SINOPEC SHANGHAI PETROCHEMICAL CO LTD
Form 20-F
April 29, 2019
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 20-F

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

OR

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

For the fiscal year ended December 31, 2018

OR

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

OR

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

Date of event requiring this shell company report

For the transition period from _______ to _______

Commission file number 1-12158

(Exact name of Registrant as specified in its charter)

Sinopec Shanghai Petrochemical Company Limited

(Translation of Registrant s name into English)

The People s Republic of China

(Jurisdiction of incorporation or organization)

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

(Address of principal executive offices)

Mr. Guo Xiaojun

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

The People s Republic of China

Tel: +86 (21) 57943143

Fax: +86 (21) 57940050

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

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

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

* Not for trading, but only in connection with the registration of American Depositary Shares. The H Shares are also listed and traded on The Stock Exchange of Hong Kong Limited.

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

None

(Title of Class)

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

None

(Title of Class)

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

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

7,328,813,500 A Shares, par value RMB1.00 per Share

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities

Act. Yes No

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

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

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

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

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

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

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

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

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

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

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

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

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

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

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

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

- potential acquisitions and other business opportunities;

- continued availability of capital and financing;

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

- other risks and factors beyond our control.

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

EXCHANGE RATES

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

We publish our financial statements in Renminbi. Unless otherwise indicated, all translations from Renminbi to U.S. Dollars have been made at a rate of RMB6.8755 to U.S.$1.00, the noon buying rate on December 31, 2018 as set forth in the H.10 statistical release of the U.S. Federal Reserve Board. We do not represent that Renminbi or U.S. Dollar amounts could be converted into U.S. Dollars or Renminbi, as the case may be, at any particular rate.

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CERTAIN TERMS AND CONVENTIONS

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

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

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

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

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

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

References to our A Shares are references to 7,328,813,500 A Shares of the Company, par value RMB1.00 per share, which are ordinary shares held by Chinese investors.

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

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

All references to tons are references to metric tons.

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

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PART I

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

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE.

Not applicable.

ITEM 3. KEY INFORMATION.

A. Selected Financial Data.

Our selected consolidated statements of operations data (except for ADS data) and cash flows data for each of the years ended December 31, 2016, 2017 and 2018 and our selected consolidated balance sheets data as of December 31, 2017 and 2018 are derived from our consolidated financial statements included in Item 18. Financial Statements. Our selected consolidated statements of operations data and cash flows data for the years ended December 31, 2014 and 2015 and our consolidated balance sheets data as of December 31, 2014, 2015 and 2016 are derived from our consolidated financial statements not included in this annual report. Our selected consolidated financial data should be read in conjunction with our consolidated financial statements, and the notes thereto, and Item 5. Operating and Financial Review and Prospects. Our consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board.

Selected Consolidated Financial Data

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

	Year Ended December 31,				
	2014 (RMB million)	2015 (RMB million)	2016 (RMB million)	2017 (RMB million)	2018 (RMB million)
CONSOLIDATED STATEMENTS OF OPERATIONS DATA					
Net sales:					
Synthetic fibers	2,891.5	2,328.2	1,855.5	2,005.3	2,182.4
Resins and plastics	12,489.4	9,992.2	9,797.6	10,218.4	10,542.1
Intermediate petrochemicals	12,391.1	9,332.0	8,827.6	10,070.2	12,160.6
Petroleum products	49,259.5	30,802.0	24,002.6	32,400.6	43,403.0
Trading of petrochemical products	14,791.0	13,718.2	20,585.4	23,697.3	26,544.0
Others	902.6	864.6	867.8	826.5	781.4
(Loss)/profit from operations	(587.9)	3,908.9	6,777.9	6,401.9	5,585.1
(Loss)/profit before income tax	(889.9)	4,237.2	7,778.3	7,852.9	6,808.1
Net (loss)/profit attributable to owners of the Company	(692.2)	3,274.3	5,968.5	6,143.2	5,336.3
Net profit attributable to non-controlling interests	16.5	36.1	13.0	11.0	(0.1)
Basic (loss)/earnings per share(RMB) (a)	(0.064)	0.303	0.553	0.569	0.493
Basic (loss)/earnings per ADS(RMB) (b)	(6.41)	30.32	55.26	56.86	49.30

(a) The Company exercised its Share Option Incentive Scheme for the first time in August 2017, and the second time in January 2018, and the total number of shares of the Company increased by 14,176, 600 shares and 9,636,900 shares, respectively, upon exercise. See ITEM 6. Directors, Senior Management and Employees E. Share Ownership Share Option Incentive Scheme. Basic earnings per share is calculated by dividing the profit attributable to owners of the Company by the weighted average number of ordinary shares in issue during the year.

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

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	Year Ended December 31,				
	2014 (RMB million)	2015 (RMB million)	2016 (RMB million)	2017 (RMB million)	2018 (RMB million)
CONSOLIDATED STATEMENTS OF CASH FLOWS DATA					
Net cash generated from operating activities	3,662.4	4,932.8	7,181.8	7,060.8	6,659.4
Net cash used in investing activities	(910.1)	(439.0)	(189.9)	(2,400.7)	(1,928.4)
Net cash used in financing activities	(2,606.5)	(3,695.7)	(2,637.2)	(2,589.8)	(3,507.2)
Capital expenditure	(1,089.3)	(695.3)	(901.5)	(1,197.1)	(1,187.0)
Proceeds from borrowings	51,385.3	31,999.8	2,589.4	2,119.1	2,536.8
Repayments of borrowings	(53,444.5)	(35,684.7)	(4,113.0)	(2,059.4)	(2,646.2)

	As of December 31,				
	2014 (RMB million)	2015 (RMB million)	2016 (RMB million)	2017 (RMB million)	2018 (RMB million)
CONSOLIDATED BALANCE SHEETS DATA					
Current assets	9,510.4	8,144.0	14,875.9	19,866.1	25,298.9
Property, plant and equipment	15,541.6	14,383.3	13,474.3	12,866.4	11,646.4
Total assets	30,905.6	27,820.6	33,945.6	39,443.5	44,385.9
Short term borrowings (a)	4,078.2	2,070.0	546.4	606.2	497.2
Current liabilities	12,484.8	7,726.3	8,942.4	10,922.2	13,913.0
Long term borrowings (excluding current portion)	1,632.7				
Total equity attributable to owners of the Company	16,500.3	19,797.3	24,722.0	28,230.2	30,346.1

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

Dividends

The following table sets forth certain information concerning the dividends of the Company since January 1, 2014:

Dividend Period	Dividend per Share
January 1, 2014-December 31, 2014	No dividend
January 1, 2015-December 31, 2015	RMB0.10 (U.S.$0.015)
January 1, 2016-December 31, 2016	RMB0.25 (U.S.$0.036)
January 1, 2017-December 31, 2017	RMB0.30 (U.S.$0.046)
January 1, 2018-December 31, 2018	RMB0.25 (U.S.$0.036) (a)

(a) Pursuant to the resolution of the Board on March 19, 2019, the Company proposed cash dividend to all the shareholders, RMB0.25 per share (including tax). The proposal remains to be approved at our 2018 Annual General Meeting.

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

B. Capitalization and Indebtedness.

Not applicable.

C. Reasons for the Offer and Use of Proceeds.

Not applicable.

D. Risk Factors.

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

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

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

We consume large amounts of crude oil to manufacture our products of which more than 95% is typically imported. In 2018, crude oil costs accounted for RMB46.17 billion, or 51.39% of our annual cost of sales. As a result, changes in crude oil prices can affect our profitability. In recent years, due to various reasons, the price of crude oil has fluctuated significantly. We cannot rule out the possibility of the occurrence of certain global emergencies which might disrupt our crude oil supply. We expect that the volatility and uncertainty of the prices of crude oil and petrochemical products will continue, and that increasing crude oil prices and declines in prices of petrochemical products may adversely affect our business and results of operations and financial condition.

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

We consume large amounts of crude oil to manufacture our products of which more than 95% is typically imported. We attempt to mitigate the effect of increased costs due to rising crude oil prices. However, our ability to pass on these increased costs to our customers is dependent on market conditions and government regulations. Given that the increase of the sales prices of our products may lag behind the increase of crude oil costs, we may fail to completely cover the increased costs by increasing our sales prices, particularly where government regulations restrict the prices of certain of our fuel products. In particular, gasoline, diesel and jet fuel, and liquefied petroleum gas are subject to government price controls at present. In 2016, 2017 and 2018 approximately 31.19%, 36.95% and 41.62% of our net sales were from such products subject to price controls. Although the current price-setting mechanism for refined petroleum products in China allows the Chinese government to adjust price in the PRC market when the average international crude oil price fluctuates beyond certain levels within a certain time period (see Item 4. Information on the Company B. Business Overview Product Pricing), the Chinese government still retains discretion as to whether or when to adjust the prices of the refined oil products. The Chinese government generally exercises certain price control over refined oil products once international crude oil prices experience a sustained rise or become significantly volatile. For instance, some of our fuel products are required to be sold to designated distributors (such as the subsidiaries of Sinopec Corp.). Because we cannot freely sell our fuel products to take advantage of opportunities for higher prices, we may not be able to fully cover increases in crude oil prices by increasing the sale prices of our products, which has had and will possibly continue to have a material adverse effect on our financial condition, results of operations and cash flows.

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

The petrochemical business is a capital intensive business. Our ability to maintain and increase our revenues, net profit and cash flows depends upon continued capital spending. Our current business strategy contemplates capital expenditure for 2019 of approximately RMB1.5 billion (U.S.$ 218.2 million), which will be provided through financing activities and use of our own capital. Our actual capital expenditures may vary significantly from these planned amounts, subject to our ability to generate sufficient cash flows from operations, investments and other factors that may be beyond our control. In addition, there can be no assurance as to whether, or at what cost, our capital projects will be completed or the success of these projects if completed.

As of March 31, 2019, we had an aggregate outstanding indebtedness of approximately RMB497.2 million (U.S.$72.3 million). Most of our borrowings are with state-controlled banks in China and structured as short term debt obligations with payment due in one year or less. These banks have generally been willing to provide new short term loans while we pay off existing loans. Sinopec Corp., our controlling shareholder, did not provide any guarantee or credit support for our debt for the year ended December 31, 2018 and for the three months ended March 31, 2019.

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

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

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

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

- the imposition of pollution charge for the discharge of waste substances;
- the levy of payments and fines for damages for serious environmental offenses;
- the government to close down or suspend any facility which has caused or may cause environmental damages and require it to correct or stop operations causing environmental damages; and
- litigations and liabilities arising from pollutions and damages to the environment and public interests.

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

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

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

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

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

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

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

The exchange rate between the Renminbi and the U.S. Dollar or other foreign currencies might fluctuate and be affected by the change in China s political and economic conditions and China s foreign exchange policies. On July 21, 2005, the PRC government changed its decade-old policy of pegging the value of the RMB to the U.S. Dollar, and the RMB appreciated more than 20% against the U.S. Dollar over the following three years. However, the People s Bank of China, or the PBOC, regularly intervenes in the foreign exchange market to limit fluctuations in RMB exchange rates and achieve policy goals. During the period between July 2008 and June 2010, the exchange rate between the RMB and the U.S. Dollar had been stable and traded within a narrow range. However, the RMB fluctuated significantly during that period against other freely traded currencies, in tandem with the U.S. Dollar. Since June 2010, the RMB has started to slowly appreciate against the U.S. Dollar, though there have been periods when the U.S. Dollar has appreciated against the RMB. On August 11, 2015, the PBOC allowed the RMB to depreciate by approximately 2% against the U.S. Dollar. During 2016, the RMB depreciated by over 6.83% against the U.S. Dollar. During 2017, the RMB appreciated by over 6.16% against the U.S. Dollar. During 2018, the RMB depreciated by over 5.15% against the U.S. Dollar. It is difficult to predict how long such depreciation of RMB against the U.S. Dollar may last and when and how the relationship between the RMB and the U.S. Dollar may change again. There remains significant international pressure on the PRC government to adopt a flexible currency policy.

A portion of our cash and cash equivalents is denominated in foreign currencies (mainly the U.S. Dollar). As of December 31, 2018, our bank deposits denominated in foreign currencies were equivalent to RMB351.93 million. The appreciation in the value of Renminbi against foreign currencies (including the U.S. Dollar) may cause a decrease in the Renminbi value of our cash and cash equivalents that are denominated in foreign currencies. In addition, the appreciation of Renminbi may harm the exports of our downstream manufacturers, thus adversely affecting the market demand for our products.

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

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

As of March 31, 2019, Sinopec Corp. owned 50.44% of our shares. Accordingly, it has voting and management control over us, and its interests may be different from the interests of our other shareholders. Subject to our Articles of Association and applicable laws and regulations, Sinopec Corp. will be in a position to cause us to declare dividends, determine the outcome of corporate actions requiring shareholder approval or effect corporate transactions without the approval of the holders of the H Shares and ADSs. Any such increase in our dividend payout would reduce funds available for reinvestment in our business and any such actions or transactions could adversely affect us or our minority shareholders. Sinopec Corp. may also experience changes in its own business strategy and policies. Although we are not currently aware of any specific changes, they could, in turn, lead Sinopec Corp. to change its policies or practices toward us in ways that we cannot predict, with corresponding unpredictable consequences for our business. Additionally, Sinopec Corp. may leverage its controlling shareholder position to influence our decisions with regard to the manufacturing and operation, allocation of financial resources and appointment and removal of senior management members, which could adversely affect us or our minority shareholders.

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

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

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

We maintain a package of insurance coverage plan through Sinopec Group on our property, facilities and inventory. In addition, we maintain insurance policies for such assets as the engineering construction projects and products in transit with third-party commercial insurance companies. We carry a third party liability insurance with a coverage capped at RMB50 million in 2019 to cover claims, subject to deductibles, in respect of personal injury, property or environmental damage arising from accidents on our property or relating to our operations other than on our transportation vehicles. Our insurance coverage may not be sufficient to cover all the financial losses caused by operating hazards. Resulting losses required to be compensated or otherwise paid for by us due to such operating hazards that are not fully insured against may have a material adverse effect on our financial condition and results of operations.

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

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

- mandating distribution channels for our fuel products;
- setting the allocations and pricing of certain resources, products and services;
- assessing taxes and fees payable;
- setting import and export quotas and procedures; and
- setting safety, environmental and quality standards.

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

Our development plans may require regulatory approval.

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

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

We could face increasing competition in China.

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

We face increasing foreign competition in our lines of business.

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

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

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

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

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

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

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

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

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

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

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

Interpretation and enforcement of Chinese laws and regulations is uncertain.

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

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

We face global cybersecurity threats, which may range from uncoordinated individual attempts to sophisticated and targeted measures directed at us. Cyber attacks and security breaches may include, but are not limited to, attempts to disrupt our operations, gain access to confidential information, insertion of computer viruses, denial of service and other electronic security breaches. In recent years, a number of major oil and petrochemical companies have been the subject of cyber attacks.

Although we have not experienced any material cybersecurity incidents in the past, we cannot assure you that we will not experience them in the future. Due to the evolving nature of cybersecurity threats, the scope and impact of any future incident cannot be predicted. While we continually work to safeguard our systems and mitigate potential risks, there is no assurance that such actions will be sufficient to prevent cyber attacks or security breaches that manipulate or improperly use our systems or networks, compromise confidential or otherwise protected information, destroy or corrupt data, or otherwise disrupt our operations. The occurrence of such events could disrupt our operations, cause physical harm to people or the environment, damage or destroy assets, compromise business systems, result in proprietary information being altered, lost, stolen or compromised or otherwise disrupt our business operations. We could incur significant costs to remedy the effects of such a cybersecurity disruption as well as in connection with any resulting regulatory actions and litigation. In addition, a material cybersecurity incident could negatively impact our reputation and our competitive position, which could have an adverse effect on our financial condition and results of operations.

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

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

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

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

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

In December 2012, the SEC instituted administrative proceedings against the Big Four PRC-based accounting firms, including our independent registered public accounting firm, alleging that these firms had violated U.S. securities laws and the SEC s rules and regulations thereunder by failing to provide to the SEC the firms audit work papers with respect to certain PRC-based companies that are publicly traded in the United States.

On January 22, 2014, the administrative law judge, or the ALJ, presiding over the matter rendered an initial decision that each of the firms had violated the SEC s rules of practice by failing to produce audit papers and other documents to the SEC. The initial decision censured each of the firms and barred them from practicing before the SEC for a period of six months.

On February 6, 2015, the four China-based accounting firms each agreed to a censure and to pay a fine to the SEC to settle the dispute and avoid suspension of their ability to practice before the SEC and audit U.S.-listed companies. The settlement required the firms to follow detailed procedures and to seek to provide the SEC with access to Chinese firms audit documents via the China Securities Regulatory Commission (the CSRC). Under the terms of the settlement, the underlying proceeding against the four China-based accounting firms was deemed dismissed with prejudice four years after entry of the settlement. The four-year mark occurred on February 6, 2019. While we cannot predict if the SEC will further challenge the four China-based accounting firms compliance with U.S. law in connection with U.S. regulatory requests for audit work papers or if the results of such a challenge would result in the SEC imposing penalties such as suspensions, if the accounting firms are subject to additional remedial measures, our ability to file our financial statements in compliance with SEC requirements could be impacted. A determination that we have not timely filed financial statements in compliance with SEC requirements could ultimately lead to the delisting of our ADSs from the NYSE or the termination of the registration of our H Shares under the Securities Exchange Act of 1934, or both, which would substantially reduce or effectively terminate the trading of our ADSs in the United States.

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

Our auditor, the independent registered public accounting firm that issued the audit reports included elsewhere in this annual report, as an auditor of companies that are traded publicly in the United States and a firm registered with the Public Company Accounting Oversight Board (United States), or PCAOB, is subject to laws in the United States pursuant to which the PCAOB conducts regular inspections to assess its compliance applicable professional standards. Our auditor is located in, and organized under the laws of, the PRC, which is a jurisdiction where the PCAOB has been unable to conduct inspections without the approval of the Chinese authorities. In May 2013, PCAOB announced that it had entered into a Memorandum of Understanding on Enforcement Cooperation with the CSRC and the PRC Ministry of Finance, which establishes a cooperative framework between the parties for the production and exchange of audit documents relevant to investigations undertaken by PCAOB, the CSRC or the PRC Ministry of Finance in the United States and the PRC, respectively. PCAOB continues to be in discussions with the China Securities Regulatory Commission, or CSRC, and the PRC Ministry of Finance to permit joint inspections in the PRC of audit firms that are registered with PCAOB and audit Chinese companies that trade on U.S. exchanges.

On December 7, 2018, the SEC and the PCAOB issued a joint statement highlighting continued challenges faced by the U.S. regulators in their oversight of financial statement audits of U.S.-listed companies with significant operations in China. However, it remains unclear what further actions, if any, the SEC and PCAOB will take to address the problem.

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This lack of PCAOB inspections in China prevents the PCAOB from fully evaluating audits and quality control procedures of our independent registered public accounting firm. As a result, we and investors in our ordinary shares are deprived of the benefits of such PCAOB inspections. The inability of the PCAOB to conduct inspections of auditors in China makes it more difficult to evaluate the effectiveness of our independent registered public accounting firm s audit procedures or quality control procedures as compared to auditors outside of China that are subject to PCAOB inspections, which could cause investors and potential investors in our stock to lose confidence in our audit procedures and reported financial information and the quality of our financial statements.

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

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

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

The United States has adopted a number of measures since 1996 that provide for the possible imposition of sanctions against non-U.S. companies engaged in certain activities in and with Iran in the energy and other sectors, including, the Iran Threat Reduction and Syria Human Rights Act of 2012 (ITRSHRA) enacted August 10, 2012 and the Iran Freedom and Counter-Proliferation Act (IFCA) enacted January 2, 2013, Section 1245 of the National Defense Authorization Act of 2012 (NDAA) enacted December 31, 2011, and Executive Order 13846 of August 6, 2018, that was issued in connection with the termination of the participation by the United States in the Joint Comprehensive Plan of Action, or JCPOA, that became effective January 16, 2016, and resulted in the waiver of certain U.S. sanctions that against non-U.S. persons engaging in certain transactions with Iran. The withdrawal was effected in two stages that resulted on November 5, 2018, in the complete re-imposition of the U.S. sanctions that were waived under the JCPOA. On November 5, 2018, the United States also granted a 180-day waiver (that is potentially renewable) under NDAA Section 1245 to China (and seven other countries) allowing for the purchase of petroleum from Iran under specified conditions. The NDAA waiver does not authorize transaction that remain prohibited under other U.S. sanctions laws.

