78 | 825,672 | 100.00 | 797,422 | 98.62 | 797,422 | 100.00 |
| Subject to provision by groups: | | | | | | | | |
| – Group 1 | 34,901 | 4.05 | 42 | 0.12 | 7,436 | 0.92 | 170 | 2.29 |
| – Group 2 | 1,486 | 0.17 | – | – | 3,702 | 0.46 | – | – |
| Individually insignificant but subject to separate provision | – | – | – | – | – | – | – | – |
| | 862,059 | 100.00 | 825,714 | – | 808,560 | 100.00 | 797,592 | – |

Classification of other receivable: refer to Note 2(10)(b)

**(c)** Subject to provision by group 1 are as follows:

| | 31 December 2016 | | | 31 December 2015 | | |
|---|---|---|---|---|---|---|
| | Gross carrying amount | Provision for bad debts | | Gross carrying amount | Provision for bad debts | |
| | Amount | Amount | Percent-age (%) | Amount | Amount | Percent-age (%) |
| Within one year | 34,762 | – | – | 7,266 | – | – |
| Over one year but within two years | 139 | 42 | 30.00 | – | – | – |
| Over two years but within three years | – | – | – | – | – | – |
| Over three years | – | – | – | 170 | 170 | 100.00 |
| | 34,901 | 42 | – | 7,436 | 170 | – |

*For the year ended 31 December 2016*
*(All amounts in thousands of Renminbi Yuan unless otherwise stated)*
*[English translation for reference only]*

## 13 Notes to major items of the Company's financial statements *(Continued)*

### (2) Other receivables *(Continued)*

**(d)** As accounting policies stated in Note 2(10), the following amounts individually significant were subject to bad debt provision in this year, an accumulated bad debt provision for other receivables from the Company's consolidated subsidiary Jinyong was RMB825,672 thousands (31 December 2015: RMB797,422 thousands). Jinyong stopped production till now since August 2008. The additions in this year included labor cost, tax expenses and other fixed expenditures paid by the Company on behalf of Jinyong. The Company provided a full bad debt provision based on the assessment on the possibility of recovery of other receivables. No provision was recognised for other receivables which were not individually significant but subject to bad debt provision. (31 December 2015: Nil).

**(e)** In 2016, the Company had no other receivable with fully or substantially write-off or write-back of bad debts which had been fully or substantially provided for in prior years.

**(f)** In 2016, the Company had no significant other receivable that are written off.

**(g)** As at 31 December 2016, the top five other receivables are as follows:

| | Nature | Amount | Ageing | Percentage of total other receivables | Bad debts |
|---|---|---|---|---|---|
| Zhejiang Jinyong | Disbursement fee | 825,672 | Partially over 3 years | 95.78% | 825,672 |
| Jinshan Tax Bureau | Consumption tax refund | 31,489 | Within 1 year | 3.65% | – |
| Sinopec Huadong Sales Company Limited | Business transaction | 1,307 | Within 1 year | 0.15% | – |
| Shanghai Guangfa Environmental Protection Materials Company Limited | Business transaction | 432 | Within 1 year | 0.05% | – |
| Shanghai Secco Petrochemical Company Limited ("Shanghai Secco") | Business transaction | 179 | Within 1 year | 0.02% | – |
| | | 859,079 | | 99.65% | 825,672 |

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*(All amounts in thousands of Renminbi Yuan unless otherwise stated)*
*[English translation for reference only]*

## 13 Notes to major items of the Company's financial statements *(Continued)*

### (3) Long-term equity investments

| | 31 December 2016 | 31 December 2015 |
|---|---|---|
| Subsidiaries (a) | **1,718,007** | 1,718,007 |
| Associates (b) | **3,482,354** | 3,059,619 |
| | **5,200,361** | 4,777,626 |
| Less: Provision for impairment of long-term equity investments | **(227,500)** | (227,500) |
| | **4,972,861** | 4,550,126 |

As at 31 December 2016, the Company has made full provision for the long-term equity investments in its subsidiary Jinyong amounted to RMB227,500 thousands (31 December 2015: RMB227,500 thousands). Jinyong stopped production periodically till now since August 2008. The Company has made full provision for the investment cost based on the estimate of recoverable amount of the Long-term equity investments in this subsidiary.

#### (a) Subsidiaries

| | 31 December 2015 | Additional/ negative investment | 31 December 2016 | Impairment provision | Cash dividends declared in current year |
|---|---|---|---|---|---|
| Toufa | 1,473,675 | – | **1,473,675** | – | 40,000 |
| Jinyong | 227,500 | – | **227,500** | (227,500) | – |
| Jinmao Company | 16,832 | – | **16,832** | – | 6,733 |
| | 1,718,007 | – | **1,718,007** | (227,500) | 46,733 |

#### (b) Associates

The information relating to the associates of the Company is disclosed in Note 4 (9(b)).

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*(All amounts in thousands of Renminbi Yuan unless otherwise stated)*
*[English translation for reference only]*

## 13 Notes to major items of the Company's financial statements *(Continued)*

### (4) Fixed assets

| | Buildings | Plant and machinery | Vehicles and other equipment | Total |
|---|---|---|---|---|
| **Cost** | | | | |
| 31 December 2015 | 3,235,000 | 39,034,533 | 1,674,921 | 43,944,454 |
| Reclassification in current year | (3,808) | (6,558) | 10,366 | – |
| Transfer from investment properties in current year | 16,390 | – | – | 16,390 |
| Increase in current year | 195 | 148,720 | 14,768 | 163,683 |
| Transfer from construction in progress | 28,652 | 757,085 | 41,823 | 827,560 |
| Decrease in current year | (13,698) | (499,126) | (45,655) | (558,479) |
| Transfer to investment properties | (51,346) | – | – | (51,346) |
| 31 December 2016 | 3,211,385 | 39,434,654 | 1,696,223 | 44,342,262 |
| **Accumulated depreciation** | | | | |
| 31 December 2015 | 1,936,698 | 26,053,734 | 1,331,906 | 29,322,338 |
| Reclassification in current year | 384 | (985) | 601 | – |
| Transfer from investment properties in current year | 4,803 | – | – | 4,803 |
| Current year charges | 89,614 | 1,439,494 | 61,248 | 1,590,356 |
| Decrease in current year | (12,398) | (409,115) | (43,602) | (465,115) |
| Transfer to investment properties | (15,045) | – | – | (15,045) |
| 31 December 2016 | 2,004,056 | 27,083,128 | 1,350,153 | 30,437,337 |
| **Provision for impairment** | | | | |
| 31 December 2015 | 50,785 | 484,536 | 6,138 | 541,459 |
| Current year charges | – | 197,616 | 2,585 | 200,201 |
| Decrease in current year | – | (56,729) | – | (56,729) |
| 31 December 2016 | 50,785 | 625,423 | 8,723 | 684,931 |
| **Carrying amount** | | | | |
| 31 December 2016 | 1,156,544 | 11,726,103 | 337,347 | 13,219,994 |
| 31 December 2015 | 1,247,517 | 12,496,263 | 336,877 | 14,080,657 |

*For the year ended 31 December 2016*
*(All amounts in thousands of Renminbi Yuan unless otherwise stated)*
*[English translation for reference only]*

## 13 Notes to major items of the Company's financial statements *(Continued)*

### (4) Fixed assets *(Continued)*

During the year ended 31 December 2016, the Company and its subsidiaries made impairment provision of RMB200,201 thousands against these property, plant and equipment which will be redundant and replaced by new facilities (2015: RMB50,001 thousands).

At 31 December 2016 and 31 December 2015, the Company had no pledged fixed assets. In 2016, the depreciation expenses amounted to RMB1,590,356 thousands (2016: RMB1,688,870 thousands). The amount of depreciation expense charged to cost of sales, selling and distribution expenses, general and administrative expenses were RMB1,502,938 thousands, RMB8,395 thousands and RMB79,023 thousands, respectively (2015: were RMB1,600,206 thousands, RMB2,136 thousands and RMB86,528 thousands, respectively).

In 2016, the fixed assets with a carrying amount of RMB827,560 thousands (2015: RMB478,885 thousands) was transferred from construction in progress.

### (5) Revenue and cost of sales

| | 2016 | | 2015 | |
|---|---|---|---|---|
| | Revenue | Cost of sales | Revenue | Cost of sales |
| Main operations (a) | 55,162,342 | 33,366,976 | 64,465,507 | 44,197,226 |
| Other operations | 518,342 | 448,141 | 492,672 | 388,159 |
| | 55,680,684 | 33,815,117 | 64,958,179 | 44,585,385 |

**(a) Revenue and cost of sales**

The company's main business belongs to the petrochemical industry.