The sanctionable activities include certain investments, the provision of goods, services, technology, or support that could contribute to the development of petroleum and petrochemical resources or the production of refined petroleum products in Iran, the exportation of refined petroleum products to Iran, the transportation of crude oil from Iran, or the engagement in a significant transaction for the purchase or acquisition of petroleum or petroleum products from Iran, and the engagement in transactions with certain Iranian specially designated nationals and blocked persons (SDNs) as identified and published by U.S. Department of the Treasury s Office of Foreign Assets Control, or OFAC, the agency primarily responsible for administering U.S. sanctions and embargoes

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

If our purchases of crude oil from Iran and transactions related thereto are determined to be sanctionable activities by the U.S. President and/or the relevant U.S. governmental authorities, we may be subject to five or more of the twelve sanctions options available under the Iran Sanctions Act of 1996 (as amended) (ISA) and the ITRSHRA, which include restrictions on bank financing, outright blocking of the Company s property within U.S. jurisdiction, under the control of U.S. persons anywhere in the world, and prohibition of U.S. persons from investing or purchasing a significant amount of equity or debt instruments of the Company. Similar sanctions may also be imposed under Executive Order 13846, the IFCA, and other U.S. laws. In addition, many states in the United States have adopted legislation requiring state pension funds to divest themselves of securities in any company with active business operations in Iran. We cannot assure that we or any of our affiliates will not be sanctioned by the U.S. President and/or the relevant U.S. governmental authorities in light of the activities by us or our affiliates in Iran. The imposition of any such sanctions on us or our affiliates will have a negative impact on our business, reputation or stock price. In addition, purchase of crude oil by Sinopec Corp. subsidiaries that supply us with raw materials may from time to time be sourced from National Iranian Oil Company. This entity has been identified by the U.S. government as an SDN and sanctioned under various laws, including for assisting the government of Iran to avoid sanction and for engaging in activities related to nuclear proliferation. Under Executive Order 13846, the U.S. President can sanction non-U.S. companies that engage in transactions with SDNs such as the National Iranian Oil Company. To the extent we indirectly (or directly) purchase raw materials from this entity, we risk potential U.S. government sanctions. Even absent any U.S. government sanctions, we risk adverse publicity in the world markets, which may impair our reputation and business.

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

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

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

In addition, pursuant to the IFCA, Executive Order 13846 and other U.S. laws, the U.S. government can sanction financial institutions anywhere in the world that engage in certain Iran related transactions. Such sanctions include prohibiting the financial institution from opening, or imposing strict conditions on maintaining, a correspondent or payable through account in the United States. The potential for financial institutions to be sanctioned for Iran related activities may impact our ability to engage in financial transactions related to Iran transactions.

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

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

- actual or anticipated fluctuations in our quarterly results of operations;
- changes in financial estimates by securities research analysts;
- conditions in petroleum and petrochemical markets;
- changes in the operating performance or market valuations of other petroleum and petrochemical companies;

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

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

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

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

ITEM 4. INFORMATION ON THE COMPANY.

A. History and Development of the Company

General Information

We were established in the People s Republic of China as a joint stock limited company under the PRC Company Law on June 29, 1993 as Shanghai Petrochemical Company Limited. On October 12, 2000, we changed our name to Sinopec Shanghai Petrochemical Company Limited. Our registered office is at No. 48 Jinyi Road, Jinshan District, Shanghai, China 200540. Our telephone number there is (86-21) 5794-1941. Our company website is *www.spc.com.cn*. The SEC maintains an Internet site at *www.sec.gov* that contains reports, proxy and information statements, and our other information that file electronically with the SEC.

Our Predecessor

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

Construction Projects

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

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

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

Our Initial Public Offering and Listing

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

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

A Share Reform

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

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

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

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

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

Description of Principal Capital Expenditures and Divestitures

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

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B. Business Overview

We are one of the largest petrochemical companies in China based on 2018 net sales and ethylene production. Our highly integrated petrochemical complex processes crude oil into a broad range of products in four major product areas:

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

Based on 2018 sales volumes, we are a leading Chinese producer of synthetic fibers and resins and plastic products. We believe that we are also a leading competitor in sales of petroleum products and intermediate petrochemicals in our regional markets.

Our net sales by business lines as a percentage of total net sales in each of 2016, 2017 and 2018 are summarized as follows:

Net Sales of RMB65,936.5 million in 2016

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

Net Sales of RMB79,218.3 million in 2017

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

Net Sales of RMB95,613.5 million in 2018

Synthetic fibers	2.29%

Resins and plastics	11.03%
Intermediate petrochemicals	12.72%
Petroleum products	45.39%
Trading of petrochemical products	27.76%
Others	0.81%
Total	100.00%

We derive a substantial portion of our revenues from customers in Eastern China (principally Shanghai and its six neighboring provinces), an area that has experienced economic growth above the national average in recent years. Shown by geographic region and exports, our net sales by business lines as a percentage of total net sales for each of 2016, 2017 and 2018 are as follows:

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2016 Net Sales by Region (%)

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

2017 Net Sales by Region (%)

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

2018 Net Sales by Region (%)

	Eastern China	Other parts of China	Exports
Synthetic fibers	87.61	12.39	0.00
Resins and plastics	94.13	5.87	0.00
Intermediate petrochemicals	90.25	8.67	1.08
Petroleum products	86.60	0.90	12.50
Trading of petrochemical products	50.66	5.42	43.91
Total net sales	78.63	3.60	17.77

Business Strategies

In 2019, we continue to adopt a market-oriented approach to ensure the quality and efficiency of our production. We endeavor to maintain the safety and environmental standards and place emphasis on cost control measures in order to sustain a stable production level in 2019. We seek to further strengthen our production optimization, encourage innovation, enhance our staff efficiency and strive to create a higher production and operation level.

To achieve our business objectives in 2019, we intend to pursue the following strategies:

Strengthen our efforts in safety and environmental protection

We plan to increase our efforts on the promotion and training of Health, Safety, Security and Environment (HSSE) by raising our employees awareness of HSSE and the implementation of safety production responsibilities at all organizational levels to establish a long-term HSSE management system. We will continue to promote the establishment of green enterprises by emphasizing on our environmental responsibilities, encouraging emission reduction from the beginning, and processing control and end-of-pipe treatment to continuously improve our cleaner production goals. We will tighten the management of our contractors and hidden danger troubleshooting, and continue to promote the Leak Detection and Repair coverage while following the principle of delicacy management.

Enhance the production and operation management efficiencies

We will formulate detailed quantitative goals of Safety Operation, Stable Operation, Long-term Operation, Full-capacity Operation and High-quality Operation and comprehensively implement a standardized management of our production operations. We will promote the equipment integrity management system on some of our key machineries, further promote the application of new technologies such as reciprocating engine condition monitoring system and strengthen technical skills and basic equipment management to improve the operational reliability and utilization of our equipment. We aim to eliminate defects of RDS-A series, examine, repair or reform butadiene old area, ethylene glycol and other equipment to ensure that the oil cleaning units work smoothly.

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Improve production optimization and explore potential cost control measures to increase production efficiency
We will continue to strengthen our efforts in crude oil procurement and increase the procurement of oil products with high performance/cost ratio. We will continue to strengthen our efforts in market analysis and judgment by continuously improving the accuracy of the three-month rolling forecast and the management ability of guiding production and operation plans based on price forecast. We will optimize cracking feedstock and the operation of ethylene plant to increase olefin yield and reduce ethylene production cost. We will also further optimize our hydrogen system, sewage refining and sewage treatment processes to improve our operational efficiency. We will deepen regional cooperation and continue to promote mutual material supply, resource optimization, tank capacity complementation, maintenance balance and coordination on overhaul material and reserves sharing with Shanghai SECCO Petrochemical Company Limited (SECCO). In the meantime, we will deepen the overall budget management and continue to monitor our repair costs, financial costs, management costs, and sales costs closely. We will continue to focus on maximizing our financial performance in areas including production optimization, product structure adjustment, production-supply-sales coordination, inventory control and cost control.

Promote industrial restructuring and increase innovation and development efforts
We will refine and improve our development plan and focus on promoting product structure and industrial structure adjustments. We will actively implement the second phase of carbon fiber project and work towards the launch of some key projects including the 1# ethylene relocation redevelopment project and the large-tow carbon fiber project. We will actively pursue regional coordinated development and seek joint venture opportunities with Dushangang Petrochemical Industrial Park and Jinshan Second Industrial Zone.

Efforts will be made to advance carbon fiber and other technological breakthrough to complete the transformation of high-performance carbon fiber equipment and continue to develop carbon rod structure optimization, broadening the mode of application, development and application of carbon fiber composite materials. We will commence marketing activities for polyesters for optical films, polyesters for engineering plastics and flame retardant polyesters. Advance the development of hexene copolymerization and large-diameter polyethylene pipe materials, foamed polypropylene serialized products and medical polypropylene syringe products. With the integration and optimization of production process, integrated management and control of refinery production and industrial cloud platform as our current focus, we will continue to build an intelligent plant.

Further strengthen corporate governance
We aim to further strengthen our corporate governance by researching and streamlining our organizational structure, and improve the management responsibilities of functional departments and secondary units. We will promote the pilot work of our Carbon Fiber Business Unit and improve the integration of new products production, sales and research. We will drive the optimal delicacy management of our industrial system while exploring the incubation mechanism for the transformation of our scientific research results. We will continuously improve our staff performance appraisal system with reference to our core business processes and optimize the appraisal indicator system. We will explore the selection, appointment, supervision and evaluation of managers, revitalizing our internal human resource pool, increase the introduction of mature industry talents, manage total labor costs, and in turn to improve our overall productivity.

Principal Products

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

The following table shows a comparison of the production volume and sales volume in 2017 and 2018 by our major products.

	Production			**Sales**		
Products	**2018 (10,000 tons)**	2017 (10,000 tons)	Year-on-year change	**2018 (10,000 tons)**	2017 (10,000 tons)	Year-on-year change
Diesel Note1	**373.08**	386.38	-3.44%	372.70	338.87	9.98%
Gasoline	**322.92**	316.61	1.99%	325.67	317.15	2.69%

Jet Fuel Note1	**146.82**	157.41	-6.73%	100.37	75.13	33.60%
Paraxylene	**67.30**	63.29	6.34%	49.82	41.32	20.57%
Benzene Note2	**34.86**	34.06	2.35%	31.02	31.97	-3.06%
Ethylene Glycol	**41.52**	41.11	1.00%	30.65	29.34	4.46%
Ethylene Oxide	**19.43**	14.64	32.72%	18.48	14.25	29.68%
Ethylene Note2	**77.78**	76.69	1.42%	2.90	0.55	427.27%
Polyethylene	**41.79**	47.13	-11.33%	41.62	46.26	-10.03%
Polypropylene	**49.36**	48.18	2.45%	49.37	47.87	3.13%
Polyester Pellet Note2	**40.65**	41.41	-1.48%	27.18	29.32	-7.30%
Acrylic	**11.32**	13.19	-14.18%	11.33	13.16	-13.91%
Polyester Staple	**4.77**	4.58	4.15%	4.16	3.93	5.85%

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

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

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

The following table shows our 2018 net sales by major products as a percentage of total net sales together with the typical uses of these products.

Product	**% of net sales**	**Typical Use**
SYNTHETIC FIBERS		
Polyester staple fiber	0.23	Textiles and apparel
Acrylic staple fiber	1.85	Cotton type fabrics, wool type fabrics
Others	0.20	
Sub-total	2.28	
RESINS AND PLASTICS		
Polyester chips	2.27	Polyester fibers, films and containers
Polypropylene pellets	3.19	Films, ground sheeting, wire and cable compound and other injection molding products such as housewares and toys
Polypropylene pellets	4.12	Films or sheets, injection molding products such as housewares, toys and household electrical appliances and automobile parts
Polyvinyl alcohol (PVA)	0.10	PVA fibers, building coating materials and textile starch
Others	1.34	
Sub-total	11.02	
INTERMEDIATE PETROCHEMICALS		
Ethylene	0.10	Feedstock for polyethylene, ethylene glycol, polyvinyl chloride and other intermediate petrochemicals which can be further processed into resins, plastics and synthetic fiber.
Ethylene oxide	1.65	Intermediate products for the chemical and pharmaceutical industry, including dyes, detergents and adjuvant
Benzene	1.76	Intermediate petrochemical products, styrene, plastics, explosives, dyes, detergents, epoxies and polyamide fiber
Paraxylene	3.58	Intermediate petrochemicals and polyester
Butadiene	0.92	Synthetic rubber and plastics
Ethylene glycol	2.01	Fine chemicals
Others	2.71	
Sub-total	12.73	
PETROLEUM PRODUCTS		
Gasoline	17.78	Transportation fuels
Diesel	17.06	Transportation fuels and agricultural machinery fuels
Jet Fuel	4.69	Transportation fuels
Others	5.86	
Sub-total	45.39	
Trading of petrochemical products	27.76	Import and export trade of petrochemical products (purchased from domestic and overseas suppliers)
Others	0.82	
Total	100.00	

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

Product	Industry segment	Primary upstream raw material	Transport/storage method	Primary downstream application fields	Key price-influencing factors
Diesel	Petroleum products	Petroleum	Pipeline transportation and shipping/ storage tank	Transportation fuel, agricultural machinery fuel	International crude oil price, government control
Gasoline	Petroleum products	Petroleum	Pipeline transportation and shipping/storage tank	Transportation fuel	International crude oil price, government control
Jet Fuel	Petroleum products	Petroleum	Pipeline transportation and shipping/storage tank	Transportation fuel	International crude oil price, supply-demand balance
Paraxylene	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	Chemical and medical industry	International crude oil price, market

			transportation/ storage tank	intermediate products, including dyes, detergents and auxiliary	supply-demand condition
Ethylene	Intermediate petrochemicals	Naphtha	Road transportation, pipeline transportation, shipping/storage tank	Polypropylene, ethylene glycol, polyvinyl chloride and other raw material for further processing of intermediate petrochemical products such as resins, plastics and synthetic fibers	International crude oil price, supply-demand balance

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Product	Industry segment	Primary upstream raw material	Transport/storage method	Primary downstream application fields	Key price-influencing factors
Polyethylene	Resins and plastics	Ethylene	Road transportation, shipping and rail transportation/ warehousing	Film, mulching film, cable insulation material and housewares, toys injection moulding products	Raw material price and market supply-demand condition
Polypropylene	Resins and plastics	Propylene	Road transportation, shipping and rail transportation/ warehousing	Film, mulching film, housewares, toys, household appliances and auto parts injection moulding products	Raw material price and market supply-demand condition
Polyester chips	Resins and plastics	Purified terephthalic acid (PTA), ethylene glycol	Road transportation, shipping and rail transportation/ warehousing	Polyester fiber or film, container	Raw material price and market supply-demand condition
Acrylics	Synthetic fibers	Acrylonitrile	Road transportation, shipping and rail transportation/ warehousing	Simple spinning or blend with other material for texture or acrylic top	Raw material price and market supply-demand condition
Polyester	Synthetic fibers	Polyester	Road transportation, shipping and rail transportation/ warehousing	Texture, apparel	Raw material price and market supply-demand condition

Production Processes

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

The chart below illustrates in brief the production processes of the Company.

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Intermediate Petrochemicals

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

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

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

Resins and Plastics and Synthetic Fibers

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

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

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

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

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

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

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

Raw Materials

In 2018, we continued to strengthen our advantages in refining and chemical integration and leverage the strong adaptability of our refining plants to process more high-sulfur crude oil; we used a Process Industry Modeling System to determine the cost performance of crude oil to further improve the cost control of crude oil purchases; and the total volume of the top ten main types of oil purchased in the whole year of 2018 accounted for 100% of the total purchase of crude oil.

To enhance the overall profitability, we optimized our ethylene cracking stocks, adjusted and improved our natural gas and fuel gas structure, optimized our hydrogen system, reduced the emission and increased the efficiency of flare gas, increased the outputs of gasoline and aviation kerosene, and optimized naphtha, residual oil and wax oil processing lines. By reducing the output of paraxylene, we increased our supply of high-octane gasoline blending components to produce more gasoline. By substituting aviation kerosene hydrogenation equipment for diesel hydrogenation equipment and upgrading the 3.3 million tons of diesel hydrogenation equipment, we further optimized the structure of our finished oil products, achieving a diesel to gasoline ratio of 1.16:1 for 2018. We strengthened our tracking of the margin contribution of our units, and continuously carried out daily profitability measurement for each product so as to promptly detect changes in profitability, quickly adjust the load and running schedule of our production units and afford priority to the production of products with high profitability and market demand.

Crude Oil

Crude oil is our primary raw material and the most significant raw material we purchase from outside sources. In 2018, crude oil accounted for approximately 51.39% of our total cost of sales. Accordingly, the supply and price of crude oil are key factors in determining our profitability.

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Supply and Transportation All crude oil required by us, whether from domestic or foreign sources, is purchased through the channels of Sinopec Corp. as an agent. During 2018, we did not experience any significant problems in obtaining sufficient crude oil to meet our production needs.

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

We have received confirmation from Sinopec Corp. that it will purchase on our behalf 15.05 million tons of imported crude oil in 2019. Sinopec Corp. has further confirmed that, subject to China s national crude oil policy and our actual production needs, it will continue to purchase on our behalf sufficient quantities and appropriate types of crude oil, including domestic offshore and imported crude oil, to satisfy our anticipated annual needs. We anticipate that we will fully utilize our supply of crude oil in 2019. We believe that the mix of crude oil feedstock currently available is satisfactory for our 2019 production capacity and targets. Additionally, as part of China s commitment at its accession into WTO, certain non-state-owned enterprises have been granted an increasing amount of quota to import crude oil. Although we do not expect to obtain crude oil through this channel in the foreseeable future due to the current crude oil supply system, this may provide us with an alternative source of crude oil supply.

Crude Oil Mix Our refining equipment is designed to process certain grades of crude oil. Therefore, the origin and quality of the crude oil available can be important to our business. We believe that as we have been significantly increasing usage of imported crude oil, we will continue to be able to obtain from the market such imported crude oil that is compatible with our refining equipment. The overall mix of foreign versus domestic crude oil we process in 2019 will depend on a variety of factors, including the amount of future supply of domestic offshore crude oil and the availability, price, quality, processing profitability and compatibility with our refining capabilities of imported crude oil. Provided there are no significant modifications to the existing channels of crude oil supply, we believe that sufficient supplies of crude oil will be available on the domestic or international markets for our 2019 production capacity and goals.

In 2018, our crude oil was sourced as follows:

Domestic offshore crude oil	0.59%
Imported crude oil	99.41%
Total:	100.00%

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

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

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

Pricing The price of domestic crude oil shall apply the market adjusted rate and the imported crude oil is generally sold to us at prevailing international market prices. The average cost of imported crude oil and domestic offshore crude oil in 2018 was RMB3,806.39 (U.S.$468) per ton and RMB3,350.98 (U.S.$505) per ton, respectively. In 2018, we processed 14,302,900 tons of imported crude oil and 76,000 tons of domestic offshore crude oil (including 729,200 tons of crude oil processed on a sub-contract basis).

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

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

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

In 2018, international crude oil prices presented an inverted V-shaped trend. In the first three quarters, the Brent crude oil price fluctuated and climbed to a recent high of US$86/barrel, driven by the effect of production reduction in major oil producing countries and a series of geopolitical risks. In the fourth quarter, the market began to worry that because of the global economic slowdown, the supply of crude oil would be excessive, the production of crude oil in the United States and Russia reached an all-time high, and the political pressure exerted by the United States on Saudi Arabia would curb the price of crude oil, etc, the oil prices declined sharply, hitting the lowest level in the year. By the end of 2018, Brent crude oil prices fell about 20% from the end of 2017, and American West Texas Intermediate (WTI) crude oil prices dropped by around 25% over the end of 2017. However, the average price of crude oil in 2018 was still higher than previous year s level. In 2018, the average West Texas Intermediate crude oil price on the U.S. mercantile exchanges was U.S.$ 64.22/barrel, representing an increase of 26.12% from U.S.$ 50.92/barrel in 2017. In 2018, the average price of Brent crude oil on the London Intercontinental Exchange was U.S.$ 71.59/barrel, representing an increase of 30.66% from U.S.$ 54.79/barrel in 2017; and in 2018, the average price of crude oil in Dubai was U.S.$ 69.87/barrel, representing an increase of 30.72% from U.S.$ 53.45/barrel in 2017.

For the year ended December 31, 2018, we processed a total of 14.4 million tons of crude oil (including 0.7 million tons of crude oil processed on a sub-contract basis), representing a slight increase of 26,200 tons, or 0.18%, over the previous year. The average unit cost of crude oil processed (by us) in 2018 was RMB3,382.38/ton (RMB2,581.35/ton in 2017), representing an increase of 31.03% over the previous year. Our total cost of crude oil processed reached RMB46.17 billion in 2018, representing an increase of 40.31% as compared to RMB32.90 billion in 2017, which represented 51.39% of the total cost of sales.

Coal

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

We expect that our total requirement for coal to generate electricity in 2019 will be approximately 2.00 million tons. In 2018, we consumed approximately 2.00 million tons of coal, an increase of 0.02 million tons from 2017 of 1.98 million tons.

Other Raw Materials

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

We purchase some ancillary raw materials from outside sources. These raw materials include natural gas, methanol, ammonia, sodium hydroxide, sulfur, acetone, acrylonitrile, PTA, propylene and a variety of catalytic agents. In 2018, the total cost of these materials accounted for approximately 11.97% of our total cost of sales. We do not expect any difficulties in obtaining a supply of any of these ancillary raw materials in amounts sufficient to meet our needs in the foreseeable future.

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Sales and Marketing

Distribution

The distribution of our fuel products is subject to government regulations. We are required to sell certain refined products to the subsidiaries of Sinopec Group or customers designated by Sinopec Group. Since the second half of 2005, Sinopec Group has executed reforms to its system of selling petrochemical products and implemented what it refers to as a Five Consolidations strategy featuring consolidated marketing strategy, consolidated promotion, consolidated logistics optimization, consolidated sales and consolidated branding. As a result, the sales of our major petrochemical products are now conducted in a consolidated manner by sales agents designated by Sinopec Group. However, we have the autonomy to decide on the distribution method of our other products in accordance with market conditions. The products we sold in 2018 that were subject to planned distribution by Sinopec Group, sales by agents and sales based on our own discretion accounted for 60.71%, 35.22% and 4.07%, respectively, of the total products we sold.

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

We use long term contracts to sell most of our products. We did not experience significant write-offs or defaults on our accounts receivable or other trading accounts in 2018. In general we managed to maintain a stable correlation between production and sales in 2018.

Product breakdown

Synthetic Fibers In 2018, 24.5% of our synthetic fiber products were purchased by provincial and municipal government trading companies that act as intermediaries between us and end-users. No single customer accounted for more than 15% of our sales of synthetic fibers in 2018.

Resins and Plastics In 2018, approximately 51.5% of our resins and plastics sales were to provincial and municipal government trading companies and approximately 48.5% were sold to industrial users. No single customer accounted for more than 5% of our sales of resins and plastics in 2018.

Intermediate Petrochemicals We sell a variety of intermediate petrochemical products, among which the sale volume of petroleum benzene and paraxylene was relatively high in 2018. SECCO is the principal outside consumer of our petroleum benzene. In 2018, we sold 0.14 million tons of petroleum benzene to SECCO, representing 45.51% of our total 2018 production of such product.

Jiaxing Petrochemical Company Limited and Oriental Petrochemical (Shanghai) Corporation are the outside consumers of our paraxylene. In 2018, we sold 0.44 million tons and 0.06 million tons of paraxylene, representing 88.02% and 11.98% of our total 2018 production of such product, to Jiaxing Petrochemical Company Limited and Oriental Petrochemical (Shanghai) Corporation respectively, at prices mutually agreed upon by the relevant parties.

Petroleum Products In 2018, our primary gasoline and diesel customer was Sinopec Huadong Sales Company Limited.

Trading of Petrochemical Products In 2018, our largest trading customer for petrochemical products was Sinopec Chemical Commercial Holding Company Limited.

Major Suppliers and Customers

Our top five suppliers in 2018 were China International United Petroleum & Chemical Co., Ltd., Shengyuan Ji (Jiangsu) Industrial Co., Ltd., Shanghai International Holding Co., headquarter of Sinopec Petroleum Reserve Company Limited and Marubeni Corporation. Total procurement costs involving these five suppliers, which amounted to RMB52,709.9 million, accounted for 60.89% of our total procurement costs for the year. The procurement from the largest supplier amounted to RMB40,849.8 million, representing 47.19% of the total costs of purchases by our Group for the year.

Our top five customers in 2018 were East China Branch of Sinopec Sales Company Limited, China International United Petroleum & Chemical Co. Ltd., Hengli Petrochemical (Dalian) Co., Ltd., SECCO and Jiaxing Petrochemical Co., Ltd.. Total sales to these five customers amounted to

RMB60,526.6 million, representing 56.17% of our total turnover for the year. Sales to our largest customer amounted to RMB42,492.8 million, representing 39.43% of our total revenue for the year.

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

Product Pricing

Most of our products are permitted to be sold at market prices. However, four types of petroleum products (gasoline, diesel and jet fuel, and liquefied petroleum gas) that we sell are subject to varying degrees of government pricing control and are, accordingly, sold at prices set by the Chinese government, which may sometimes be below our costs. In 2016, 2017 and 2018, approximately 31.19%, 36.95% and 41.62% of our net sales, respectively, were from products subject to price controls. Price controls may apply to these products in various ways. Such price controls are sometimes applied exclusively to our products, exclusively to our competitors products or sometimes applied to neither our products nor our competitors products. The Chinese government has adopted changes to the pricing mechanism for domestic refined oil to be indirectly aligned with international crude oil prices in a controlled manner through use of certain formula(s).

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

Competition

We compete principally in the Chinese domestic market where 82.2% of our products in volume were sold in 2018. In addition, we believe the limitation in transportation infrastructure in China and the difficulties involved in transporting petrochemical products force petrochemical companies in China, including us, to compete primarily on a regional basis. In 2018, 78.6% of our net sales were made to customers in Eastern China.

Our Competitive Advantages

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

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

The Domestic Competitive Environment

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

Foreign Competition and the World Trade Organization

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

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

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

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

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

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

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

Our Competitive Position

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

Synthetic Fibers

In 2018, we had an approximate 0.44% share of total domestic polyester and acrylic consumption while imports had an approximate 1.31% share.

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The following table summarizes the competitive position of our principal synthetic fibers according to domestic sales in 2018.

Product	Our share of domestic consumption (%)	Our competitive ranking	Location of principal domestic competitor	Principal domestic competitor s share of consumption (%)	Imports share of consumption (%)
Acrylic	15.33	2	Jilin Province	33.70	20.23

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

Resins and Plastics

In 2018, we had an approximate 2.93% share of total domestic resins and plastics consumption while imports had an approximate 25.13% share. The following table summarizes the competitive position of our principal resins and plastics products according to domestic sales in 2018.

Product	Our share of domestic consumption (%)	Our competitive ranking	Location of principal domestic competitor	Principal Domestic competitor s Share of consumption (%)	Imports share of consumption (%)
Polyester chips	4.98	3	Zhejiang Province	6.15	5.47
Polyethylene	1.11	20	Guangdong Province	3.03	47.00
Polypropylene	1.98	15	Zhejiang Province	2.17	13.73

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

Intermediate Petrochemicals

In 2018, we were one of the largest sellers of intermediate petrochemicals in China, holding an approximate 2.16% share of total domestic consumption, while imports had an approximate 26.67% share of domestic consumption. Ethylene glycol, paraxylene, benzene and butadiene are our major intermediate petrochemical products. In 2018, we were a major producer of ethylene glycol, paraxylene and benzene in China. The following table summarizes the competitive position of our principal intermediate petrochemicals according to domestic sales in 2018.

Product	Our share of domestic consumption (%)	Our competitive ranking	Location of principal domestic competitor	Principal Domestic competitor s Share of consumption (%)	Imports share of consumption (%)
Ethylene glycol	1.84	7	Zhejiang Province	2.79	59.08
Paraxylene	1.86	8	Zhejiang Province	5.77	57.38
Benzene	2.64	8	Jiangsu Province	3.24	17.00
Butadiene	3.23	16	Zhejiang Province	4.19	9.90

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

Petroleum Products

In 2018, we had an approximate 2.45% share of total domestic petroleum products market while imports had an approximate 6.40% share. Although we have one of the largest refining capabilities in China, we use most of our refining capacity to produce feedstock for our own downstream processing of petrochemical products.

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The domestic markets for each of our major petroleum products are geographically concentrated because these markets tend to be highly localized with individual producers controlling a large share of the markets in their locality. In 2018, we sold approximately 86.60% of our petroleum products in Eastern China.

Investments

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

In 2018, SECCO achieved a sales revenue of RMB26.32 billion (U.S.$3.83 billion), representing a decrease of 9.80% from its sales revenue of RMB29.18 billion (U.S.$4.24 billion) in 2017. SECCO produced 951,000 tons of ethylene in 2018, representing a decrease of 294,000 tons over the previous year. SECCO had a net profit of RMB3.23 billion (U.S.$469.8 million) in 2018, representing a decrease of RMB1.97 billion (U.S.$286.5 million) over the previous year.

Environmental Protection

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

We were subject to various administrative penalties for its violations of the relevant PRC environmental laws and regulations in the past three years. In 2018, we were subject to three administrative penalties for violations of the relevant PRC environmental laws and regulations, with fines in a total of RMB0.6 million.

We believe our environmental protection facilities and systems are adequate for the existing national and local environmental protection regulations. In 2018, we continued to carry out various energy-saving and emissions reduction measures in accordance with the relevant domestic energy conservation and emissions reduction requirements, and achieved all energy-saving and emissions reduction goals set by the Chinese government during the year.

During 2018, the Company s overall level of energy consumption per RMB10,000 of product value was 0.760 ton of standard coal, decreased by 1.17% from the previous year. As compared with 2017, the total volume of chemical oxygen demand discharged was decreased 24.58%, while that of ammonia nitrogen, sulfur dioxide, nitrogen oxides and volatile organic compounds declined by 39.20%, 64.01%, 39.96% and 16.63%, respectively. At the same time, the compliance rate of waste water and waste gas emissions reached 100%, and all hazardous waste was disposed of properly at 100%. The average heat efficiency of heaters increased 0.13% to 92.67% due to the load reduction.

Insurance

We currently participate in a package of insurance coverage plan through Sinopec Group as its controlled subsidiary, which, as of December 31, 2018, was approximately RMB43.3 billion (U.S.$6.30 billion) on our property and facilities and approximately RMB3.0 billion (U.S.$0.44 billion) on our inventory. In addition, we maintain insurance policies for such assets as engineering construction projects and products in transit with third-party s commercial insurance company. The Sinopec Group insurance coverage is compulsory and applies to all enterprises controlled by Sinopec Group, pursuant to guidelines of Sinopec Group which may not be legally enforceable against Sinopec Group. Thus, there are uncertainties under Chinese law as to what percentage insurance claims we may demand against Sinopec Group.

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

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Cyber Security

We have implemented policies and procedures intended to prevent cyber incidents and to identify and respond to unauthorized intrusions. With respect to our internal internet policies on cybersecurity, we have established an information safety management system and issued internal regulations on cybersecurity, internal hardware and data safety systems and we are gradually implementing measures relating to the office environment information safety management, information system access control, protection from any malicious software, and internal review and audit of information safety risks, in order to prevent loss of information due to cybersecurity incidents, network outages or hardware incidents. In 2018, we did not experience any material cybersecurity incidents or related losses.

Government Regulations

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

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

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

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

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

In 2018, we sourced a small amount of crude oil from Iran through a wholly-owned subsidiary of Sinopec Corp., our controlling shareholder, and such amount represented 1.39% of our total purchase volume of crude oil. Details of the purchase volume and purchase expenses are provided below:

	Volume (thousand tons)	% of total	Amount (RMB billion)	% of total
Iran	189.28	1.39	0.67	1.46
Others	13,429.22	98.61	44.97	98.54
Total	13,618.50	100.00	45.64	100.00

In addition, based on feedback to our inquiries to Sinopec Corp., in 2018, it sourced approximately 8.0% of its total refinery throughputs of crude oil from Iran. In additional, it engaged in a small amount of trading activities with Iranian companies, generating revenue and net profit of U.S.$526.6 million and U.S.$4.2 million, respectively. These amounts represented 0.121% and 0.035% of Sinopec Corp. s annual operating revenue and net profit, respectively.

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Based on feedback to our inquiries to Sinopec Group, the controlling shareholder of Sinopec Corp., Sinopec Group engaged in limited business activities in Iran such as providing engineering services and designs. Sales revenue from these business activities accounted for 0.041% of Sinopec Group s total unaudited sales revenue in 2018.

We have no performance obligations under any contract to continue to purchase crude oil sourced from Iran in 2019.

C. Organizational Structure.

Our Subsidiaries

As of December 31, 2018, our significant subsidiaries are listed below. All of the subsidiaries named below are incorporated in China.

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

Sinopec Corp.

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

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

Subsidiaries

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

Name of Company	**Particulars of issued capital** (millions)	**Type of legal entity**	**Percentage of equity held by Sinopec Corp. and its subsidiary** (%)	**Principal activities**
Sinopec International Petroleum Exploration and Production Company Limited	RMB8,000	Limited company	100.00	Investment in exploration, development, production, sales of petroleum and natural gas and other areas

Sinopec Great Wall Energy and Chemical Company Limited	RMB22,761	Limited company	100.00	Coal chemical industry investment management, production and sale of coal chemical products
Sinopec Yangzi Petrochemical Company Limited	RMB15,651	Limited company	100.00	Manufacturing of intermediate petrochemical products and petroleum products
Sinopec Pipeline Storage & Transportation Company Limited	RMB12,000	Limited company	100.00	Pipeline storage and transportation of crude oil
Sinopec Yizheng Chemical Fiber Limited Liability Company	RMB4,000	Limited company	100.00	Production and sale of polyester chips and polyester fibers

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Name of Company	Particulars of issued capital (millions)	Type of legal entity	Percentage of equity held by Sinopec Corp. and its subsidiary (%)	Principal activities
Sinopec Lubricant Company Limited	RMB3,374	Limited company	100.00	Production and sale of lubricant products, lubricant base oil, and petrochemical materials
Sinopec Qingdao Petrochemical Company Limited	RMB1,595	Limited company	100.00	Manufacturing of intermediate petrochemical products and petroleum products
Sinopec Chemical Sales Company Limited	RMB1,000	Limited company	100.00	Trading of petrochemical products
China International United Petroleum & Chemical Company Limited	RMB3,000	Limited company	100.00	Trading of crude oil and petrochemical products
Sinopec Overseas Investment Holding Limited	U.S.$1,662	Limited company	100.00	Overseas investment and management of equities
Sinopec Catalyst Company Limited	RMB1,500	Limited company	100.00	Production and sale of catalyst products
China Petrochemical International Company Limited	RMB1,400	Limited company	100.00	Trading of petrochemical products
Sinopec Beihai Refining and Chemical Limited Liability Company	RMB5,294	Limited company	98.98	Import and processing of crude oil, production, storage and sales of petroleum and petrochemical products
Sinopec Qingdao Refining and Chemical Company Limited	RMB5,000	Limited company	85.00	Manufacturing of intermediate petrochemical products and petroleum products
Sinopec Hainan Refining & Chemical Company Limited	RMB3,986	Limited company	75.00	Manufacturing of intermediate petrochemical products and petroleum products
Sinopec Marketing Co.	RMB28,403	Limited company	70.42	Marketing and distribution of refined petroleum products
Shanghai SECCO Petrochemical Company Limited	RMB7,801	Limited company	67.60	Manufacturing and sales of petrochemical products
Sinopec-SK (Wuhan) Petrochemical Company Ltd.	RMB6,270	Limited company	65.00	Production, sales, research and development of ethylene and downstream derivatives
Sinopec Kantons Holdings Limited	HK$248	Limited company	60.33	Crude oil wharf services and natural gas pipeline transportation services
Sinopec Shanghai Gaoqiao Petrochemical Company Limited	RMB10,000	Limited company	55.00	Manufacturing of intermediate petrochemical products and petroleum products
Sinopec Shanghai Petrochemical Company Limited	RMB10,824	Limited company	50.44	Manufacturing of synthetic fibers, Resin and plastics, intermediate petrochemical products and petroleum products
Fujian Petrochemical Company Limited	RMB8,140	Limited company	50.00	Manufacturing of plastics, intermediate petrochemical products and petroleum products

D. Property, Plant and Equipment.

Real Property

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

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Plants and Facilities

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

The following table sets forth the Rated Capacities and weighted average utilization rates of our principal production units for petroleum products and intermediate petrochemicals in 2018:

Production Unit (number of units)	Rated Capacity (tons)	Utilization Rate (%)
Crude oil distillation units (2)	14,000,000	93.80
Hydrocracker (2)	3,000,000	90.55
Ethylene unit	700,000	107.03
*Aromatics units (2)	835,000	97.29
PTA unit	400,000	83.64
Ethylene oxide / ethylene glycol units (2)	525,000	93.52
Cracking and catalyzing	3,500,000	99.56
Delayed coking (2)	2,200,000	91.87
Diesel oil hydrogenation units (2)	3,850,000	92.79
Acrylonitrile unit	650,000	85.56
C5 segregation units (2)	205,000	114.00

* The No. 1 paraxylene unit (235,000 tons/year) ceased operating during 2018, and the average utilization rate was based on production of the No.2. paraxylene unit.

Our two crude oil distillation units were designed and built in China. In 2018, the actual quantity of crude oil we processed was approximately 14.4 million tons. Our hydrocracker uses technology from United Oil Products Corporation of the United States. Our second ethylene unit uses technology from ABB Lummus Global Inc. of the United States. The aromatics unit uses technology from Universal Oil Products Corporation of the United States. The PTA unit uses technology from Mitsui Petrochemical Corporation of Japan. The ethylene oxide / ethylene glycol unit was constructed using technology from Scientific Design Corporation of the United States.

The following table sets forth the Rated Capacities and weighted average utilization rates of our principal production units for resins and plastics and synthetic fibers in 2018:

Production Unit (number of units)	Rated Capacity (tons)	Utilization Rate (%)
*Polyester units (3)	550,000	90.39
**Polyester staple units (2)	158,000	94.12
Polyester filament unit	21,000	85.66
Acrylic staple fiber units (3)	141,000	111.28
Polypropylene units (3)	408,000	98.13
Polypropylene units (3)	400,000	99.63
Vinyl acetate unit	86,100	89.92

* The No.3 polyester unit (100,000 tons/year) ceased operating on September 1, 2013, and the average utilization rate was based on the production of No.1 and the No.2 polyester units.

** The No.1 polyester staple unit (4,000 tone/year) ceased operating during 2018, and the average utilization rate was based on the production of the No.2 polyester staple unit.

Our polyester units use technology from Kanebo Corporation of Japan and E.I. Dupont DeNemours & Co. Inc. of the United States. The polyester staple units use technology from Teijin of Japan and Jima of Germany as well as Chinese technology. The polyester filament units use technology from Murata Manufacturing Company Limited and Teijin Corporation of Japan, Barmag AG of Germany and E.I. Dupont

DeNemours & Co. Inc.. We produce polyethylene in three units; two LDPE units which use technology from Mitsubishi Petrochemical Corporation of Japan and BASF LDPE of Germany; and one high-density polypropylene unit uses the Borstar bimodal polyethylene technology from Northern European Chemical Engineering Company.

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

Power Facilities

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

Other Facilities

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

Maintenance

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

In 2018, we continued to place emphasis on quality, health, safety & environment (QHSE) by implementing a QHSE responsibility system at each level to strengthen the safety supervision at our operations and construction sites and to improve the QHSE-related performance appraisal. We believe these efforts have resulted in continued improvement in our safety and environmental protection practices. We did not encounter serious accidents involving production safety, environmental pollution or occupational poisoning in 2018. Among the 71 major indicators that measure technical and economic capacity, 38 exceeded those of the previous year while 29 reached advanced levels in our industry.

Transportation-Related Fixtures

Crude oil, our principal raw material, is transported by pipeline and oil tanker to a crude oil terminal wharf and storage tanks. Our products leave the factory by water, rail, road and pipeline. In 2018, approximately 88.86% of our products by sales volume were collected by customers from our premises, and we delivered the balance. Our major ethylene customer is supplied via a pipeline. Some of the products collected by customers were also transported using our facilities.

Wharfs

We own one chemical wharf at Jinshan with five berths of 3,000, 5,000, 10,000, 10,000 and 30,000 tons. We also own a connecting pipeline capable of loading up to approximately 4.6 million tons of chemical products annually onto ocean-going barges and ships. In 2018, products representing 26.90% of total sales volume were shipped from the wharf. We also have a facility to load ships and barges which use the region s inland waterways. In 2018, products representing 1.5% of total sales volume were shipped from these facilities. We believe that we have a competitive advantage because a greater proportion of our products are shipped by water as opposed to rail and truck, which is subject to capacity constraints on China s rail and highway networks. Additionally, we own facilities for receiving crude oil and coal at docks that we own and transporting such materials by pipeline or conveyor to our production facilities.

Rail

We own a railroad loading depot with an annual capacity of 500,000 tons. The depot provides access via a spur line to the national Chinese railway system. In 2018, products representing 0.34% of total sales volume were transported from the factory by rail.

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Capital Expansion Program

We have planned or started a number of other principal capital expansion projects. In 2016, 2017 and 2018, we invested RMB0.8 billion, RMB1.4 billion and RMB1.0 billion, respectively, in capital expansion projects. We expect that total investment in the projects described below will be approximately RMB1.5 billion in 2019.

Refining Capacity Expansion

In 2016, we launched No. 2 Diesel Hydrogenation Unit Reconstruction and Diesel Quality Upgrading Project so as to further improve the quality of oil product and perfect oil product structure. In 2017, we launched gasoline upgrade project involving an alkylation plant with a capacity of 400,000 tons/year, which is anticipated to complete in 2019.

Expansion of New and Existing Downstream Petrochemical Products

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

To take advantage of our specialty in producing acrylics fiber and to improve our industrial structure and upgrade certain products, we plan to construct a carbon fiber project with a capacity of 1,500 tons/year. Sinopec Corp. approved the basic design for this project in December 2010; pile foundation construction was commenced in December 2010; civil engineering was commenced in February 2011 and one series of facilities under phase I were launched for trial operation in 2012. Subject to the market conditions, we plan to commence the construction of Phase II of the Project in August 2019.

Upgrading Environmental Protection Facilities Projects

To enhance our capacity for sustainable development and response to the government requirements of environmental protection, we intend to increase our capital expenditures on a series of environmental projects, mainly including oil cleaning project with 400,000 tons/year clean gasoline component unit, transformation project for ultra clean discharge work in cogeneration unit, transformation of No. 2 olefin cracking burner, and Thermoelectric Department s renovation project involving furnaces Nos. 3 and 4 meeting emission standards. There projects are anticipated to finish in 2019.

TEM 4A. UNRESOLVED STAFF COMMENTS.

None.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS.

General

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

Critical Accounting Policies

The following discussion and analysis of our financial condition and results of operations are based on our consolidated financial statements. The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during 2018. Our financial condition and results of operations are sensitive to accounting methods, assumptions and estimates that underlie the preparation of our financial statements. We based our assumptions and estimates on historical experience and on various other assumptions that we believe to be reasonable and which form the basis for making judgments about matters that are not readily apparent from other sources. On an on-going basis, our management evaluates its estimates. Actual results may differ from those estimates as facts, circumstances and conditions change.

Our principal accounting policies are set forth in Note 2 to our consolidated financial statements and the changes in accounting policies are set forth in Note 3. The selection of critical accounting policies, the judgments and other uncertainties affecting application of those policies and the sensitivity of reported results to changes in conditions and assumptions are factors to be considered when reviewing our financial statements. We believe the following critical accounting policies involve the most significant judgments and estimates used in the preparation of our financial statements.