Product analysis as follows:

| | 2016 | | 2015 | |
|---|---|---|---|---|
| | Revenue | Cost of sales | Revenue | Cost of sales |
| Synthetic fiber | 1,915,242 | 1,920,884 | 2,397,015 | 2,368,244 |
| Resin and plastic | 8,724,576 | 5,987,910 | 8,602,955 | 6,548,454 |
| Intermediate petrochemical products | 9,081,678 | 5,978,248 | 9,569,119 | 7,207,375 |
| Petroleum products | 34,969,859 | 19,232,429 | 43,393,368 | 27,797,549 |
| Other products | 470,987 | 247,505 | 503,050 | 275,604 |
| | 55,162,342 | 33,366,976 | 64,465,507 | 44,197,226 |

*For the year ended 31 December 2016*
*(All amounts in thousands of Renminbi Yuan unless otherwise stated)*
*[English translation for reference only]*

# 13 Notes to major items of the Company's financial statements *(Continued)*

## (6) Investment income

| | 2016 | 2015 |
|---|---|---|
| Investment accounted for using the cost method (a) | 46,733 | 6,733 |
| Investment accounted for using the equity method (b) | 911,939 | 520,718 |
| Gain on forward contract | – | 37,154 |
| | 958,672 | 564,605 |

There are no severe restrictions on the investee's ability to transfer investment income to the Company.

(a) Income from long-term equity investments accounted for using the cost method is as follow:

| | 2016 | 2015 |
|---|---|---|
| China Jinshan Associated Trading Corporation | 6,733 | 6,733 |
| Shanghai Petrochemical Investment Development Company Limited | 40,000 | – |
| | 46,733 | 6,733 |

(b) Income from long-term equity investments accounted for using the equity method is as follow:

| | 2016 | 2015 |
|---|---|---|
| Shanghai Secco Petrochemical Company Limited | 742,717 | 437,054 |
| Shanghai Chemical Industrial Park Development Company Limited | 169,222 | 83,664 |
| | 911,939 | 520,718 |

*For the year ended 31 December 2016*
*(All amounts in thousands of Renminbi Yuan unless otherwise stated)*
*[English translation for reference only]*

# 13 Notes to major items of the Company's financial statements *(Continued)*

## (7) Supplementary information on cash flow statements

### (a) Reconciliation from net profit to cash flow from operating activities

| | 2016 | 2015 |
|---|---|---|
| Net profit | 6,071,411 | 3,194,290 |
| Add: Provisions for assets impairment | 306,220 | 112,649 |
| Depreciation of investment properties | 13,351 | 13,342 |
| Depreciation of fixed assets | 1,590,356 | 1,688,870 |
| Amortisation of intangible assets | 12,317 | 12,317 |
| Amortization of long-term deferred expense | 225,151 | 303,443 |
| Losses on disposal of fixed assets | 28,044 | 9,843 |
| Financial (income)/expenses-net | (58,116) | 262,575 |
| Investment income | (958,672) | (564,605) |
| (Increase)/Decrease in deferred tax assets | (36,190) | 842,319 |
| Decrease in deferred income | (10,000) | (26,436) |
| (Increase)/Decrease in inventories | (1,496,717) | 1,478,362 |
| (Increase)/Decrease in operating receivables | (935,670) | 47,857 |
| Increase/(Decrease) in operating payables | 1,939,961 | (2,304,480) |
| Offsetted accounts receivable in the offset agreement (note 11) | (1,017,666) | 927,225 |
| Offsetted accounts payable in the offset agreement (note 11) | 1,017,666 | (927,225) |
| Share-based payments expense | 18,004 | 22,702 |
| Net cash inflow generated from operating activities | 6,709,450 | 5,093,048 |

### (b) Net increase in cash and cash equivalents

| | 2016 | 2015 |
|---|---|---|
| Cash and cash equivalents balance at the end of the year | 4,421,143 | 942,264 |
| Less: cash and cash equivalents balance at the beginning of the year | (942,264) | (186,348) |
| Net increase in cash and cash equivalents | 3,478,879 | 755,916 |

# Supplementary Information to the Financial Statements

*For the year ended 31 December 2016*
*(All amounts in thousands of Renminbi Yuan unless otherwise stated)*
*[English translation for reference only]*

## 1 Non-recurring items

| | 2016 | 2015 |
|---|---|---|
| Losses on disposal of non-current assets | (42,031) | (9,393) |
| Government grants recognised through profit or loss | 154,631 | 160,116 |
| Employee reduction expenses | (19,200) | (24,892) |
| Income from external entrusted lendings | 1,818 | 2,880 |
| Gain on forward contract | – | 37,154 |
| Other non-operating expenses other than those mentioned above | (47,281) | (10,280) |
| Tax effect for the above items | (12,635) | (38,538) |
| Effect on non-controlling interests after tax | (1,714) | (1,525) |
| | 33,588 | 115,522 |

### Basis of preparation for extraordinary profit and loss

Pursuant to Announcement [2008] Explanatory Announcement No.1 on Information Disclosure for Companies Offering Their Securities to the Public issued by China Securities regulatory commission (CSRC), extraordinary profit and loss arises in various trading and issues that have no direct relation with the normal operations of a company, or that are related with normal operations but affect the users of the statement to make reasonable judgment of the Company's operation performance and profitability due to the special and occasional nature of such trading and issues.