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Impairments for long-lived assets

Assets that have an indefinite useful life must be tested annually for impairment. Long term assets that are subject to amortization are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset s carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset s fair value less costs to sell and value in use. In determining the value in use, expected cash flows generated by the asset or the cash-generating unit are discounted to their present value. We use all readily available information in determining an amount that is a reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of sale volume, selling price and amount of operating costs. During the years ended December 31, 2016, 2017 and 2018, we recognized impairment charges on property, plant and equipment and other long-term assets of RMB254.2 million, RMB118.2 million and RMB82.7 million, respectively.

Depreciation

Property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives of the assets, after taking into account the estimated residual value. We review the estimated useful lives of the assets annually in order to determine the amount of depreciation expense to be recorded during any reporting period. The useful lives are based on our historical experience with similar assets, taking into account anticipated technological changes. The depreciation expense for future periods is adjusted if there are significant changes from previous estimates. There were no significant changes in these estimates during the years ended December 31, 2016, 2017 and 2018.

Inventory management

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

Management assesses the realizability of our inventories based on the estimates of the net realizable value of the inventories at the end of each reporting period. Net realizable value represents the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale. We base the estimates on all available information, including the current market prices of the finished goods and raw materials and historical operating costs. Any excess of the cost over the net realizable value of each item of inventories is recognized as a provision for diminution in the value of inventories. If the actual selling prices were to be lower or the costs of completion were to be higher than the estimates, the actual allowance for diminution in value of inventories could be higher than estimated. In addition, management periodically reviews inventory aging information to assess if any obsolete inventories are required to be written down at the period end. Based on our assessments, we recorded write-down of inventories of RMB76 million, RMB60 million and RMB48 million, respectively, for the years ended December 31, 2016, 2017 and 2018. Barring unforeseeable changes that may occur to the current economic environment in either China or worldwide, our management does not anticipate encountering major difficulties with our attempt to realize by the end of 2019 the bulk of our inventories as of December 31, 2018 after deducting for diminution in values.

Recognition of deferred tax assets

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

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

In making the assessment of whether it is probable the Company will realize or utilize the deferred tax assets, we primarily rely on the generation of future taxable income to support the recognition of deferred tax assets. In order to fully utilize the deferred tax assets recognized at December 31, 2018, the Company would need to generate future taxable income of at least RMB476 million.

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

Measurement of expected credit losses

The impairment provisions for trade receivables and other receivables are based on assumptions about the expected loss rates. We use judgment in making these assumptions and selecting the inputs to the impairment calculation, based on our historical information, existing market conditions as well as forward looking estimates at the end of each reporting period. Changes in these assumptions and estimates could materially affect the result of the assessment and may be necessary to make additional impairment charge to net impairment losses on financial assets.

A. Results of Operations

Government Policies

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

In particular, we consume large amounts of crude oil to manufacture our products of which more than 95% is typically imported. We attempt to mitigate the effect of increased costs due to rising crude oil prices. However, our ability to pass on these increased costs to our customers is dependent on government regulations, among other factors. Given that the increase of the sales prices of our products can lag behind the increase of crude oil costs, we sometimes fail to completely cover the increased costs by increasing our sales prices, particularly where government regulations restrict the prices of certain of our fuel products such as gasoline, diesel and jet fuel, and liquefied petroleum gas. In 2016, 2017 and 2018, approximately 31.19%, 36.95% and 41.62% of our net sales were from such products subject to price controls. Although the current price-setting mechanism for refined petroleum products in China allows the Chinese government to adjust price in the PRC market when the average international crude oil price fluctuates beyond certain levels within a certain time period (see Item 4. Information on the Company B. Business Overview Product Pricing), the Chinese government still retains discretion as to whether or when to adjust the prices of the refined oil products. The Chinese government generally exercises certain price control over refined oil products once international crude oil prices experience a sustained rise or become significantly volatile. Moreover, the Chinese government controls the distribution of many fuel products in China. For instance, some of our fuel products are required to be sold to designated distributors (such as the subsidiaries of Sinopec Corp.). Because we cannot freely sell our fuel products to take advantage of opportunities for higher prices, we may not be able to fully cover increases in crude oil prices by increases in the sale prices of our products, which has had and will continue to have a material adverse effect on our financial condition, results of operations and cash flows.

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

Inflation

Inflation or deflation did not have a significant impact on our results of operations for the year ended December 31, 2018.

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Summary

In 2018, China s economy generally remained stable. The gross domestic product (GDP) grew by 6.6%, decreased by 0.3% from the previous year. China s petrochemical industry was operated in stable trend with good momentum with basically steady production, overall stable market demands, risen product price and improved industrial efficiency. In 2018, we focused on enhancing our overall efficiency and stepped up efforts to improve a variety of its work, including work safety and environmental protection, operation optimization, cost reduction, market development, research and development, and human resources development. We have achieved major progress in production and operation and continuously maintained a relatively high level of economic benefits.

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

	Year ended December 31,								
	2016			2017			2018		
	Sales Volume (000 tons)	Net Sales (RMB million)	% of Total Net Sales	Sales Volume (000 tons)	Net Sales (RMB million)	% of Total Net Sales	Sales Volume (000 tons)	Net Sales (RMB million)	% of Total Net Sales
Synthetic fibers	202.1	1,855.5	2.8	172.6	2,005.3	2.5	156.0	2,182.4	2.3
Resins and plastics	1,341.7	9,797.6	14.9	1,262.4	10,218.4	12.9	1,208.6	10,542.1	11.0
Intermediate petrochemicals	2,055.7	8,827.6	13.4	1,938.5	10,070.2	12.7	2,134.4	12,160.6	12.7
Petroleum products	8,097.9	24,002.6	36.4	9,233.5	32,400.6	40.9	9,917.3	43,403.0	45.4
Trading of petrochemical products		20,585.4	31.2		23,697.3	29.9		26,544.0	27.8
Others		867.8	1.3		826.5	1.1		781.4	0.8
Total	11,697.4	65,936.5	100.0	12,607.0	79,218.3	100.0	13,416.3	95,613.5	100.0

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

	Year ended December 31,					
	2016		2017		2018	
	RMB million	% of Net sales	RMB million	% of Net sales	RMB million	% of Net sales
Synthetic fibers						
Net sales	1,855.5	2.8	2,005.3	2.5	2,182.4	2.3
Operating expenses	(2,466.4)	(3.7)	(2,480.6)	(3.1)	(2,755.9)	(2.9)
Segment loss	(608.9)	(0.9)	(475.3)	(0.6)	(573.5)	(0.6)
Resins and plastics						
Net sales	9,797.6	14.9	10,218.4	12.9	10,542.1	11.0
Operating expenses	(8,160.0)	(12.4)	(8,862.5)	(11.2)	(9,641.7)	(10.1)
Segment profit	1,637.6	2.5	1,355.9	1.7	900.4	0.9
Intermediate petrochemicals						
Net sales	8,827.6	13.4	10,070.2	12.7	12,160.6	12.7
Operating expenses	(7,017.6)	(10.6)	(7,864.1)	(9.9)	(10,225.7)	(10.7)
Segment profit	1,810.0	2.7	2,206.1	2.8	1,934.9	2.0
Petroleum products						
Net sales	24,002.6	36.4	32,400.6	40.9	43,403.0	45.4
Operating expenses	(20,189.6)	(30.6)	(29,280.6)	(37.0)	(40,493.0)	(42.4)
Segment profit	3,813.0	5.8	3,120.0	3.9	2,910.0	3.0
Trading of petrochemical products						
Net sales	20,585.4	31.2	23,697.3	29.9	26,544.0	27.8
Operating expenses	(20,534.2)	(31.1)	(23,636.7)	(29.8)	(26,439.1)	(27.7)
Segment profit	51.2	0.1	60.6	0.1	104.9	0.1
Others						

Net sales	867.8	1.3	826.5	1.1	781.4	0.8
Operating expenses	(792.8)	(1.2)	(691.9)	(0.9)	(473.0)	(0.5)

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	Year ended December 31,					
	2016		2017		2018	
	RMB million	% of Net sales	RMB million	% of Net sales	RMB million	% of Net sales
Segment profit	75.0	0.1	134.6	0.2	308.4	0.3
Total						
Net sales	65,936.5	100.0	79,218.3	100.0	95,613.5	100.0
Operating expenses	(59,158.6)	(89.7)	(72,816.4)	(91.9)	(90,028.4)	(94.2)
Profit from operations	6,777.9	10.3	6,401.9	8.1	5,585.1	5.8
Net finance income	83.7	0.1	207.3	0.3	337.4	0.4
Investment income						
Share of profit of associates and jointly controlled entities	916.8	1.4	1,243.7	1.6	885.6	0.9
Profit before income tax	7,778.3	11.8	7,852.9	10.0	6,808.1	7.1
Income tax	(1,796.8)	(2.7)	(1,698.7)	(2.2)	(1,471.9)	(1.5)
Net profit	5,981.5	9.1	6,154.2	7.8	5,336.2	5.6
Attributable to:						
Equity shareholders of the Company	5,968.5	9.1	6,143.2	7.8	5,336.3	5.6
Non-controlling interests	13.0	0.0	11.0	0.0	(0.1)	0.0
Net profit	5,981.5	9.1	6,154.2	7.8	5,336.2	5.6

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

Year ended December 31, 2018 compared with year ended December 31, 2017

Net sales

In 2018, our net sales amounted to RMB95,613.5 million, representing an increase of 20.70% as compared to RMB79,218.3 million in 2017. The increase was primarily due to the increase in weighted average sales price of our petroleum and petrochemical products, among which, the weighted average prices (exclude tax) of our synthetic fibers, resins and plastics, intermediate petrochemical products and petroleum products increased by 20.35%, 7.77%, 9.68% and 24.72%, respectively, over the previous year. The total volume of our products was 13.4 million tons in 2018, representing an increase of 6.42% over the previous year. Our production/sales ratio was 100.21%, and the trade receivables recovery rate was 100%. Our total amount of sales from export was RMB19.15 billion, an increase of 38.30% compared with 2017.

(i) Synthetic fibers

In 2018, our net sales for synthetic fibers amounted to RMB2,182.4 million, representing an increase of 8.83% compared to RMB2,005.3 million in 2017. The increase was primarily due to the increase in price of synthetic fibers, driven by the increase in cost of raw materials. The continued sluggish downstream demand and under-performing initiatives in raw material procurement yet led to a drop in sales volume. Sales volume for synthetic fibers decreased by 9.57% compared with the previous year, while the weighted average sales price increased by 20.35%. In particular, the weighted average sales price of acrylic fiber, the main product of our synthetic fibers, increased by 23.35%, and the weighted average sales price of polyester fiber increased by 13.63% over the previous year. Sales of acrylic fiber and polyester fiber accounted for 81.20% and 9.88% of the total sales of synthetic fibers, respectively.

Net sales of synthetic fiber products accounted for 2.3% of total net sales in 2018, representing a decrease of 0.2% as compared to the previous year.

(ii) Resins and plastics

Net sales of resins and plastics amounted to RMB10,542.1 million in 2018, representing an increase of 3.17% as compared to RMB10,218.4 million in 2017. The increase in net sales was mainly attributable to the increase in unit price of resin and plastics, driven by the increase in the costs of raw materials. Due to the lower demand in the downstream market, the sales volume of resins and plastics decreased 4.27% as compared to the previous year, while the weighted average sales price increased by 7.77%. In particular, the weighted average sales price of polyethylene, polypropylene and polyester pellet increased by 2.74%, 9.95% and 14.71%, respectively. Sales of polyethylene, polypropylene and polyester pellet accounted for 29.01%, 37.39% and 20.66% of the total sales of resins and plastics, respectively.

Net sales of resins and plastics accounted for 11.0% of total net sales in 2018, representing a decrease of 1.9% as compared to the previous year.

(iii) Intermediate petrochemicals

Net sales of intermediate petrochemical products amounted to RMB12,160.6 million in 2018, representing an increase of 20.76% as compared to RMB10,070.2 million in 2017. This was mainly due to (i) an increase in weighted average sales price of intermediate petrochemical products of 9.68% as compared to the previous year, which, in turn, was due to the increase in costs of raw materials; and (ii) an increase in sales volume of 10.10% as compared to the previous year, which, in turn, was due to the higher demand in the downstream market. In particular, the weighted average sales price of paraxylene, ethylene oxide and glycol increased by 22.36%, 5.79% and 2.85%, respectively, and the sales volume of each of them increased by 20.55%, 29.70% and 4.44%, respectively. Sales of paraxylene, ethylene oxide and glycol accounted for 28.14%, 12.96% and 15.79% of the total sales of intermediate petrochemical products, respectively.

Net sales of intermediate petrochemicals accounted for 12.7% of total net sales in 2018, which remained the same as the previous year.

(iv) Petroleum products

Net sales of petroleum products amounted to RMB43,403.0 million in 2018, representing an increase of 33.96% as compared to RMB32,400.6 million in 2017, which was mainly attributable to the increase in prices of refined oil in China driven by the increase in world crude oil unit price. The weighted average sales price of major products increased by 24.72%, while sales volume increased by 7.41% as compared to the previous year.

Net sales of petroleum products accounted for 45.4% of total net sales in 2018, representing an increase of 4.5% as compared to the previous year.

(v) Trading of petrochemical products

Net sales from trading of petroleum products amounted to RMB26,544.0 million in 2018, representing an increase of 12.01% as compared to RMB23,697.3 million in 2017. The increase is mainly due to an increase of RMB3,025.0 million in sales of China Jinshan Associated Trading Corporation, a subsidiary of the Company, during 2018.

Net sales from trading of petrochemical products accounted for 27.8% of total net sales in 2018, representing a decrease of 2.1% as compared to the previous year.

(vi) Others

Net sales of other products amounted to RMB781.4 million in 2018, representing a decrease of 5.46% as compared to RMB826.5 million in the previous year.

Net sales of other products accounted for 0.8% of our total net sales in 2018, representing a decrease of 0.3% as compared to the previous year.

Cost of sales and operating expenses

Our cost of sales and operating expenses are comprised of cost of sales, selling and administrative expenses, other operating income and other operating expenses.

Our cost of sales and operating expenses amounted to RMB90,028.4 million in 2018, representing an increase of 23.64% as compared to RMB72,816.4 million in 2017. Our cost of sales and operating expenses of synthetic fibers, resins and plastics, intermediate petrochemicals, petroleum products, trading of petrochemical products and others were RMB2,755.9 million, RMB9,641.7 million, RMB10,225.7 million, RMB40.493.0 million, RMB26,439.1 million and RMB473.0 million, representing an increase of 11.10%, 8.79%, 30.03%, 38.29%, 11.86%, and a decrease of 31.64% compared to the previous year, respectively. Such increases were primarily due to the increase in cost of raw materials driven by the rise in world crude oil unit prices, which substantially increased the cost of sales.

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Cost of sales

Our cost of sales amounted to RMB89,839.0 million in 2018, representing an increase of 24.09% as compared to RMB72,398.3 million in 2017. Cost of sales accounted for 93.96% of net sales for 2018. The increase in cost of sales was primarily due to the increase in crude oil price in 2018.

Selling and administrative expenses

Our selling and administrative expenses amounted to RMB536.1 million in 2018, representing a slight increase of 0.15% as compared to RMB535.3 million in the previous year.

Other operating income

Our other operating income amounted to RMB202.6 million in 2018, representing an increase of 70.25% as compared to RMB119.0 million in the previous year. The increase in other operating income was due to an increase of RMB28.1 million in refunds of local education surcharges in Jinshan District, resulting in an increase in government subsidy that was included in other business income.

Other operating expenses

Our other operating expenses were RMB32.5 million in 2018, representing an increase of 51.87% as compared to RMB21.4 million in the previous year. This was mainly due to an increase in the severances for termination of employees.

Other gains/(losses)-net

Our other gains amounted to RMB176.7 million in 2018, representing an increase of RMB157.2 million as compared to other gains of RMB19.5 million in the previous year. The significant increase in other gain was primarily due to the increase of net gains on disposal of property, plant and equipment of RMB185.5 million in 2018.

Profits/(losses) from operations

Our profit from operations amounted to RMB5,585.1 million in 2018, representing a decrease of RMB816.8 million as compared to RMB6,401.9 million in the previous year. In 2018, there was an increase in costs for all segments generally as compared with those in last year as a result of a 30.66% increase in the average price of Brent crude oil on the London Intercontinental Exchange as compared to the previous year. Despite the subsequent increase in unit price of finished products, the unit purchase price of raw materials increased to a larger extent than the unit price of finished products due to the impact brought by the production cycle and demand of downstream market, leading to a slight fall in profit from operations as compared to last year.

(i) Synthetic fibers

Loss from operations related to synthetic fibers amounted to RMB573.5 million in 2018, representing an increase of RMB98.2 million in the amount of loss as compared to a loss of RMB475.3 million in the previous year. The increase in loss was primarily due to the increase in the cost of raw materials as compared to the previous year.

(ii) Resins and plastics

Profit from operations related to resins and plastics amounted to RMB900.4 million in 2018, representing a decrease of RMB455.5 million as compared to RMB1,355.9 million in the previous year. The decrease in operating profit was mainly attributable to the significant increase in costs of raw materials driven by the increase in world crude oil price. For the period, cost of sales and expenses increased by 8.79%, unit cost of sales increased by 14.37%, and net sales increased by 3.17%.

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(iii) Intermediate petrochemicals

Profit from operations related to intermediate petrochemical products amounted to RMB1,934.9 million in 2018, representing a decrease of RMB271.2 million as compared to RMB2,206.1 million in the previous year. The decrease was mainly attributable to an increase of RMB2,090.4 million in net sales of intermediate petrochemicals, while the cost of sales and expenses for the same period rose by RMB2,361.6 million.

(iv) Petroleum products

Profit from operations related to petroleum products amounted to RMB2,910.0 million in 2018, representing a decrease of RMB210.0 million as compared to RMB3,120.0 million in the previous year. The decrease was mainly attributable to the increase of RMB11,212.4 million in cost of sales and expenses, while the net sales of petroleum products increased RMB11,002.4 million, which resulted in a profit decrease as compared to the previous year.

(v) Trading of petrochemical products

Profit from trading of petrochemical products amounted to RMB104.9 million in 2018, representing an increase of RMB44.3 million as compared to RMB60.6 million in the previous year. The increase was mainly attributable to an increase of RMB2,846.7 million in net sales of the trading business, while the cost of sales and expenses for the same period was up by RMB2,802.4 million, leading to a higher profit as compared to the previous year.

(vi) Others

Profit from other operations amounted to RMB308.4 million in 2018, representing an increase of RMB173.8 million as compared to RMB134.6 million in the previous year. The increase in profit was mainly attributable to an increase in income from disposal of assets.

Net finance income

Our net finance income was RMB337.4 million in 2018, representing an increase of RMB130.1million as compared to RMB207.3 million in the previous year. The increase was mainly due to an increase in our bank deposit average balance of RMB3.7 billion during 2018, which in turn drove an increase of RMB195.1 million in interest income, the effect of which was partially offset by an increase in interest expenses from RMB61.0 million in 2017 to RMB106.2 million in 2018.

Profit before income tax

Our profit before taxation was RMB6,808.1 million in 2018, representing a decrease of RMB1,044.8 million as compared to the profit before taxation of RMB7,852.9 million in the previous year.

Income tax

Our income tax expenses amounted to RMB1,471.9 million in 2018, representing a decrease of RMB226.8 million as compared to RMB1,698.7 million in the previous year. The decrease was primarily due to the decrease in our profit before income tax.

In accordance with the PRC Enterprise Income Tax Law (amended) which took effect from January 1, 2008, the income tax rate of the Company in 2018 was 25% (2017:25%). However, the effective rate for income tax was 21.62% in 2018, as compared to 21.63% in 2017.

Net profit

Our net profit was RMB5,336.2 million in 2018, representing a decrease of RMB818.0 million as compared to RMB6,154.2 million in 2017.

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

Net sales

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

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(i) Synthetic fibers

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

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

(ii) Resins and plastics

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

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

(iii) Intermediate petrochemicals

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

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

(iv) Petroleum products

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

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

(v) Trading of petrochemical products

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

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

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(vi) Others

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

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

Cost of sales and operating expenses

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

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

Cost of sales

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

Selling and administrative expenses

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

Other operating income

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

Other operating expenses

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

Other gains/(losses)-net

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

Profits/(losses) from operations

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

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(i) Synthetic fibers

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

(ii) Resins and plastics

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

(iii) Intermediate petrochemicals

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

(iv) Petroleum products

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

(v) Trading of petrochemical products

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

(vi) Others

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

Net finance income

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

Profit before income tax

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

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Income tax

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

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

Net profit

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

B. Liquidity and Capital Resources.

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

Our primary sources of funding have been cash provided by our operating activities and short term and long term borrowings. Our primary uses of cash have been for cost of sales, other operating expenses and capital expenditures. We prepare monthly cash flow budgets to ensure that we will always have sufficient liquidity to meet our financial obligations as they become due. We arrange and negotiate financing with financial institutions and maintain a certain level of standby credit facilities to reduce liquidity risk. We believe that our current cash on hand, expected cash flows from operations and available standby credit facilities from financial institutions will be sufficient to meet our working capital requirements and repay our short term borrowings and obligations when they become due. In addition, we will continue to optimize our fund raising strategy from short and long term perspectives to take advantage of low interest rates by issuing corporate bonds or debts with low financing costs.

The following table sets forth a condensed summary of our consolidated statement of cash flows for the years ended December 31, 2016, 2017 and 2018.