*For the year ended 31 December 2016*
*(All amounts in thousands of Renminbi Yuan unless otherwise stated)*
*[English translation for reference only]*

## 2 Reconciliation between financial statements prepared under CAS and IFRS

The Company is listed on the Stoke Exchange of Hong Kong. The Group prepared financial statements under International Financial Reporting Standards ("IFRS") which is audited by PricewaterhouseCoopers. There are reconciliation items in the consolidated financial report prepared under CAS and IFRS, the reconciliation items and the amount are listed as follows:

| | Net profit (Consolidated) | | Net assets (Consolidated) | |
|---|---|---|---|---|
| | 2016 | 2015 | 31 December 2016 | 31 December 2015 |
| Under CAS | 5,968,583 | 3,281,952 | 25,031,318 | 20,135,900 |
| Adjustments under IFRS– | | | | |
| Government grants (a) | 13,497 | 28,771 | (28,083) | (41,580) |
| Safety production costs (b) | (607) | (312) | – | – |
| Under IFRS | 5,981,473 | 3,310,411 | 25,003,235 | 20,094,320 |

Notes:

**(a) Government grants**

Under CAS, government subsidies defined as capital contributions according to the relevant government requirements are not considered a government grant, but instead should be recorded as an increase in capital reserves.

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

**(b) Safety production costs**

Under CAS, safety production costs should be recognised in profit or loss with a corresponding increase in reserve according to PRC regulations. Such reserve is reduced for expenses incurred for safety production purposes or, when safety production related fixed assets are purchased, is reduced by the purchased cost with a corresponding increase in the accumulated depreciation. Such fixed assets are not depreciated thereafter. Under IFRS, expenses are recognised in profit or loss when incurred, and property, plant and equipment are depreciated with applicable methods.

## 3 Return on net assets and earnings per share

| | Weighted average return on net assets (%) | | Earnings per share | | | |
|---|---|---|---|---|---|---|
| | | | Basic (RMB) | | Diluted (RMB) | |
| | 2016 | 2015 | 2016 | 2015 | 2016 | 2015 |
| Net profit attributable to shareholders of the Company | 26.383 | 17.831 | 0.551 | 0.301 | 0.551 | 0.300 |
| Net profit attributable to shareholders of the Company excluding non-recurring items | 26.254 | 17.251 | 0.548 | 0.290 | 0.548 | 0.290 |

# Written Confirmation Issued by Directors, Supervisors and Senior Management

Pursuant to the requirements of Article 68 of the Securities Law and the relevant requirements of the Regulation on the Preparation of Information Disclosure Contents and Formats of Information Disclosure by Listed Companies No. 2 – Contents and Formats of Annual Reports (Revised in 2016) (《公開發行證券的公司信息披露內容與格式準則第2號〈年度報告的內容與格式〉》（2016年修訂）), we, being Directors, Supervisors and senior management of the Company, having carefully studied and reviewed the Company's 2016 annual report, are in the opinion that the Company was in strict compliance with the standardised regulations of financial system of joint stock companies. The 2016 annual report gave a true account of the financial position and operating results of the Company. The 2016 Auditor's Reports of Sinopec Shanghai Petrochemical Company Limited issued by PricewaterhouseCoopers and PricewaterhouseCoopers Zhong Tian LLP, respectively, are true and fair. We warrant that the information contained in the 2016 annual report is true, accurate and complete, and that there are no false or misleading statements contained in or material omissions from the report. We jointly and severally accept full responsibility for the authenticity, accuracy and completeness of the information contained in the report.

**Signature:**

**Directors:**

Wang Zhiqing

Wu Haijun

Gao Jinping

Jin Qiang

Guo Xiaojun

Lei Dianwu

Mo Zhenglin

Choi Ting Ki

Zhang Yimin

Liu Yunhong

Du Weifeng

**Supervisors:**

Zuo Qiang

Li Xiaoxia

Zhai Yalin

Zheng Yunrui

Pan Fei

**Senior Management:**

Zhang Jianbo

Jin Wenmin

Zhou Meiyun

# Corporate Information

**(1) Corporate Information**

| | |
|---|---|
| Chinese Name of the Company | 中國石化上海石油化工股份有限公司 |
| Chinese Short Name of the Company | 上海石化 |
| English Name of the Company | Sinopec Shanghai Petrochemical Company Limited |
| Abbreviation of the English Name of the Company | SPC |
| Legal Representative of the Company | Wang Zhiqing |