	Year Ended December 31,		
Cash flow data	**2016**	**2017**	**2018**
		(RMB million)	
Net cash generated from operating activities	7,181.8	7,060.8	6,659.4
Net cash used in investing activities	189.9	2,400.7	1,928.4
Net cash used in financing activities	2,637.2	2,589.8	3,507.2
Net increase in cash and cash equivalents	4,354.7	2,070.3	1,223.9

Net cash generated from operating activities

The net cash generated from operating activities amounted to RMB6,659.4 million in 2018, representing a decrease in cash inflows of RMB401.4 million as compared to the net cash inflows of RMB7,060.8 million in 2017, due to (i) a decrease of RMB283.0 million in cash inflows from operating activities, which, in turn, was due to the increase in the cost of sales; and (ii) an increase of RMB100.4 million in income tax payment.

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

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Net cash used in investing activities

Our net cash used in investing activities decreased from RMB2,400.7 million in 2017 to RMB1,928.4 million in 2018. The decrease was primarily due to (i) an increase of RMB332.0 million in dividend received from joint ventures and associated companies; and (ii) an increase of RMB207.0 million in income generated from the disposal of fixed assets.

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

Net cash used in financing activities

Our net cash used in financing activities increased from RMB2,589.8 million in 2017 to RMB3,507.2 million in 2018. The increase was primarily due to (i) an increase in repayment of borrowings to third parties of RMB536.8 million; and (ii) an increase of RMB578.5 million in payment of dividends to shareholders of RMB million.

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

Borrowings and banking facilities

Due to the Company s net profit position and the reduced capital expenditure, the Company managed to maintain the balance of cash and cash equivalents at a prudent level with a decrease in the amount of borrowings in 2018. Our total borrowings at the end of 2018 amounted to RMB497.2 million, representing a decrease of RMB109.0 million as compared to RMB606.2 million at the end of the previous year. See Item 11 Quantitative and Qualitative Disclosures about Market Risk Interest Rate Risk for more information on the maturity and the interest rate of the borrowings. We have generally been able to arrange short term loans with several PRC financial institutions as and when needed. The debt obligations as of December 31, 2017 and 2018 were as follows.

Debt instruments	Year Ended December 31, 2017	2018
	(RMB million)	
Short term bank loans (1)	606.2	497.2
Long term bank loans		
	606.2	497.2

(1) As of December 31, 2018, no borrowings were secured by the way of property, plant and equipment. We obtained a credit rating of AAA for financing loans, assessed by Shanghai Huajie Credit Rating & Investors Service Co., Ltd., a credit rating agency authorized by the Shanghai Branch of the People s Bank of China. As of December 31, 2018, the current assets exceeded current liabilities by RMB11.39 billion. The liquidity of the Company is primarily dependent on the ability to maintain adequate cash inflow from operations, the renewal of its short-term bank loans and on its ability to obtain adequate external financing to support its working capital and meet its debt obligation when they become due. As of December 31, 2018, we had standby credit facilities of RMB16.96 billion, within which the maturity dates of unused facility amounting to RMB3.71 billion will be after December 31, 2019. We assessed that all the facilities could be renewed upon their expiration dates. We have carried out a detailed review of the cash flow forecast for the 12 months ending December 31, 2019. Based on such forecast, we believe that we will be able to renew these facilities when they expire based on our well-established relationships with various lenders and adequate sources of liquidity exist to fund our working capital and capital expenditure requirements.

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

- the cost of financing and the condition of financial markets;
- our future operating performance, financial condition and cash flows; and
- potential changes in monetary policy of the Chinese government with respect to bank interest rates and lending practices.

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

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

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

Gearing ratio

As of December 31, 2018, our gearing ratio was 31.37%, while as of December 31, 2017, our gearing ratio was 27.71%. The ratio is calculated using this formula: total liabilities divided by total assets.

Capital expenditure

In 2018, our capital expenditure amounted to RMB1,011.0 million, representing a decrease of 28.65% as compared to RMB1,417.0 million in capital expenditure in 2017. Major projects include the following:

Major Project	**Total amount of project investment RMB million**	**Amount of project Investment in 2018 RMB million**	**Project progress as of December 31, 2018**
Project with an annual production of 1,500 tons of PAN-based carbon fibers	848	46	Purchase of equipment
Oil cleaning project with 400,000 tons/year clean gasoline component unit	795	50	Purchase of equipment
Reconstruction project of cogeneration unit for up-to-standard discharge	289	18	Under construction
Renovation project involving low nitrogen combustion in olefin cracking furnace No. 2	121	17	Under construction
	99	55	Under construction

Thermoelectric Department s renovation project involving furnaces Nos. 3 and 4 meeting emission standards			
Environmental protection control project 2# of closed decoking for delayed coking	70	65	Under construction
Oil and gas recovery project of light oil tanks and trestles of Storage and Transportation Department	66	32	Under construction
High-sulphur torch system optimization and reconstruction project of Storage and Transportation Department	44	39	Under construction

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Our capital expenditure for 2019 is estimated at approximately RMB1.5 billion.

Proposed Dividend Distribution

A dividend for the year ended December 31, 2018 of RMB0.25 per share (including tax), based on 10,823,813,500 shares outstanding, amounted to a total dividend of RMB2,705,953,000, was proposed by the Board of Directors on March 19, 2019. The proposal remains to be approved at our 2018 Annual General Meeting.

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

We have a number of technology development units, including the Petrochemical Research Institute, the Plastics Research Institute, the Polyester Fiber Research Institute, the Acrylic Fiber Research Institute and the Environmental Protection Research Institute. These units are charged with various research and development tasks with respect to new technology, new products, new production processes and equipment and environmental protection. Our research and development expenditures in 2016, 2017 and 2018 were RMB102.1 million, RMB36.7 million and RMB37.3 million, respectively. The research and development expenditures in 2018 remained consistent with 2017. The research and development expenditures in 2016 were relatively high due to a research and development project on carbon fiber, which was completed in the first half of 2017.

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

D. Trend Information

The International Monetary Fund advised in its April 2019 edition of *World Economic Outlook* that global growth is projected to slow from 3.6 percent in 2018 to 3.3 percent in 2019, before returning to 3.6 percent in 2020. Global economic performance is increasingly vulnerable to trade and investment protectionism, tightening monetary policies of major countries and increased tensions in international policy coordination.

China is facing a more complex development environment, with greater difficulties and challenges as well as increased external uncertainty. The domestic economy is relatively stable, but may be negatively impacted by Sino-US trade frictions, operational difficulties for some enterprises, and financial volatility. However, the Chinese government is implementing measures seeking to support economic growth through a deepening of reform measures and fiscal and monetary policies designed to stimulate growth. It is currently expected that China s economy will generally be stable in 2019, although the growth rate will decline slightly.

In 2019, there are many uncertainties in the world oil market, among which the Sino-US trade disputes, Brexit and conflicts in the Middle East will continue to be important factors affecting the trend of oil prices. U.S. crude oil production is expected to continue to grow strongly, the slowdown in global economic growth will drag down the growth of crude oil demand. It is expected that the world oil market will be difficult to achieve equilibrium in 2019, and the average price of crude oil is expected to fall.

The global economy slowdown in 2019 will affect the growth of demand for petrochemical products. It is expected that the global chemical market will continue to grow in 2019, but the growth rate of global chemical production will slow down. Due to the strong growth of key terminal markets and abundant supply of superior energy and raw materials in the United States, U.S. chemical production will maintain a strong upward trend. China s economy is expected to continue to decelerate, leading to a slowdown in the growth of demand for major chemicals in China. Also, the future expansion of production capacity in the Chinese market will make domestic market competition more intense.

E. Off-balance Sheet Arrangements

As of December 31, 2018, we had no contingent liabilities in respect of guarantees issued to banks in favor of our associated companies and other unlisted investments (December 31, 2017: nil). Other than our capital commitments disclosed in Note 32 in our consolidated financial statements included in Item 18. Financial Statements, we do not have any other off-balance sheet arrangements.

F. Contractual Obligations and Commercial Commitments

The following table sets forth our obligations to make future payments under contracts effective as of December 31, 2018.

	As of December 31, 2018/Payment Due by Period				
	Total (RMB 000)	Within 1 year or on demand (RMB 000)	More than 1 year but within 2 years (RMB 000)	More than 2 years but within 5 years (RMB 000)	More than 5 years (RMB 000)
Contractual obligations					
Short term borrowings	497,249	497,249			
Long term borrowings					
Operating lease	84,746	81,188	738	746	2,074
Total contractual obligations	563,995	560,437	738	746	2,074
Estimated future interest payments					
Fixed rate					
Variable rate	22,186				
Total estimated future interest payments	22,186				
Investment commitments					
Capital contribution to SECCO (Note 28(i))	111,263				
Other commercial commitments					
Capital commitments (Note 31)	69,210				

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

G. Other Information

Purchase, Sale and Investment

Except as disclosed in this report, during the year ended December 31, 2018, we engaged in no material purchase or sale of our subsidiaries or associated companies or any other material investments.

Pledge of Assets

As of December 31, 2018, we did not pledge any of our property or equipment.

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ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES.
A. Directors and Senior Management.

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

Name	Age	Position
Directors		
Wu Haijun[(1)]	56	Chairman of the Board of Directors, Chairman of Strategy Committee and Member of Nomination Committee
Shi Wei [(2)]	59	Executive Director, President and Member of Strategy Committee
Jin Qiang	53	Executive Director and Vice President
Guo Xiaojun	49	Executive Director, Member of Strategy Committee, Vice President and Secretary to Board of Directors
Zhou Meiyun	49	Executive Director, Member of Strategy Committee and Remuneration and Appraisal Committee, Vice President and Chief Financial Officer
Jin Wenmin[(3)]	53	Executive Director and Vice President
Lei Dianwu	56	Non-executive Director and Member of Strategy Committee
Mo Zhenglin	54	Non-executive Director and Member of Strategy Committee
Zhang Yimin	64	Independent Director and Chairman of the Remuneration and Appraisal Committee and Nomination Committee
Liu Yunhong	42	Independent Director and Member of Audit Committee
Du Weifeng	42	Independent Director and Member of Audit Committee, Remuneration and Appraisal Committee and Nomination Committee
Li Yuanqin	45	Independent Director, Chairman of Audit Committee and Member of Strategy Committee
Supervisory Committee		
Ma Yanhui	48	Chairman of the Supervisory Committee
Zuo Qiang	56	Employee Supervisor
Li Xiaoxia	49	Employee Supervisor
Zhai Yalin	54	Supervisor
Fan Qingyong	54	Supervisor
Zheng Yunrui	53	Independent Supervisor
Choi Tingki	64	Independent Supervisor

(1) Mr. Wu Haijun resigned from position of President of the Board on September 5, 2018.

(2) Mr. Shi Wei was appointed as the President of the Company on the eleventh meeting of the Ninth Session of the Board of Directors on September 19, 2018, was appointed as a Director of the Company on the First Extraordinary General Meeting of 2018 of the Company on November 8, 2018, and was appointed as an Executive Director of the Company and the Member of Strategy Committee on the thirteenth meeting of the Ninth Session of the Board of Directors on November 8, 2018.

(3) Mr. Jin Wenmin was appointed as a Director of the Company on the 2017 Annual General Meeting on June 13, 2018, and was appointed as an Executive Director of the Company on the ninth meeting of the Ninth Session of the Board of Directors on the same date.

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Directors

Wu Haijun, aged 56, is an Executive Director, Chairman, Secretary of the Communist Party Committee, Chairman of the Strategy Committee, member of the Nomination Committee of the Company, Chairman of SECCO and Chairman of Shanghai Chemical Industry Park Development Co., Ltd.. Mr. Wu joined Complex in 1984 and has held various positions, including Deputy Director and Director of the Company s No.2 Chemical Plant, as well as the Manager of the Chemical Division. He was a Vice President of the Company from May 1999 to March 2006 and a Director of the Company from June 2004 to June 2006. Mr. Wu was the Manager and Secretary of the Communist Party Committee of the Chemical Sales Branch of Sinopec Corp. from December 2005 to March 2008. From December 2005 to April 2010, he was a Director of the Chemical Business Department of Sinopec Corp. In April 2010, he was appointed as a Director of SECCO. From April 2010 to February 2011, Mr. Wu was the President of SECCO. From April 2010 to August 2018, he was the Secretary of the Communist Party Committee of SECCO. In June 2010 he was appointed as a Director of the Company. From June 2010 to December 2017, he served as a Vice Chairman of the Company. From February 2011 to March 2015, he acted as a Vice President of SECCO, and was the President of SECCO from March 2015 to December 2017. From October 2017 to January 2019, Mr. Wu was the Chairman of SECCO. From December 2017 to September 2018, he served as the President and Deputy Secretary of the Communist Party Committee of the Company. He has been serving as the Chairman of the Company since December 2017, the Chairman of Shanghai Chemical Industry Park Development Co., Ltd. since January 2018, and the Secretary of the Communist Party Committee of the Company since August 2018. Mr. Wu graduated from East China Institute of Chemical Technology in 1984, majoring in chemical engineering, and obtained a bachelor s degree in engineering. In 1997, he obtained a master s degree in business administration from China Europe International Business School. He is a professor-grade senior engineer by professional title.

Shi Wei, aged 59, is an Executive Director, President, Deputy Secretary of the Party Committee and member of the Strategic Committee of the Company. Mr. Shi joined Shanghai Petrochemical Company Ltd. in 1982. He has been serving as the Assistant Manager and Deputy Manager of the Company s Refinery and Chemical Department, Manager of the Company s Environmental Protection Department, Secretary of the Party Committee and Manager of the Company s Refinery and Chemical Department. From October 2003 to March 2014, he acted as Deputy General Manager of the Company. From June 2005 to April 2013, he served as the director of the Company. From May 2012 to March 2014, he was the head of the preparatory Group of Sinopec s Guizhou Zhijin Coal Chemical Project. From March 2013 to August 2018, he acted as Vice Chairman of Bijie Zhongcheng Energy Co., Ltd. From March 2014 to August 2018, he served as General Manager and Secretary of the Party Committee of Sinopec Great Wall Energy and Chemical Industry (Guizhou) Co., Ltd. In August 2018, he was appointed Deputy Secretary of the Party Committee of the Company. In September 2018, he served as General Manager of the Company. In November 2018, he was appointed Executive Director and member of the Strategic Committee of the Company. Mr. Shi graduated from East China Institute of Chemical Engineering in 1982 with a bachelor s degree in petroleum refining engineering. In 1998, he completed the postgraduate course of enterprise management in East China University of Science and Technology. He is a senior engineer by professional title.

Jin Qiang, aged 53, is an Executive Director and a Vice President of the Company. Mr. Jin joined Zhenhai General Petrochemical Works in 1986 and has held various positions, including the Deputy Chief of the Utilities Department, Deputy Director and Director of the Machinery and Power Division of SINOPEC Zhenhai Refining & Chemical Co., Ltd., and a Director of the Machinery and Power Division of SINOPEC Zhenhai Refining & Chemical Company. Mr. Jin was the Deputy Chief Engineer of SINOPEC Zhenhai Refining & Chemical Company from March 2007 to October 2011, and was appointed as aVice President of the Company in October 2011. In June 2014, Mr. Jin was appointed as an Executive Director of the Company. Mr. Jin graduated from East China Institute of Chemical Technology in 1986 majoring in chemical machinery, and graduated from the Graduate School of Central Party School in 2007 majoring in economic management. He is a professor-grade senior engineer by professional title.

Guo Xiaojun, aged 49, is an Executive Director, a Vice President, the Secretary to Board of Directors, a joint company secretary, a member of the Strategy Committee of the Company, and a director of Shanghai Chemical Industry Park Development Co., Ltd.. Mr. Guo joined the Complex in 1991. He has held various positions, including a Director of the Polyolefin Integrated Plant in the Plastics Division, the Deputy Chief Engineer in the Plastics Division, Deputy to the Manager, Deputy Manager and Manager cum Deputy Secretary of the Communist Party Committee of the Company. He was the Deputy Chief Engineer and Director of the Production Department of the Company from March 2011 to April 2013 and has been serving as a Vice President of the Company since April 2013. In June 2014, Mr. Guo was appointed as an Executive Director of the Company and was appointed as the Secretary to the Board and joint company secretary of the Company in June 2017. Mr. Guo has been serving as a director of Shanghai Chemical Industry Park Development Co., Ltd. since September 2018. He graduated from East China University of Science and Technology in 1991 with a bachelor s degree in engineering, majoring in basic organic chemical engineering and obtained a master s degree majoring in chemical engineering from East China University of Science and Technology in April 2008. He is a professor-grade senior engineer by professional title.

Zhou Meiyun, aged 49, is an Executive Director, a Vice President, the Chief Financial Officer, a member of the Remuneration and Appraisal Committee and the Strategy Committee of the Company. Mr. Zhou joined Complex in 1991 and has held various positions, including an Officer, Assistant to Manager, Deputy Manager and Manager of the Finance Department of the Company. He served as Manager of the Finance Department of SECCO from May 2011 to March 2017, and was appointed as a Vice President and the Chief Financial Officer of the Company in February 2017. He has been serving as an Executive Director of the Company since June 2017 and the Chairman of China Jinshan Associated Trading Corporation (Jinshan Associated Trading) since July 2017. Mr. Zhou graduated from Shanghai University of Finance and Economics in 1991 majoring in accounting, and obtained a master s degree in economics from Huazhong University of Science and Technology majoring in western economics in 1997. He is a senior accountant by professional title.

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

External Directors

Lei Dianwu, aged 56, is a Non-executive Director and a member of the Strategy Committee of the Company, Senior Vice President of Sinopec Corp., the controlling shareholder of the Company. Since June 2005, Mr. Lei has been serving as a Non-executive Director of the Company. Mr. Lei has held various positions, including the Deputy Director of Planning Division and Director of the Preparation Office of the Joint Venture of Yangzi Petrochemical Company, and a Vice President and manager of the Production Division of Yangzi BASF Stylene Company Limited. He acted as the Deputy Manager of Yangzi Petrochemical Company and Deputy Director of its Joint Venture Office, Director of the Development and Planning Division of China Dong Lian Petrochemical Limited Liabilities Company, Deputy General Manager of Yangzi Petrochemical Limited Liabilities Company and Deputy Director of the Development and Planning Division of Sinopec Corp. From March 2001 to August 2013, he was the Director of Development and Planning Division of Sinopec Corp. From March 2009 to October 2018, Mr. Lei was the Assistant to the President of Sinopec Group. From May 2009 to October 2018, he was a Vice President of Sinopec Corp. From August 2013 to October 2018, he was the Chief Economist of Sinopec Group. From October 2015 to October 2018, Mr. Lei was the Secretary to the board of directors of Sinopec Group. From June 2018 to December 2018, Mr. Lei was the head of International Cooperation Department, director of the Foreign Affairs Bureau and head of the Hong Kong, Macau and Taiwan Office of Sinopec Group, and the head of the International Cooperation Department of Sinopec Corp.. Mr. Lei has been serving as a Senior Vice President of Sinopec Corp. since October 2018. Mr. Lei has rich experience in enterprise planning and investment development management. In 1984, Mr. Lei graduated from East China Petroleum Institute majoring in basic organic chemicals and obtained a bachelor s degree in engineering. He is a professor-grade senior engineer by professional title.

Mo Zhenglin, aged 54, is a Non-executive Director and a member of the Strategy Committee of the Company, Deputy Director of the Finance Division of Sinopec Corp., controlling shareholder of the Company. In June 2014, Mr. Mo was appointed as Non-executive Director of the Company. Mr. Mo began his career in August 1986 and has held various positions, including Deputy Director of the Finance Department and Head of the Accounting Department of Beijing Yanshan Petrochemical Corporation and Chief Accountant and Director of the Finance Department of its Refinery Division, Deputy Chief Accountant of Sinopec Beijing Yanshan Company, Chief Accountant of its Refinery Division, Director of Beijing Yanshan Petrochemical Company Limited and Chief Accountant of Sinopec Beijing Yanshan Company. Mr. Mo has been Chief Accountant of the Chemical Division of Sinopec Corp. from August 2008 to August 2017, and Director of SECCO from November 2008 to October 2017. From March 2015 to August 2017, he was Deputy Director of the Chemical Division of Sinopec Corp. In August 2017, Mr. Mo was appointed as Deputy Director of the Finance Division of Sinopec Corp. Mr. Mo obtained a bachelor s degree in management from Zhongnan University of Economics in 1986, majoring in finance and accounting. He is a senior accountant by professional title.

Independent Directors

Zhang Yimin, aged 64, is an Independent Non-executive Director, the Chairman of the Remuneration and Appraisal Committee and the Nomination Committee of the Company and a Professor of Economics and Finance at China Europe International Business School. He has been an Independent Non-executive Director of the Company since October 2013. Mr. Zhang has been an independent director of Shanghai Huayi Group Corporation Ltd. (listed on the Shanghai Stock Exchange, stock code: 600623) since April 2015. Mr. Zhang obtained a doctorate s degree majoring in finance and political studies at the Business School of University of British Columbia, Canada, and has held various positions, including a Post-doctoral Fellow at the Business School of University of British Columbia, Canada, an Assistant Professor at the Business School of University of New Brunswick, Canada, and Associate Professor of the Economics and Finance Department at City University of Hong Kong. He was appointed as a 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 42, is an Independent Non-executive Director and a member of Audit Committee of the Company, the Assistant to General Manager of Hwabao Securities Co. Ltd. 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 was an Independent Director of Guangdong HEC Technology Holding Co., Ltd. (listed on the Shanghai Stock Exchange, stock code: 600673) from May 13, 2014 to March 24, 2018. Mr Liu is an Independent Director of Shanghai Aerospace Automobile Electromechanical Co., Ltd. (listed on the Shanghai Stock Exchange, stock code: 600151), Shenergy Company Limited (listed on the Shanghai Stock Exchange, stock code: 600642) and Bank of Guiyang Co., Ltd. (listed on the Shanghai Stock Exchange, stock code: 601997). From June 2008 to August 2010, Mr. Liu has been the Head of Legal and Compliance Division of Guotai Asset Management Co., Ltd. From October 2008 to August 2010, Mr. Liu conducted post-doctoral research in economics at Guanghua School of Management, Peking University and was conferred as an assistant professor and master postgraduate instructor. From October 2010 to July 2012, he worked for fund product development and supervision of listed companies at the Shanghai Stock Exchange. From August 2012 to September 2013, Mr. Liu was the General Manager of Investment Banking Department of Aerospace Securities Co., Ltd. From October 2013 to November 2017, Mr. Liu was the General Manager of the Institutional Business Department (renamed as the Investment Banking Department in May 2015) of Hwabao Securities Co. Ltd.. Since September 2015, Mr. Liu has been the Assistant to General Manager of Hwabao Securities Co. Ltd.. Since May 2014, Mr. Liu has been the Deputy Head of the Institute of International M&A and Investment, Renmin University of China. Mr. Liu obtained a doctorate s degree in law from Renmin University of China, majoring in civil and commercial Law in 2008. Mr. Liu is a research fellow by professional title.