**(2) Contact Persons and Contact Details**

| | Secretary to the Board | Securities Affairs Representative |
|---|---|---|
| Name | Zhang Jianbo | Wu Yuhong |
| Address | 48 Jinyi Road, Jinshan District, Shanghai, PRC<br>Postal Code: 200540 | 48 Jinyi Road, Jinshan District, Shanghai, PRC<br>Postal Code 200540 |
| Tel | 8621-57943143 | 8621-57933728 |
| Fax | 8621-57940050 | 8621-57940050 |
| E-mail | zhangjb@spc.com.cn | wuyh@spc.com.cn |

**(3) Basic Information**

| | |
|---|---|
| Registered Address | 48 Jinyi Road, Jinshan District, Shanghai, PRC |
| Postal Code of Registered Address | 200540 |
| Business Address | 48 Jinyi Road, Jinshan District, Shanghai, PRC |
| Postal Code of the Business Address | 200540 |
| Principal Place of Business in Hong Kong | Room 605, Island Place Tower, 510 King's Road, Hong Kong |
| Website of the Company | www.spc.com.cn |
| E-mail address | spc@spc.com.cn |

**(4) Information Disclosure and Access**

| | |
|---|---|
| Designated newspapers for the publication of the Company's announcements | "Shanghai Securities News", "China Securities Journal" and "Securities Times" |
| Websites for the publication of the Company's annual reports | Shanghai Stock Exchange website, Hong Kong Stock Exchange website and the website of the Company |
| Place for access to the Company's annual reports | Secretariat Office to the Board, 48 Jinyi Road, Jinshan District, Shanghai, PRC |

**(5) Shares Profile of the Company**

| Share Type | Place of Listing | Stock Short Name | Stock Code |
|---|---|---|---|
| A Shares | Shanghai Stock Exchange | 上海石化 | 600688 |
| H Shares | Hong Kong Stock Exchange | SHANGHAI PECHEM | 00338 |
| American Depository Receipts ("ADR") | New York Stock Exchange | SHI | – |

**(6) Other Relevant Information**

**Auditors Engaged by the Company (Domestic)**

| | |
|---|---|
| Name | PricewaterhouseCoopers Zhong Tian LLP |
| Address | 11/F., PricewaterhouseCoopers Center, 2 Corporate Avenue, 202 Hu Bin Road, Huangpu District, Shanghai 200021, PRC |
| Signing Auditors | Xu Hong, Huang Fuhao |

**Auditors Engaged by the Company (International)**

| | |
|---|---|
| Name | PricewaterhouseCoopers |
| Address | 22/F, Prince's Building, 10 Chater Road, Central, Hong Kong |
| Signing Auditors | Han Zongqing |

**Legal Advisors:**

| | |
|---|---|
| PRC Law: | Haiwen & Partners<br>20th Floor, Fortune & Finance Center<br>No.5 Dong San Huan Central Road<br>Chaoyang District, Beijing, PRC<br>Postal Code: 100020 |
| Hong Kong Law: | Freshfields Bruckhaus Deringer<br>11th Floor, Two Exchange Square<br>Central, Hong Kong |
| United States Law: | Morrison & Foerster<br>425 Market Street<br>San Francisco, California 94105-2482<br>U.S.A. |
| Joint Company Secretaries: | Zhang Jianbo, Ng Sin Yee, Clare |
| Authorised Representatives for Hong Kong Stock Exchange: | Wang Zhiqing, Zhang Jianbo |
| H Shares Share Registrar: | Hong Kong Registrars Limited<br>Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong |
| ADR Depositary: | The Bank of New York Mellon<br>Computershare<br>P.O. Box 30170<br>College Station, TX 77842-3170<br>U.S.A.<br>Number for International Calls: 1-201-680-6921<br>Email: shrrelations@cpushareownerservices.com<br>Website: www.mybnymdr.com |

# Documents for Inspection

1. Financial statements signed and sealed by the Chairman, the Chief Financial Officer and the Deputy Director of the Finance Department.

2. Original signed independent auditor's report of international auditors and auditor's report of the domestic auditors.

3. Originals of all documents and announcements of the Company which were disclosed in the newspapers designated by CSRC during the Reporting Period.

4. Written confirmation of the annual report signed by the Directors, Supervisors and senior management.

Chairman: Wang Zhiqing

Date of approval by the Board: 15 March 2017

This annual report is published in both Chinese and English. Should any conflict regarding meaning arises, the Chinese version shall prevail (unless otherwise provided).