Du Weifeng, aged 42, is an Independent Non-executive Director, a member of the Audit Committee, the Remuneration and Appraisal Committee and the Nomination Committee of the Company, and a Partner of Beijing JunZeJun (Shanghai) Law Offices. He has been serving as an Independent Non-executive Director of the Company since June 2015. Mr. Du began his career in July 1998. He has held various positions, including Clerk and Assistant Judge of Shanghai Pudong New Area People s Court and worked as a lawyer at Watson & Band Law Offices in Shanghai and at Wintell & Co Law Firm in Shanghai. He has been a Partner of the Shanghai branch of Beijing JunZeJun Law Offices since February 2009. With extensive experience as a lawyer, Mr. Du is a designated lawyer of some banks headquarters, Shanghai branches, Shanghai branch of the state-owned asset management companies and private asset management companies. Mr. Du obtained a bachelor s degree in Commercial Law from Shanghai University in July 1998, and a master s degree in commercial law from Bristol University in September 2005. He also obtained a master s degree in business administration from China Europe International Business School in 2013.

Li Yuanqin, aged 45, is an Independent Non-executive Director, the Chairman of the Audit Committee and a member of the Strategy Committee of the Company, an associate professor of the School of Management and the associate head of the Department of Accountancy at Shanghai University. She is currently an independent director of Shanghai New World Co., Ltd. (listed on Shanghai Stock Exchange, stock code: 600628). From April 2000 to March 2003, she served at the Settlement Department at the headquarters of ICBC. From June 2006 to September 2009, she was the lecturer at the School of Management at Shanghai University. She has been an associate professor of the School of Management at Shanghai University since September 2009 and the associate head of the Department of Accountancy of Shanghai University since May 2011. During that period, she was also a visiting scholar at Foster School of Business, University of Washington in the United States between February 2012 and February 2013. She also serves as a member of the eighth session of the Shanghai Baoshan Committee of the Chinese People s Political Consultative Conference and a non-executive member of the Chinese Institute of Certified Public Accountants. She received a PhD in Management from Antai College of Economics and Management (ACEM) at Shanghai Jiao Tong University.

Supervisory Committee

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

Ma Yanhui, aged 48, is a Supervisor, Chairman of Supervisory Committee, the Deputy Secretary of the Communist Party Committee, Secretary of the Communist Party Discipline Supervisory Committee and Chairman of the Labor Union of the Company. Mr. Ma started his career in 1996. He served as the Secretary of Office of Yanhua Refinery, Secretary and Deputy Director of Yanhua Office of Great Wall Lubricant Oil, Supervisor and Acting Director of Integrated Corporate Reform Department of Sinopec Group, Deputy Director of Integrated Corporate Reform Department of Sinopec Group, Deputy Director and Director of Structure Reform Sector, Corporate Reform Department of Sinopec Assets Management Co., Ltd.. From June 2008 to August 2017, Mr. Ma was the Director of Integrated Corporate Reform Department of Sinopec Group. In August 2017, Mr. Ma was appointed as the Deputy Secretary of the Communist Party Committee and Secretary of the Communist Party Discipline Supervisory Committee of the Company. He was appointed as a Supervisor, the Chairman of Supervisory Committee and Chairman of the Labour Union of the Company in October 2017. Mr. Ma graduated from East China University of Science and Technology in

July 1996, majoring in petroleum processing, and obtained a bachelor s degree in engineering. In June 2006, he obtained a master s degree in corporate management from Renmin University of China. Mr. Ma is a senior economist by professional title.

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Zuo Qiang, aged 56, is a Supervisor, Chief Legal Counsel and Deputy Chief of Political Work of the Company. Mr. Zuo joined Complex in 1981 and has held various positions, including an archivist of the Command Division for the construction of Phase II of No. 1 Chemical Plant of the Complex, the Head of Archives at the ethylene plant, Secretary of the Youth League Committee of the ethylene plant, Secretary of the Youth League Committee of the Refining and Chemical Division of the Complex, Secretary of the Youth League Committee of the Refining and Chemical Division of the Company, Secretary of the General Branch of the Communist Party Committee of Ethylene Plant No. 1 of the Refining and Chemical Division of the Company, and the Deputy Director of the Supervisory Office of the Company and the Secretary of the Corporate Discipline Supervisory Committee of the Company. From April 2011 to April 2018, he was a Director of the Supervisory Office of the Company. He has been serving as a Supervisor of the Company since June 2011. From June 2011 to December 2018, he was a Director of Supervisory Committee Office of the Company. From October 2011 to December 2018, he was the Deputy Secretary of the Discipline Inspection Commission of the Company. He has been servicing as the Deputy Chief of Political Work of the Company since February 2016 and the Chief Legal Counsel of the Company since February 2017. From April 2018 to December 2018, he was a Director of the Supervisory Department of the Company. Mr. Zuo graduated from the Correspondence College of Communist Party Committee School of the Central Committee in 1993 majoring in party & administrative management. He has senior professional technical qualification.

Li Xiaoxia, aged 49, is a Supervisor and Secretary of the Communist Party Committee and the Deputy Director of the Plastics Division of the Company. Ms. Li joined Complex in 1991 and has held various positions, including the Controller of the operation zone of the marine terminal of the Company, Assistant to the Workshop Director, Deputy Workshop Director and Deputy Section Chief of Storage and Transportation Area No. 2 of the Refining and Chemical Division, Deputy Secretary of the Youth League Committee of the Company, Secretary of Party General Branch for Staff Exchange and Relocation Centre, Secretary of the Communist Party Committee and Deputy Manager of the Refining Division of the Company. She was appointed as a Supervisor of the Company in June 2011 and served as the Vice Chairman of the Labor Union of the Company from December 2011 to August 2017. She was appointed as the Secretary of the Communist Party Committee and Deputy Director of the Plastics Division of the Company in July 2017. Ms. Li graduated from Liaoning University of Petroleum and Chemical Technology in 1991 majoring in petroleum and natural gas transportation, and obtained a bachelor s degree in Engineering. She has senior professional technical qualification.

Zhai Yalin, aged 54, is an External Supervisor of the Company, the Deputy Director of the Auditing Bureau of Sinopec Group, the Deputy Director of Auditing Department of Sinopec Corp. and the ninth group leader of leading party inspection group of Sinopec Group. Mr. Zhai has been an External Supervisor of the Company since June 2008. Mr. Zhai started his career in 1986 and successively served as the Deputy Head of the Head Office and Director of the Auditing Department of Qianguo Refinery, Deputy Director of the General Office of Sinopec Huaxia Auditing Company, the Deputy Director of the General Administrative Office of the Auditing Bureau of Sinopec Group, a Director of the General Administrative Office of the Auditing Bureau of Sinopec Group, and Director of the General Administrative Office of the Auditing Bureau of Sinopec Group (Auditing Department of Sinopec Corp.). Since December 2001, Mr. Zhai concurrently holds the posts of the Deputy Director of the Auditing Bureau of Sinopec Group and the Deputy Director of Auditing Department of Sinopec Corp. He was appointed as the ninth group leader of leading party inspection group of Sinopec Group in April 2018. Mr. Zhai graduated from Jilin Siping Normal College in 1986 and is a senior economist by professional title.

Fan Qingyong, aged 54, is an External Supervisor of the Company, the Deputy Chief of the Supervisory Bureau and a member of the Discipline Inspection Group of Sinopec Group, a Deputy Director of the Supervisory Department of Sinopec Corp., the controlling shareholder of the Company, and a Supervisor of Sinopec Refinery & Marketing Limited. Mr. Fan has been an External Supervisor of the Company since June 2017. Mr. Fan started his career in 1987, and has held various positions, including the Deputy Director of the Communist Party Office of No. 2 Oil Plant and a Director of the Corporate Management Department of Fushun Petrochemical Company, the Discipline Inspector (Deputy level) and Deputy Director of the Second Discipline Inspection and Supervision Group of the Supervisory Bureau of Sinopec Group (Supervisory Department of Sinopec Corp.), and a Director of the First Discipline Inspection and Supervision Group of the Supervisory Bureau of Sinopec Group (Supervisory Department of Sinopec Corp.). He has been the Deputy Director of the Supervisory Bureau of Sinopec Group and Deputy Director of the Supervisory Department of Sinopec Corp. since April 2010. He served as a Supervisor of Sinopec Star Petroleum Co., Ltd. from July 2010 to April 2015. He has been serving as a member of the Discipline Inspection Group of the Communist Party Committee of Sinopec Group and a Supervisor of Sinopec Refinery & Marketing Limited since May 2012. Mr. Fan graduated from Fushun Normal College (now known as Fushun Teachers College) majoring in Chinese in 1987, from Liaoning Normal University majoring in Chinese in July 1991, and from Renmin University of China, majoring in law in January 2003 and obtained a master s degree in law. He is a professor-grade senior professional by professional title and is qualified to practice law.

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Independent Supervisor

Zheng Yunrui, aged 53, is an Independent Supervisor of the Company and a professor in civil and commercial law at the Faculty of Law of the East China University of Political Science and Law in the PRC and a Member of Expert Consultation Committee of Shanghai Yangpu District People s Procuratorate and Mediator of Shanghai Second Intermediate People s Court. He has been serving as an Independent Supervisor of the Company since December 2014. Mr. Zheng is an independent director of Hangzhou Innover Technology Co., Ltd. (listed on the Shenzhen Stock Exchange, stock code: 002767), Jiangxi Xinyu Guoke Technology Co., Ltd. (listed on the Shenzhen Stock Exchange, stock code: 300722) and Fuxin Dare Automotive Parts Co., Ltd. (listed on the Shenzhen Stock Exchange, stock code: 300473). Mr. Zheng graduated from Shangrao Normal University in Jiangxi Province, majoring in English Language. Mr. Zheng obtained a master s degree in law and a doctorate s degree in law from the Faculty of Law of Peking University in July 1993 and July 1998, respectively. Mr. Zheng previously worked at the Education Bureau of Shangrao County, Jiangxi Province, Hainan Airport Limited, China Township Enterprise Investment and Development Company Limited and the Legal Affairs Office of the Shanghai Municipal People s Government. He has been teaching at East China University of Political Science and Law since August 2001. He was a visiting scholar at the Faculty of Law of National University of Singapore between July 2002 and December 2002. Mr. Zheng has been engaged in trials, teaching and research relating to civil law, property law, contract law, company law, insurance law, social insurance law and government procurement law. He is experienced in the legal affairs on corporate governance and has great academic achievements. He is also an arbitrator at the Arbitration Commission of Shenzhen, Shenyang, Xuzhou and Wuxi. Mr. Zheng was appointed as a member of Expert Advisory Committee of the People s Procuratorate of Shanghai Yangpu District and mediator of Shanghai No. 2 intermediate People s Court in March 2017 and June 2017, respectively.

Choi Tingki, aged 64, is an Independent Supervisor of the Company and a Fellow of the Hong Kong Institute of Certified Public Accountants. He joined the Company in June 2011. Mr. Choi served as an Independent Non-executive Director of the Company from June 2011 to June 2017, and has been an Independent Supervisor since June 2017. Mr. Choi has been an independent non-executive director of Yangtzekiang Garment Limited (listed on the Main Board of the HKSE, stock code: 00294) and YGM Trading Limited (listed on the Main Board of the HKSE, stock code: 00375) since December 2012. Mr. Choi graduated from the Department of Accounting, Hong Kong Polytechnic in 1978. He joined KPMG in the same year and has held various positions, including a Partner of the audit department of KPMG Hong Kong Office, an Executive Partner of KPMG Shanghai Office, a Senior Partner of KPMG Huazhen Shanghai Office as well as a Senior Partner of KPMG Huazhen in Eastern and Western China. Mr. Choi retired from KPMG Huazhen in April 2010.

B. Compensation.

The aggregate amount of cash compensation we paid to our directors, supervisors and executive officers during the year ended December 31, 2018 was approximately RMB7.72 million. In addition, directors and supervisors who are also officers or employees receive certain other benefits-in-kind, such as subsidized or free health care services, housing and transportation, which large Chinese enterprises customarily provide to their employees. No benefits are payable to members of the board or the Supervisory Committee or the executive officers upon termination of their relationship with us.

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The following tables set forth the compensation on an individual basis for our directors, supervisors and executive officers who received compensation from us in 2018.

Name	Position with the Company	Salaries and other benefits (RMB 000) (before tax)	Retirement scheme contributions(1) (RMB 000) (before tax)	Discretionary bonus (RMB 000) (before tax)	Share Option expenses (RMB 000) (before tax)	Total Remuneration in 2018 (excluding share options) (RMB 000) (before tax)
Wu Haijun(1)	Chairman & Executive Director	393	19	910		1,322
Shi Wei(2)	Executive Director & President	84	6	58		148
Jin Qiang	Executive Director & Vice President	226	19	523		768
Guo Xiaojun	Executive Director, Vice President & Secretary to the Board	216	19	518		753
Zhou Meiyun	Executive Director, Vice President & Chief Financial Officer	185	19	498		702
Jin Wenmin(3)	Executive Director & Vice President	187	19	528		734
Lei Dianwu	External Director					
Mo Zhenglin	External Director					
Zhang Yimin	Independent Director	150				150
Liu Yunhong	Independent Director	150				150
Du Weifeng	Independent Director	150				150
Li Yuanqin	Independent Director	150				150
Ma Yanhui	Chairman of Supervisory Committee	274	14	288		576
Zuo Qiang	Supervisor	135	17	411		563
Li Xiaoxia	Supervisor	143	16	418		577
Zhai Yalin	Supervisor					
Fan Qingyong	Supervisor					
Zheng Yunrui	Independent Supervisor	100				100
Choi Tingki	Independent Supervisor	100				100
Gao Jinping (4)	Former Executive Director, Vice Chairman & Vice President	215	12	549		776

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

(1) Mr. Wu Haijun resigned from position of President of the Board on September 5, 2018.

(2) Mr. Shi Wei was appointed as the President of the Company on the eleventh meeting of the Ninth Session of the Board of Directors on September 19, 2018, was appointed as a Director of the Company on the First Extraordinary General Meeting of 2018 of the Company on November 8, 2018, and was appointed as an Executive Director of the Company and the Member of Strategy Committee on the thirteenth meeting of the Ninth Session of the Board of Directors on November 8, 2018.

(3) Mr. Jin Wenmin was appointed as a Director of the Company on the 2017 Annual General Meeting on June 13, 2018, and was appointed as an Executive Director of the Company on the ninth meeting of the Ninth Session of the Board of Directors on the same date.

(4) Mr. Gao Jinping resigned from his positions of Vice Chairman of the Board, Executive Director and Vice President of the Company on September 5, 2018.

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C. Board Practices.

Board of Directors

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

Independent Board Committee

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

Supervisory Committee

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

Remuneration and Appraisal Committee

We formed a remuneration and appraisal committee on December 25, 2001 which consists of three Directors. As of December 31, 2018, the members of the remuneration committee are Mr. Zhang Yimin (Chairman of the Committee), Mr. Zhou Meiyun and Mr. Du Weifeng. The key responsibility of the Remuneration Committee is to formulate and review the remuneration policy and plan for the Directors and executive officers, formulate the standards for evaluation of the Directors and executive officers and conduct such evaluations. The members of the remuneration and appraisal committee will hold office for the same term as their directorships which will expire in June 2020.

Audit Committee

We formed an audit committee on June 15, 1999 which consists of three Directors. As of December 31, 2018, the members are Ms. Li Yuanqin (Chairman of the Committee), Mr. Liu Yunhong and Mr. Du Weifeng. The key responsibility of the Audit Committee is to advise the Board on the appointment, dismissal, remuneration and terms of engagement of external auditors, review and supervise our financial reporting process, internal controls and risk management systems, and review our connected transactions. The members of the audit committee will hold office for the same term as their directorships which will expire in June 2020.

Nomination Committee

We formed a nomination committee on June 27, 2012 which consists of three Directors. As of December 31, 2018, the members are Mr. Zhang Yimin (Chairman of the Committee), Mr. Du Weifeng and Mr. Wu Haijun. The key responsibility of the Nomination Committee is to review the Board composition, make recommendations to the Board on the procedures and criteria for the selection and appointment of Directors and senior management and assess the independence of Independent Non-executive Directors. The members of the audit committee will hold office for the same term as their directorships which will expire in June 2020.

Strategy Committee

We formed a strategy committee on June 15, 2017 which consists of four Executive Directors, two Non-executive Directors and one Independent Non-executive Director. As of December 31, 2018, the members are Mr. Wu Haijun (Chairman of the Committee), Mr. Shi Wei, Mr. Guo Xiaojun, Mr. Zhou Meiyun, Mr. Lei Dianwu, Mr. Mo Zhenglin and Ms. Li Yuanqin. The key responsibility of the Strategy Committee is to conduct researches and give recommendations to the Board on major investment decisions, projects and major issues that affect our development, and monitor our long-term development strategic plan. The members of the audit committee will hold office for the same term as their directorships which will expire in June 2020.

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Summary Corporate Governance Differences

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

D. Employees.

As of December 31, 2018, we had 9,597 employees.

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

	December 31,		
	2016	**2017**	**2018**
Management	1,134	1,148	1,057
Engineers, technicians and factory personnel	6,607	6,197	5,753
Accounting, marketing and others	3,347	3,016	2,787
Total	11,088	10,361	9,597

Approximately 50.76% of our work force are graduates with a tertiary degree or higher. In addition, we offer our employees opportunities for education and training based upon our development plans and requirements and the individual performance of each employee.

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A system of labor contracts has been adopted in our Company. The contract system imposes discipline, provides incentives to adopt better work habits and gives us greater management control over our work force. We believe that by linking remuneration to productivity, the contract system has also improved employee morale. As of December 31, 2018, almost all of the work force was employed pursuant to labor contracts which specify the employee s position, responsibilities, remuneration and grounds for termination. The contracts generally have short terms of one to five years and may be renewed with the agreement of both parties. The remaining personnel are employed for an indefinite term.

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

Total remuneration of our employees includes salary and bonuses. Employees also receive certain benefits in terms of housing, education and health services that we subsidize, and other miscellaneous subsidies. In 2018, we incurred RMB288.9 million in employment costs.

In compliance with Shanghai regulations, we and our employees participate in a defined contribution government pension scheme under which all employees upon retirement are entitled to receive pensions. In order to safeguard and properly enhance the living level of retired employees and improve the medium and long term incentive system, the Company established an enterprise annuity plan. According to the plan, to the extent that the employees volunteer for the related payments and have been with the Company for one year or more, such employees are entitled to participate in the enterprise annuity plan. We will make payments to match the payments made by the employees after giving considerations to our profitability, the employee s work responsibilities, contributions, and treatments post retirement based on the principle of universal benefits. We have 18,344 retired employees under the above retirement insurance plans. During 2018, we terminated employment with 764 persons (including the retired and voluntary leave), accounting for 7.37% of 10,361 employees we had as of January 1, 2018.

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

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E. Share Ownership.

The table below sets forth information regarding the beneficial ownership of our shares held by our directors, supervisors and executive officers as of March 31, 2019:

Name	Position held	Number of Shares held (shares)	Percentage of total issued shares of the Company (%)	Percentage of total issued A shares (%)
Jin Qiang	Executive Director and Vice President	301,000 A shares (L)	0.0028	0.0041
Guo Xiaojun	Executive Director, Vice President, Secretary to the Board and Joint Company Secretary	301,000 A shares (L)	0.0028	0.0041
Jin Wenmin	Executive Director and Vice President	175,000 A shares (L)	0.0016	0.0024

(L): Long position

Share Option Incentive Scheme

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

On January 6, 2015, our Board of Directors approved the proposal of the initial grant of the share option incentive scheme. A total of 38,760,000 share options were granted to 214 participants, among which 2,540,000 were granted to six of our directors and senior management. The total number of underlying stock accounted for 0.359% of the Company s total share capital when granted. The exercisable period for the share options shall be three years, commencing from the expiry of the two-year period after the grant date. There shall be three exercisable periods (one year for each exercisable period, same for the following) under the scheme. Upon the fulfilment of the exercise conditions, 40%, 30% and 30% of the total share options granted shall become exercisable within the first, second and third exercisable periods, respectively. According to the principle on the determination of exercise price, the exercise price of the initial grant was RMB4.20 per share (in the event of dividends payment, capitalization of capital reserves, bonus issue, subdivision or reduction of shares or allotment of shares during the validity period, the exercise price shall be adjusted according to the Share Option Incentive Scheme). On June 15, 2016, the 2015 annual profit distribution plan was considered and passed at the 2015 annual general meeting, whereby cash dividend of RMB1.00 was paid for each 10 shares, and the exercise price was adjusted to RMB4.10 per share accordingly. On June 15, 2017, the 2016 annual profit distribution plan was considered and passed at the 2016 annual general meeting, whereby cash dividend of RMB2.50 was paid for each 10 shares, and the exercise price was adjusted to RMB3.85 per share accordingly. On June 13, 2018, the 2017 annual profit distribution plan was considered and passed at the 2017 annual general meeting, whereby cash dividend of RMB3.00 was paid for each 10 shares, and the exercise price was adjusted to RMB3.55 per share accordingly.

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

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

In 2018, the 8,946,900 of A shares share options expired due to the unfulfillment of exercise conditions. As of March 31, 2019, none of our directors, supervisors, executive officers or major shareholders held any outstanding A shares share options.

ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS.

A. Major Shareholders.

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

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

The table below sets forth information regarding ownership of our shares as of March 31, 2019 by all persons who we know own more than five percent of our A shares and our H Shares. Our major shareholders listed below do not have voting rights different from those of our other shareholders.

Name of shareholders	Interests held (shares)	Percentage of total issued shares of the Company (%)	Percentage of total issued shares for this category(%)	Capacity
Sinopec Corp.	5,460,000,000 A Shares (L)	50.44 (L)	74.50 (L)	Beneficial owner
The Bank of New York Mellon Corporation	496,076,471 H Shares (L)	4.58 (L)	14.19 (L)	
	402,870,300 H Shares (S)	3.72 (S)	11.53 (S)	
	81,142,371 H Shares (P)	0.75 (P)	2.32 (P)	Interests of controlled corporation
BlackRock, Inc.	323,087,985 H Shares (L)	2.98 (L)	9.24 (L)	
	5,416,500 H Shares (S)	0.05 (S)	0.15 (S)	Interests of controlled corporation
Citigroup Inc.	224,724,270 H Shares (L)	2.07 (L)	6.42 (L)	
	1,425,000 H Shares (S)	0.01 (S)	0.04 (S)	Secured equity holders, Interests of controlled corporation and approved lending agents
	189,282,335 H Shares (P)	1.75 (P)	5.41 (P)	
Hung Hin Fai (1)	211,008,000 H Shares (L)	1.95 (L)	6.04 (L)	
	200,020,000 H Shares (S)	1.85 (S)	5.72 (S)	Interests of controlled corporation
Chan Kin Sun (2)	200,020,000 H Shares (L)	1.85 (L)	5.72 (L)	Interests of controlled corporation

JPMorgan Chase & Co.	198,059,077 H Shares (L)	1.83 (L)	5.66 (L)	
	31,687,660 H Shares (S)	0.29 (S)	0.90 (S)	Interests of controlled corporation, investment manager, equity holders and approved lending agents
	140,507,533 H Shares (P)	1.30 (P)	4.02 (P)	

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

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Notes:

(1) These shares were held by Corn Capital Company Limited. Hung Hin Fai held 100% interests in Corn Capital Company Limited, and was deemed to be interested in the shares held by Corn Capital Company Limited.

(2) These shares were held by Yardley Finance Limited. Chan Kin Sun held 100% interests in Yardley Finance Limited, and was deemed to be interested in the shares held by Yardley Finance Limited.

As of March 31, 2019, a total of 3,495,000,000 H Shares were outstanding, and a total of 7,328,813,500 A Shares were outstanding.

The Bank of New York Mellon has advised us that, as of March 31, 2019, 3,956,948 ADSs, representing the equivalent of 395,694,800 H Shares, were held of record by 82 other registered shareholders domiciles in and outside of the United States. We have no further information as to our shares held, or beneficially owned, by U.S. persons.

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

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

B. Related Party Transactions.

Intercompany service agreements and business-related dealings

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

The purchases by us of crude oil and related materials from, and sales of petroleum products by us to, Sinopec Corp. and its associates were conducted in accordance with the State s relevant policy and applicable State tariffs or State guidance prices. As long as the State does not lift its control over purchases of crude oil, sales of petroleum products and pricing thereof, such connected transactions will continue to occur. We sell petrochemicals to Sinopec Corp. and its associates and Sinopec Corp. and its associates act as agents for the sales of petrochemicals in order to reduce our inventories, expand their trading, distribution and sales networks and improve our bargaining power with our customers. We lease part of the properties to Sinopec Corp. and its associates in consideration of their good financial background and credit standing. We accept construction and installation, engineering design, insurance agency and financial services relating to the petrochemical industry from Sinopec Group and its associates in order to secure steady and reliable services at reasonable prices.

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

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The table below sets forth certain relevant information regarding our continuing connected transactions with Sinopec Corp. and Sinopec Group under the Mutual Product Supply and Sales Services Framework Agreement and the Comprehensive Services Framework Agreement in 2018.

Unit: RMB 000

Type of major transactions	Connected parties	Annual cap for 2018	Transaction Amount during the reporting Period	Percentage Of the total Amount of the same type of transaction (%)
Mutual Product Supply and Sales Services Framework Agreement				
Purchases of raw materials	Sinopec Corp., Sinopec Group and their associates	74,689,000	56,427,644	49.33
Sales of petroleum and petrochemical products	Sinopec Corp. and its associates	96,166,000	59,840,988	88.82
Property leasing	Sinopec Corp. and its associates	36,000	29,551	61.68
Agency sales of petrochemical	Sinopec Corp. and its associates	232,000	139,837	100.00
Comprehensive Services Framework Agreement				
Construction, installation and engineering design services	Sinopec Group and its associates	2,621,000	109,146	22.47
Petrochemical industry insurance services	Sinopec Group and its associates	160,000	121,329	96.71
Financial services	Sinopec Group and its associates	200,000	1,936	9.68

On December 5, 2016, the Company entered into an asset leasing agreement (the Lease Agreement) with Baishawan branch of Sinopec Petroleum Reserve Company Limited (the Baishawan Branch), a wholly-owned subsidiary of Sinopec Group. Pursuant to the Lease Agreement, the Company rents the oil tanks and ancillary facilities from the Baishawan Branch at an annual rent up to RMB53,960,000 (exclusive of VAT), with the leasing period from January1, 2016 to December 31, 2018. The Lease Agreement was considered and approved at the 16th meeting of the eighth session of the Board on 24 November 2016. In 2018, the Company incurred leasing cost of RMB53,960,000. At the fourteenth meeting of the ninth session of the Board on December 28, 2018, we approved the signing of a new lease agreement with Baishawan Branch. The new lease agreement was signed on December 31, 2018 with a leasing term from January 1, 2019 to December 31, 2019 and an annual rent of RMB95,000,000 (including VAT).

On December 28, 2018, the Company entered into a technical service agreement with Petro-CyberWorks Information Technology Co., Ltd. (PCITC), a non-wholly-owned subsidiary of Sinopec Group. Pursuant to the technical service agreement, the Company engages PCITC to implement the design, construction, operation and maintenance of smart plant project with a service fee of RMB30,580,000 (including tax).

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HKSE connected transactions rules

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

C. Interests of Experts and Counsel.

Not applicable.

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ITEM 8. FINANCIAL INFORMATION.

A. Consolidated Statements and Other Financial Information.

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

Litigation

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

Dividend Policy

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

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

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

B. Significant Changes.

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

ITEM 9. THE OFFER AND LISTING.

A. Offer and Listing Details

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

B. Plan of Distribution

Not applicable.

C. Markets

Our H Shares are listed for trading on the HKSE (Code: 00338), our ADSs are listed for trading on the NYSE under the symbol SHI and our A Shares are listed for trading on the Shanghai Stock Exchange (Code: 600688).

D. Selling Shareholders

Not applicable.

E. Dilution

Not applicable.

F. Expenses of the Issuer

Not applicable.

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ITEM 10. ADDITIONAL INFORMATION.
A. Share Capital

Not applicable.

B. Memorandum and Articles of Association.

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

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

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

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

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

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

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

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

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

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

Sources of Shareholders Rights

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

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

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

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

Enforceability of Shareholders Rights

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

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

Our Articles of Association provide that all differences or claims

- between a holder of H Shares and us;
- between a holder of H Shares and any of our directors, supervisors, manager or other senior officers; or
- between a holder of H Shares and a holder of A Shares,

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

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

Restrictions on Transferability and the Share Register

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

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

all relevant transfer fees and stamp duties are paid;

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

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

- the H Shares are free from any lien of ours.

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

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

Dividends

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

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

- recovery of losses, if any;

- allocations to the statutory common reserve fund; and

- allocations to a discretionary common reserve fund.

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

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

Dividend payments may be subject to Chinese withholding tax. See Item 10. Additional Information E. Taxation.

Voting Rights and Shareholders Meetings

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

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

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

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

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

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

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

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

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

- increasing or decreasing the number of shares of a class or of a class having voting or distribution rights or privileges equal or superior to that class;
- removing or reducing rights to receive dividends in a particular currency;
- creating shares with voting or distribution rights superior to shares of that class;
- restricting or adding restrictions to the transfer of ownership of shares of that class;
- allotting and issuing rights to subscribe for, or to convert into, shares of that class or another class;
- increasing the rights or privileges of any other class; or
- modifying the provision of our Articles of Association that specifies which amendments would be deemed a variation or abrogation of the rights of a class of shareholder.

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

- If the proposal is for us to repurchase our shares either from all shareholders proportionately or by purchasing share on a stock exchange, an Interested Shareholder is our controlling shareholder;
- If the proposal is for us to repurchase our shares from a shareholder by a private contract, an Interested Shareholder is the shareholder whose shares would be repurchased;
- If the proposal is for our restructuring, an Interested Shareholder is any shareholder that has an interest in the restructuring different from the other shareholders of the class or who bears a burden under the proposed restructuring that is less than proportionate to his shareholdings of the class.

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

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

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

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

The following decisions must be adopted by special resolution:

- an increase or reduction of our share capital or the issue of shares of any class, warrants and other similar securities;
- the issue of our debentures;
- our division, merger, dissolution and liquidation;
- amendments to our Articles of Association;
- significant acquisition or disposal of material assets or provision of guarantees conducted within the period of one year with a value exceeding 30% of our latest audited total assets;
- share incentive schemes; and
- any other matters considered by the shareholders in a general meeting and which they have resolved by way of an ordinary resolution to be material and should be adopted by special resolution.

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

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

Board of Directors

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

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

- not to cause us to exceed the scope of business stipulated in our business license;
- to act honestly in what he considers our best interests;

- not to expropriate our assets in any way, including (without limitation) usurpation of opportunities which may benefit us; and
- not to expropriate the individual rights of shareholders, including (without limitation) rights to distributions and voting rights, except according to a restructuring which has been submitted to the shareholders for their approval in accordance with the Articles of Association.

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

- a duty, in the exercise of their powers and discharge of their duties, to exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances;
- a fiduciary obligation, in the discharge of his duties, not to place himself or herself in a position where his or her interests may conflict with his or her duty to us; and
- a duty not to cause a person or an organization related or connected to him or her in specified relationships to do what they are prohibited from doing.

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

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

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

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

- immediate family members of persons who work for us or our associated entities;
- persons or their immediate family who hold one percent or more of our shares or are among our ten largest shareholders;
- any persons that satisfied the foregoing conditions within the past one year;
- persons providing financial, legal, consultation or other services to us or our associated entities;
- persons who already serve as Independent Director for five other listed companies; and
- anyone identified by the CSRC as unsuitable for serving as an Independent Director.

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

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

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

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

- proposals for our financial policies;
- the increase or reduction of our registered capital;
- the issue of securities of any kind and their listing;

- any repurchase of our shares;
- significant acquisitions or disposals;
- our merger, division or dissolution; and
- any amendment to our Articles of Association.

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

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

- any company that, directly or indirectly, controls us or is under common control with us;
- any shareholders owning 5% or more of our shares;

- our directors, supervisors and other senior management;
- any of our key technical personnel or key technology suppliers; and
- any close relative or associate of any of the above.

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

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

- the nomination, removal and remuneration of directors or senior management;
- any major loans or financial transactions with our shareholders or related enterprises and whether we have taken adequate steps to ensure repayment;
- matters that the Independent Director believes may harm the rights and interests of minority shareholders; and
- any other matter that they are required to opine on by applicable law or rules.

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

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

Supervisory Committee

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

- attend the meetings of our Board of Directors;
- inspect our financial affairs;
- supervise and evaluate the conduct of our directors, general manager and other senior officers in order to determine whether they violate any laws, regulations or the Articles of Association in performing their duties;

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

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

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

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

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

any other matters authorized by the Articles of Association.

One third of our Supervisory Committee members must be employee representatives appointed by our employees. The remaining members are appointed by the shareholders in a general meeting, provided that our directors, general manager and senior officers are not eligible to serve as supervisors. The Supervisory Committee must meet at least four times a year. Decisions of the Supervisory Committee can be passed by the consents of over two thirds of all the supervisors. We will pay all reasonable expenses incurred by the Supervisory Committee in appointing professional advisors, such as lawyers, accountants or auditors.

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Liquidation Rights

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

Obligation of Shareholders

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

Duration

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

Increase in Share Capital

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

Reduction of Share Capital and Purchase by Us of Our Shares

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

Restrictions on Large or Controlling Shareholders

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

- to relieve a director or supervisor from his or her duty to act honestly in our best interest;
- to approve the expropriation by a director or supervisor (for his or her own benefit or for the benefit of another person) of our assets in any way, including, without limitation, opportunities which may benefit us; or
- to approve the expropriation by a director or supervisor (for his or her own benefit or for the benefit of another person) of the individual rights of other shareholders, including, without limitation, rights to distributions and voting rights (but not according to a restructuring of our company which has been submitted for approval by the shareholders in a general meeting in accordance with our Articles of Association).

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

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

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

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

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

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

Minutes, Accounts and Annual Report

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

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

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

C. Material Contracts.

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

D. Exchange Controls.

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

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

On July 21, 2005, the Chinese government changed its policy of pegging the Renminbi to the U.S. Dollar. Under the new policy, the Renminbi is permitted to fluctuate within a narrow and managed band against a basket of certain foreign currencies. Since the adoption of this new policy, the value of the Renminbi has fluctuated daily within a narrow band, but overall has appreciated against the U.S. Dollar. Nevertheless, the Chinese government continues to receive significant international pressure to further liberalize its currency policy which could result in a further and more significant appreciation in the value of the Renminbi against the U.S. Dollar. The value of the Renminbi depreciated by 5.15% against the U.S. Dollar in the year of 2018.

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

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

E. Taxation

PRC Taxation

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

Tax on Dividends

For an Individual Investor

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

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For a Corporation

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

Capital Gains Tax

For an Individual Investor

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

For a Corporation

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

Tax Treaties

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

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

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Stamp Tax

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

Estate or Gift Tax

China does not currently impose any estate or gift tax.

U.S. Taxation

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

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

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

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

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

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

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

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

ADSs

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

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

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TAXATION OF U.S. HOLDERS

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

Distributions on H Shares or ADSs

General. Subject to the discussion in Passive Foreign Investment Company below, if you actually or constructively receive a distribution on H Shares or ADSs, you must include the distribution in gross income as a taxable dividend on the date of your (or in the case of ADSs, the depositary s) receipt of the distribution, but only to the extent of our current or accumulated earnings and profits, as calculated under U.S. federal income tax principles. Such amount must be included without reduction for any foreign taxes withheld. Dividends paid by us will not be eligible for the dividends received deduction allowed to corporations with respect to dividends received from certain domestic corporations. Dividends paid by us may or may not be eligible for preferential rates applicable to qualified dividend income, as described below.

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

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

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

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

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

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

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

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

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

Dispositions of H Shares or ADSs

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

If you receive currency other than U.S. Dollars upon the disposition of H Shares or ADSs, the tax consequences will generally be as described under Foreign Currency Distributions above.

Passive Foreign Investment Company

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

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

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

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

If we are a PFIC for any taxable year during which a U.S. Holder holds H Shares or ADSs, we generally will continue to be treated as a PFIC with respect to such holder for all succeeding years during which such holder holds H Shares or ADSs, regardless of whether we continue to meet the income or asset test. If we are classified as a PFIC, U.S. Holders could be subject to additional taxes and a special interest charge in respect of gain recognized on the sale or other disposition of such holder s H Shares or ADSs and upon the receipt of excess distributions (as defined in the Code). In addition, no distribution that U.S. Holders receive from us would qualify for taxation at the preferential rate discussed in Distributions on H Shares or ADSs above, if we were a PFIC for the taxable year of such distribution or for the preceding taxable year. Moreover, U.S. Holders may be required to file annual tax returns (including on Form 8621) containing such information as the U.S. Treasury requires.

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Information reporting regarding specified foreign financial assets

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

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

Information Reporting and Backup Withholding

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

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

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

F. Dividends and Paying Agents.

Not applicable.

G. Statement by Experts.

Not applicable.

H. Documents on Display.

We are subject to the periodic reporting and other informational requirements of the Securities Exchange Act of 1934, as amended, or the Exchange Act. Under the Exchange Act, we are required to file reports and other information with the Securities and Exchange Commission. Specifically, we are required to file annually a Form 20-F no later than four months after the close of each fiscal year, which is December 31 of each year. The SEC also maintains a Web site at www.sec.gov that contains reports, proxy and information statements, and other information regarding registrants that make electronic filings with the SEC using its EDGAR system. As a foreign private issuer, we are exempt from the rules under the Exchange Act prescribing the furnishing and content of quarterly reports and proxy statements, and officers, directors and principal shareholders are exempt from the reporting and short- swing profit recovery provisions contained in Section 16 of the Exchange Act.

I. Subsidiary Information.

Not applicable.

ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.

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

Commodity Price Risk

We are exposed to commodity price risk related to price volatility of crude oil and refined oil products. We had no program of commodity price hedging activities and did not engage in any such activities in 2017 or 2018. See Item 3. Key Information D. Risk Factors Our operations may be adversely affected by the cyclical nature of the petroleum and petrochemical markets and by the volatility of prices of crude oil and petrochemical products.

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Interest Rate Risk

We are subject to risk resulting from fluctuations in interest rates. Our borrowings are fixed and variable rate bank and other borrowings, with original maturities ranging from 1 to 5 years. Accordingly, fluctuations in interest rates can lead to significant fluctuations in the fair value of such debt instruments. We had no program of interest rate hedging activities and did not engage in any such activities in 2017 or 2018.

The following table provides information, by maturity date, regarding our interest rate sensitive financial instruments, which consist of fixed and variable rate short term and long term debt obligations, as of December 31, 2018 and 2017.

	As of December 31, 2018						
	2019	2020	2021	2022	2023	Total Recorded Amount	Fair Value
	(RMB equivalent in thousands, except interest rates)						
Fixed rate bank and other loans							
In U.S. Dollars							
Average interest rate							
In RMB							
Average interest rate[(1)]							
Variable rate bank and other loans							
In U.S. Dollars							
Average interest rate[(1)]							
In Euro							
Average interest rate [(1)]							
In RMB	497,249					497,249	497,249
Average interest rate [(1)]	3.63%					3.63%	3.63%

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

	As of December 31, 2017						
	2018	2019	2020	2021	2022	Total Recorded Amount	Fair Value
	(RMB equivalent in thousands, except interest rates)						
Fixed rate bank and other loans							
In U.S. Dollars							
Average interest rate							
In RMB							
Average interest rate[(1)]							
Variable rate bank and other loans							
In U.S. Dollars							
Average interest rate[(1)]							
In RMB	606,157					606,157	606,157
Average interest rate[(1)]	2.93%					2.93%	2.93%

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

Exchange Rate Risk

We are also exposed to foreign currency exchange rate risk as a result of our foreign currency denominated short term borrowing and, to a limited extent, cash and cash equivalents denominated in foreign currencies. The following table provides information, by maturity date, regarding our foreign currency exchange rate sensitive financial instruments, which consist of cash and cash equivalents, short term debt obligations as of December 31, 2018 and 2017.

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	As of December 31, 2018							
	2019	2020	2021	2022	2023	Thereafter	Total Recorded Amount	Fair Value
	(RMB equivalent in thousands, except interest rates)							
On-balance sheet financial instruments								
Cash and cash equivalents:								
In Hong Kong Dollars								
In U.S. Dollars	351,931						351,931	351,931
In Euro								
In Japanese Yen								
In Swiss Frank								
Debt:								
Fixed rate bank and other loans in U.S. Dollars								
Average interest rate (1)								
Variable rate bank and other loans in U.S. Dollars	431,649						431,649	431,649
Average interest rate (1)	3.34%						3.34%	3.34%
Variable rate bank and other loans in EURO								
Average interest rate (1)								

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

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

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

ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES.

A. Debt Securities.

Not applicable.

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B. Warrants and Rights.

Not applicable.

C. Other Securities.

Not applicable.

D. American Depositary Shares.

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

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

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

Persons depositing or withdrawing shares must pay:	For:
$5.00 (or less) per 100 ADSs (or portion of 100 ADSs)	Issuance and withdrawal of ADSs, including issuances resulting from a distribution of shares or rights or other property
A fee equivalent to the fee that would be payable if securities distributed to you had been shares and the shares had been deposited for issuance of ADSs	Distribution of securities distributed to holders of deposited securities which are distributed by The Bank of New York Mellon to ADS registered holders
A fee of $.05 (or less) per ADS (or portion thereof)	Any cash distribution made pursuant to the Deposit Agreement
Registration or transfer fees	Transfer and registration of shares on our share register to or from the name of the depositary or its agent when you deposit or withdraw shares
Expenses of The Bank of New York Mellon	Cable, telex and facsimile transmissions (when expressly provided in the Deposit Agreement); Converting foreign currency to U.S. Dollars
Taxes and other governmental charges The Bank of New York Mellon or the custodian have to pay on any ADS or share underlying an ADS, for example, stock transfer taxes, stamp duty or withholding taxes	As necessary
Any charges incurred by The Bank of New York Mellon or its agents for servicing the deposited securities	As necessary

12.D.4 Fees and Other Payments Made by the Bank of New York Mellon

From January 1, 2018 through March 31, 2019, a total of U.S.$68,061.35was paid by the Bank of New York Mellon on our behalf for our ADSs program. The standard out-of-pocket maintenance costs for our ADSs program were U.S.$146,278.55, which have been waived by the Bank of New York Mellon.

PART II

ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES.

None.

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ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS.

On May 11, 2011, we entered into an Amended and Restated Deposit Agreement with The Bank of New York Mellon, as Depositary (the Restated Deposit Agreement), and updated the form of American Depositary Receipt (the ADR) evidencing the ADSs issued under the terms of the Restated Deposit Agreement. The Restated Deposit Agreement restates our original Deposit Agreement with The Bank of New York (the predecessor of The Bank of New York Mellon), dated as of July 23, 1993 (as amended, the 1993 Deposit Agreement), in its entirety.

We and The Bank of New York Mellon entered into the Restated Deposit Agreement to modify the ADSs voting process and to bring our arrangements with The Bank of New York Mellon in line with the current customary market practice regarding depositary arrangements.

By the Restated Deposit Agreement, subject to the Depositary s obligation to notify the owner of ADSs of any meeting of holders of our shares or other deposited securities, and subject further to certain exceptions as provided therein, to the extent that no instructions are received by the Depositary from an owner of ADSs on or before the date established by the Depositary, the Depositary may deem instructions by the owner of the ADS have been given to give a discretionary proxy to a person designated by us to exercise voting rights in the meeting of holders of our shares or other deposited securities.

In addition, the Restated Deposit Agreement amends the 1993 Deposit Agreement, among other things, to (i) provide the American Depositary Shares may be uncertificated securities or certificated securities evidenced by ADRs, and (ii) change the fees and charges of the Depositary, see Item 12D.3 Fees and Charges that a holder of our ADSs May Have to Pay.

The foregoing descriptions of the Restated Deposit Agreement and the ADR do not purport to be complete and are qualified in their entirety by reference to the complete Restated Deposit Agreement and ADR which are incorporated herein by reference to Exhibit 2 and the forms filed on Form F-6 (File number 033-65616) on May 4, 2011.

ITEM 15. CONTROLS AND PROCEDURES.

(a). Disclosure Controls And Procedures.

The term disclosure controls and procedures is defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act. These rules refer to the controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files under the Exchange Act is recorded, processed, summarized and reported within required time periods. This includes controls and procedures designed to ensure that information required to be disclosed is accumulated and communicated to our management, including our principal executive officer or officers and principal financial officer or officers, to allow timely decisions regarding required disclosure.

We maintain a written policy adopted by our Board of Directors that governs the collection, coordination and disclosure of information to our shareholders, the public and to governmental and other regulatory bodies. All such disclosures are coordinated by the Secretary to our Board of Directors and subject to execution by either the Chairman of our Board of Directors or, for disclosures by our Supervisory Committee, the Chairman of the Supervisory Committee. Under the policy, all material issues must be disclosed and our disclosures must be true, accurate, complete and timely without any false or misleading statements. Each of our departments and subsidiaries has their own supplemental policies which may be both written and unwritten.

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934) as of the end of the fiscal year covered by this annual report. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of the fiscal year covered by this annual report, our disclosure controls and procedures were effective to ensure that information required to be disclosed in the reports we file under the Exchange Act is accumulated and communicated to the management to allow timely decisions to be made regarding required disclosures, and is recorded, processed, summarized and reported as and when required.

(b). Management s Report on Internal Control over Financial Reporting.

Our management is accountable for establishing and maintaining effective internal control over financial reporting (as defined in Rules 13a-15(f) of the Securities Exchange Act of 1934). The Company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

Because of its inherent limitations, internal control over financial reporting cannot provide absolute assurance of achieving financial reporting objectives and may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become ineffective because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

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Our management assessed the effectiveness of our internal control over financial reporting based upon the criteria established in *Internal Control-Integrated Framework (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) as of December 31, 2018. Based on that evaluation, our management has concluded that our internal control over financial reporting was effective as of December 31, 2018 based on these criteria.

PricewaterhouseCoopers Zhong Tian LLP (PwC), an independent registered public accounting firm, has audited the consolidated financial statements included in this annual report on Form 20-F and, as part of the audit, has issued a report, included herein, on the effectiveness of our internal control over financial reporting.

(c). Report of Independent Registered Public Accounting Firm.

Our independent auditors have issued an audit report on the effectiveness of our internal control over financial reporting. This report appears on page F-2.

(d). Changes in Internal Control over Financial Reporting.

For the year ended December 31, 2018, there have been no changes to our internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect our internal control over financial reporting.

ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT.

Our Board of Directors has determined that Ms. Li Yuanqin who is currently serving on our audit committee, is an audit committee financial expert and is an Independent Director (under the standards set forth in the NYSE rules and Rule 10A-3 of the Exchange Act).

ITEM 16B. CODE OF ETHICS.

Sinopec Group, the controlling shareholder of Sinopec Corp., adopted a Staff Code in 2014 to provide disciplines and requirements for its staff s conducts, including legal and ethical matters as well as the sensitivities involved in reporting illegal and unethical matters. The Staff Code covers such areas as health, safety and environment, conflict of interests, anti-corruption, protection and proper use of our assets and properties, as well as reporting requirements. The Staff Code also applies to all directors, officers and employees of each subsidiary of Sinopec Group, including us. We have provided all our directors and senior officers with a copy of the Staff Code and required them to comply with in it order to ensure our operations are proper and lawful. We have posted the Staff Code on the following website: http://www.sinopec.com/listco/en/Resource/Pdf/ygsz2014b.pdf.

ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES.

The following table summarizes the fees charged by PwC, our principal accountant, for certain services rendered to us during 2017 and 2018.

	For the year ended December 31, (in thousands of RMB)	
	2017	**2018**
Audit fees (1)	7,800	7,800
All other fees (2)	150	150
Total	7,950	7,950

(1) Audit fees means the aggregate fees billed in each of the fiscal years listed for professional services rendered by our principal auditors for the audit of our annual financial statements.

(2) All other fees means the aggregate fees billed in each of the fiscal years listed for products and services provided by the our principal accountant, other than the services reported under audit fees, audit-related fees and tax fees.

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Audit Committee Pre-approval Policies and Procedures

Our audit committee has adopted procedures which set forth the manner in which the committee will review and approve all audit and non-audit services to be provided by PwC. The pre-approval procedures are as follows:

Any audit or non-audit service to be provided to us by the independent accountant must be (i) pre-approved by the audit committee; or (ii) pre-approved by one or several committee members designated by the committee and rectified by the audit committee.

ITEM 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES.
Not applicable.

ITEM 16E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS.
None.

ITEM 16F. CHANGE IN REGISTRANT S CERTIFYING ACCOUNTANT.
Not applicable.

ITEM 16G. CORPORATE GOVERNANCE.
Set forth below is a summary of the significant differences between the corporate governance rules of the NYSE and those of the People s Republic of China for listed companies:

	NYSE Corporate Governance Rules	The Company s Corporate Governance Practices (which conform with the corporate governance rules for companies organized and listed in the People s Republic of China)
Director Independence	A listed company must have a majority of independent directors on its board of directors. The board of directors needs to affirmatively determine that the director has no material relationship with the listed company (either directly or as a partner, shareholder or officer of an organization that has a relationship with the company). In addition, a director must meet certain standards to be deemed independent.	It is required in China that no less than 1/3rd of the board members of any listed company must be independent directors, and the listed company must set forth specific requirements for the qualification and election of independent directors in compliance with PRC laws. For example, an independent director shall not hold any other position in the listed company other than being a director and shall not be influenced by the main shareholders or the controlling persons of the listed company, or by any other entities or persons with whom the

	listed company has a significant relationship.
	The Company has complied with the relevant Chinese corporate governance rules and has implemented internal rules governing the independence and responsibilities of independent directors. The Company determines the independence of independent directors every year.
The non-management directors of each listed company must meet at regularly scheduled executive sessions without management.	No similar requirements.

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Nominating/Corporate Governance Committee	Listed companies must have a nominating/corporate governance committee composed entirely of independent directors.	The board of directors can establish a nominating committee if the shareholders pass resolutions to establish such a committee. A majority of the directors on the committee shall be independent directors, who shall act as the convener. The board of directors, which formulates relevant written guidelines with respect to the nomination of directors, has established a nominating committee with a majority of the members being independent directors.
	The nominating/corporate governance committee must have a written charter that addresses: (i) the committee s purpose and responsibilities - which, at minimum, must be to: identify individuals qualified to become board members, consistent with criteria approved by the board, and to select, or to recommend that the board select, the director nominees for the next annual meeting of shareholders; develop and recommend to the board a set of corporate governance guidelines applicable to the corporation; and oversee the evaluation of the board and management; and (ii) an annual performance evaluation of the committee.	Relevant responsibilities of the nominating committee are similar to those stipulated by the NYSE rules, but the main responsibilities do not include the research and recommendation of corporate governance guidelines, the supervision of the evaluation of the board of directors and management, or the annual evaluation of the committee.
Compensation Committee	Listed companies must have a compensation committee composed entirely of independent directors.	The board of directors can establish a compensation and assessment committee if the shareholders pass resolutions to establish such a committee. A majority of the directors on the committee shall be independent directors, who shall act as the convener.
	The purposes and responsibilities of the compensation committee stated in its charter must include: (1) reviewing and approving the corporate goals and objectives associated the with the CEO s compensation, evaluate the performance of the CEO in fulfilling these goals and objectives, and, either as a committee or together with the other independent directors (as directed by the board), determine and approve the CEO s compensation level based on such evaluation;	The responsibilities of the compensation and assessment committee include: (1) reviewing the standards for the evaluation of directors and management, evaluate directors and management and report the results of such evaluation to the board of directors; and (2) reviewing compensation policies and benefit plans for directors and executive officers.

	(2) making recommendations to the board with respect to non-CEO executive officer compensation, and incentive-compensation and equity-based plans that are subject to board approval; and (3) producing a committee report on executive compensation as required by the SEC to be included in the annual proxy statement or annual report filed with the SEC. The charter must also include the requirement for an annual performance evaluation of the compensation committee.	Unlike the NYSE rules, the PRC rules do not require the committee to produce a report on the executive compensation or make an annual performance evaluation of the committee. In addition, the compensation committee evaluates and reviews the compensation of directors as well as executive officers. The board of directors of the Company has established a compensation evaluation committee with a majority of the members being independent directors who act as the convener, and the committee has established a written charter complying with the domestic corporate governance rules.

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Audit Committee	Listed companies must have an audit committee that satisfies the requirements of Rule 10A-3 of the Securities Exchange Act of 1934, as amended (the Exchange Act). It must have a minimum of three members, and all audit committee members must satisfy the requirements for independence set forth in Section 303A.02 of the NYSE Corporate Governance Rules and , in the absence of an applicable exemption, Rule 10A-3b(1) of the Exchange Act. The written charter of the audit committee must specify that the purpose of the audit committee is to assist the board oversight of the integrity of financial statements, the company s compliance with legal and regulatory requirements, the qualifications and independence of the independent auditors, the performance of the listed company s internal audit function and independent auditors. The written charter must also require the audit committee to prepare an audit committee report as required by the SEC to be included in the listed company s annual proxy statement as well as an annual performance evaluation of the audit committee. The written charter must also address the duties and responsibilities of the audit committee as required under Section 303A.07 of the NYSE Corporate Governance Rules.	The board of directors of a listed company must, through the resolution of the shareholders meeting, establish an audit committee composed entirely of directors, of which the independent directors are the majority and act as the convener, and, at minimum, one independent director is an accounting professional. The purpose, authority and responsibilities of the audit committee are similar to those stipulated by the NYSE rules, but according to customary practices in China, the Company is not required to make an annual performance evaluation of the audit committee, and the audit committee is not required to prepare an audit report to be included in the Company s annual proxy statement. The board of directors of the Company has established an audit committee that satisfies Rule 10A-3 under the Securities Exchange Act of 1934, as amended and relevant domestic requirements. The audit committee has a written charter.
Strategy Committee	N/A	The board of directors of a listed company can, through the resolution of the shareholders meeting, establish a strategy committee composed entirely of directors. We formed a strategy committee on June 15, 2017. The key responsibility of the Strategy Committee is to conduct researches and give recommendations to the Board on major investment decisions, projects and major issues that affect our development, and monitor our long-term development strategic plan.
	Each listed company must maintain an internal audit function to provide management and the audit committee with ongoing assessments of the listed company s risk management processes and system of internal	China has a similar regulatory provision, and the Company has an internal audit department.

controls.

Equity Compensation	Shareholders must be given the opportunity to vote on all equity compensation plans and material revisions thereto, except for employment inducement awards, certain grants, plans and amendments in the context of mergers and acquisitions, and certain specific types of plans as described under Section 303A.08 of the NYSE Corporate Governance Rules.	The relevant regulations of China require the board of directors propose plans on the amount and types of director compensation for the shareholders meeting to approve. The compensation plan of executive officers shall be approved by the board and announced at the shareholders meeting and disclosed to the public upon the approval of the board of directors.
Corporate Governance Guidelines	Listed companies must adopt and disclose corporate governance guidelines involving director qualification standards, director responsibilities, director compensation, director access to management and, as necessary and appropriate, independent advisors, director orientation and continuing education and management succession. The board should conduct a self-evaluation at least annually to determine whether it and its committees are functioning effectively. A listed company must make its corporate governance guidelines available on or through its website.	The CSRC has issued the Corporate Governance Rules, prescribing detailed guidelines on directors of the listed companies, including director selection, the structure of the board of directors and director performance evaluation. The Company has complied with the above mentioned rules.
Code of Ethics for Directors, Officers and Employees	Listed companies must adopt and disclose a code of business conduct and ethics for directors, officers and employees, and promptly disclose any waivers of the code for directors or executive officers. Each listed company may determine its own policies, but all listed companies should address the most important topics, including, among others, conflicts of interest, corporate opportunities, confidentiality, fair dealing, protection and proper use of listed company assets, compliance with laws, rules and regulations (including insider trading laws), and encouraging the reporting of any illegal or unethical behavior.	There is no such requirement for a code for ethics in China. As the directors and officers of the Company have all signed a Director Service Agreement, however, they are bound by their fiduciary duties to the Company. In addition, the directors and officers must perform their legal duties in accordance with the PRC Company Law, relevant requirements of CSRC and Mandatory Provisions to the Charter of Companies Listed Overseas.
	Each listed company CEO must certify to the NYSE each year that he or she is not aware of any violation by the company of NYSE corporate governance listing standards and he or she must promptly notify the NYSE in writing of any non-compliance with any applicable provisions of Section 303A.	No similar requirements.

ITEM 16H. MINE SAFETY DISCLOSURE.
Not applicable.

PART III

ITEM 17. FINANCIAL STATEMENTS.

Not applicable.

ITEM 18. FINANCIAL STATEMENTS.

See pages F-1 to F-78

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ITEM 19. EXHIBITS.

No.	Exhibit
1.1	Translation of the amended and restated Articles of Association of Sinopec Shanghai Petrochemical Company Limited as approved in the First Extraordinary General Meeting of Sinopec Shanghai Petrochemical Company Limited for 2018 on November 8, 2018 (incorporated by reference to our Form 6-K (File No.001-12158) filed with the Commission on November 8, 2018).
2.	Amended and Restated Deposit Agreement between Sinopec Shanghai Petrochemical Company Limited and The Bank of New York Mellon dated May 11, 2011(incorporated by reference to Exhibit 2 of our annual report on Form 20-F (File No. 001-12158) filed with the Commission on April 30, 2012).
4.1	Translation of the renewed Product Supply and Sales Services Framework Agreement among Sinopec Shanghai Petrochemical Company Limited, China Petroleum & Chemical Corporation and China Petrochemical Corporation as approved in the First Extraordinary General Meeting of Sinopec Shanghai Petrochemical Company Limited for 2016 on October 18, 2016 (incorporated by reference to Exhibit 4.1 of our annual report on Form 20-F Amendment No.1 (File No.001-12158) filed with the Commission on September 14, 2017).
4.2	Translation of the renewed Comprehensive Services Framework Agreement between Sinopec Shanghai Petrochemical Company Limited and China Petrochemical Corporation as approved in the First Extraordinary General Meeting of Sinopec Shanghai Petrochemical Company Limited for 2016 on October 18, 2016 (incorporated by reference to Exhibit 4.2 of our annual report on Form 20-F Amendment No.1 (File No.001-12158) filed with the Commission on September 14, 2017).
4.3	Translation of the Property Right Transaction Agreement with Sinopec Sales Company Limited as approved in the eighteenth meeting of the seventh session of the board of directors of Sinopec Shanghai Petrochemical Company Limited on December 5, 2013 (incorporated by reference to Exhibit 4.3 of our annual report on Form 20-F (File No.001-12158) filed with the Commission on April 30, 2014).
4.4	English summary of principal terms of the Share Option Scheme as adopted at the second meeting of the eighth session of the board of directors of Sinopec Shanghai Petrochemical Company Limited on August 15, 2014 (incorporated by reference to Appendix I of our Form 6-K (File No.001-12158) filed with the Commission on November 6, 2014).
8*	A list of subsidiaries of Sinopec Shanghai Petrochemical Company Limited.
12.1*	Certification of President Required by Rule 13a-14(a).
12.2*	Certification of Chief Financial Officer Required by Rule 13a-14(a).
13.1*	Certification of President Required by Rule 13a-14(b) and Section 1350 of Chapter 63 of Title 18 of the United States Code.
13.2*	Certification of Chief Financial Officer Required by Rule 13a-14(b) and Section 1350 of Chapter 63 of Title 18 of the United States Code.
101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema Document
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF *	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*	XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase Document

* Filed with this annual report on From 20-F

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SIGNATURES

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on Form 20-F on its behalf.

SINOPEC SHANGHAI PETROCHEMICAL

COMPANY LIMITED

Date: April 29, 2019

/s/ GUO XIAOJUN

Guo Xiaojun, Secretary to Board of Directors

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Shareholders of

Sinopec Shanghai Petrochemical Company Limited

Opinions on the Financial Statements and Internal Control over Financial Reporting

We have audited the accompanying consolidated balance sheets of Sinopec Shanghai Petrochemical Company Limited and its subsidiaries (the Company) as of December 31, 2018 and 2017, and the related consolidated income statement, statements of comprehensive income, changes in equity and cash flows for each of the three years in the period ended December 31, 2018, including the related notes (collectively referred to as the consolidated financial statements). We also have audited the Company s internal control over financial reporting as of December 31, 2018, based on criteria established in *Internal Control Integrated Framework* (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2018 and 2017, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2018 in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018, based on criteria established in *Internal Control Integrated Framework* (2013) issued by the COSO.

Basis for Opinions

The Company s management is responsible for these consolidated financial statements, for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting, included in Management s Report on Internal Control over Financial Reporting appearing under Item 15. Our responsibility is to express opinions on the consolidated financial statements and on the Company s internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

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Definition and Limitations of Internal Control over Financial Reporting

A company s internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company s internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company s assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers Zhong Tian LLP

Shanghai, the People s Republic of China

April 29, 2019

We have served as the Company s auditor since 2013.

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Sinopec Shanghai Petrochemical Company Limited

Consolidated Income Statement

For the year ended 31 December 2018

		Year ended 31 December		
		2016	**2017**	**2018**
	Note	**RMB 000**	**RMB 000**	**RMB 000**
Revenue	6	77,842,906	91,962,415	107,688,907
Sales taxes and surcharges		(11,906,438)	(12,744,088)	(12,075,424)
Net Sales		65,936,468	79,218,327	95,613,483
Cost of sales	11	(58,731,674)	(72,398,288)	(89,838,977)
Gross profit		7,204,794	6,820,039	5,774,506
Selling and administrative expenses	11	(546,087)	(535,259)	(536,114)
Net impairment losses on financial assets	4			(39)
Other operating income	7	197,306	119,010	202,617
Other operating expenses	8	(24,275)	(21,379)	(32,548)
Other (losses)/gains - net	9	(53,882)	19,462	176,690
Operating profit		6,777,856	6,401,873	5,585,112
Finance income	10	137,302	268,379	443,661
Finance expenses	10	(53,617)	(61,047)	(106,249)
Finance income net		83,685	207,332	337,412
Share of net profit of associates and joint ventures accounted for using the equity method	20	916,754	1,243,693	885,597
Profit before income tax		7,778,295	7,852,898	6,808,121
Income tax expense	13	(1,796,822)	(1,698,739)	(1,471,903)
Profit for the year		5,981,473	6,154,159	5,336,218
Profit attributable to:				
- Owners of the Company		5,968,466	6,143,222	5,336,331
- Non-controlling interests		13,007	10,937	(113)

			5,981,473		6,154,159		5,336,218
Earnings per share attributable to owners of the Company for the year (expressed in RMB per share)							
Basic earnings per share	14	RMB	0.553	RMB	0.569	RMB	0.493
Diluted earnings per share	14	RMB	0.552	RMB	0.568	RMB	0.493
Earnings per ADS attributable to owners of the Company for the year (expressed in RMB per ADS)							