SINOPEC SHANGHAI PETROCHEMICAL CO LTD
Form 6-K
September 10, 2018

SECURITIES AND EXCHANGE COMMISSION

Washington D.C. 20549

FORM 6-K

REPORT OF FOREIGN PRIVATE ISSUER

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

THE SECURITIES EXCHANGE ACT OF 1934

For the month of September 2018

Commission File Number: 1-12158

Sinopec Shanghai Petrochemical Company Limited

(Translation of registrant s name into English)

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

The People s Republic of China

(Address of principal executive offices)

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

Form 20-F Form 40-F

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

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

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EXHIBITS

Exhibit Number	
99.1	2018 Interim Report for the Six Months Ended 30 June 2018.

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SIGNATURES

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

SINOPEC SHANGHAI PETROCHEMICAL COMPANY LIMITED

Date: September 07, 2018

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

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Exhibit 99.1

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IMPORTANT MESSAGE

(1) The Board, the Supervisory Committee of Sinopec Shanghai Petrochemical Company Limited (the Company or SPC) and the Directors, Supervisors and senior management warrant the truthfulness, accuracy and completeness of the information contained in this 2018 interim report, and warrant that there are no false representations or misleading statements contained in, or material omissions from, the 2018 interim report of the Company, and severally and jointly accept responsibility.

(2) The Director(s) who has/have not attended the Board meeting for approving the 2018 interim report of the Company is/are:

Name of Director	Position	Reason for Absence	Name of Proxy
Lei Dianwu	Non-executive Director	Business Engagement	Wu Haijun

(3) The interim financial report for the six months ended 30 June 2018 (the Reporting Period) is unaudited.

(4) Mr. Wu Haijun, Chairman, President and the responsible person of the Company; Mr. Zhou Meiyun, Executive Director, Vice President and Chief Financial Officer overseeing the accounting department; and Mr. Zhang Feng, person in charge of the Accounting Department (Accounting Chief) and Director of Finance Department hereby warrant the truthfulness and completeness of the financial statements contained in the 2018 interim report.

(5) The Company did not distribute the half-year profit for 2018 nor was there any capitalization of capital reserves.

(6) The statements regarding the Company s plans for future development and operation are forward-looking statements and do not constitute any commitments to investors. Investors should pay attention to the relevant investment risks.

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

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

(9) Reminder of Major Risks

Potential risks are elaborated in this interim report. Please refer to Management Discussion and Analysis in section 2 of the Report of the Directors for details of the potential risks arising from the future development of the Company.

(10) The 2018 interim report is published in both Chinese and English. In the event of any discrepancy between the English and Chinese versions, the Chinese version shall prevail.

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DEFINITIONS

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

Company or SPC	Sinopec Shanghai Petrochemical Company Limited
Board	the board of directors of the Company
Director(s)	the Director(s) of the Company
Supervisory Committee	the Supervisory Committee of the Company
Supervisor(s)	the Supervisor(s) of the Company
PRC or China	the People s Republic of China
Reporting Period	the six months ended 30 June 2018
Hong Kong Stock Exchange	The Stock Exchange of Hong Kong Limited
Shanghai Stock Exchange	The Shanghai Stock Exchange
Group	the Company and its subsidiaries
Sinopec Group	China Petrochemical Corporation
Sinopec Corp.	China Petroleum & Chemical Corporation
Hong Kong Listing Rules	The Rules Governing the Listing of Securities on the Hong Kong Stock Exchange
Shanghai Listing Rules	The Rules Governing the Listing of Securities on the Shanghai Stock Exchange
Model Code for Securities Transactions	the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Hong Kong Listing Rules
Securities Law	the PRC Securities Law
Company Law	the PRC Company Law
CSRC	China Securities Regulatory Commission
Articles of Association	the articles of association of the Company
Hong Kong Stock Exchange website	www.hkexnews.hk
Shanghai Stock Exchange website	www.sse.com.cn
website of the Company	www.spc.com.cn
HSSE	Health, Safety, Security and Environment
COD	Chemical Oxygen Demand
VOCs	Volatile Organic Compounds
LDAR	Leak Detection and Repair
SFO	

	the Securities and Futures Ordinance of Hong Kong (Chapter 571 of the Laws of Hong Kong)
Corporate Governance Code	the Corporate Governance Code set out in Appendix 14 to the Hong Kong Listing Rules
Share Option Incentive Scheme	the A Share Share Option Incentive Scheme of the Company

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MAJOR FINANCIAL DATA AND INDICATORS

Prepared under China Accounting Standards for Business Enterprises (CAS)

(1) Major Accounting Data and Financial Indicators

1. Major Accounting Data

Unit: RMB 000

Major accounting data	The Reporting Period (January to June)	Corresponding period of the previous year	Increase/decrease as compared to the corresponding period of the previous year (%)
Operating income	52,187,640	43,106,950	21.07
Total profit	4,515,157	3,251,226	38.88
Net profit attributable to equity shareholders of the holding company	3,524,131	2,575,479	36.83
Net profit attributable to equity shareholders of the holding company excluding non-recurring items	3,515,331	2,571,583	36.70
Net cash generated from operating activities	4,227,404	2,358,780	79.22
	As at the end of the Reporting Period	As at the end of the previous year	Increase/decrease at the end of the Reporting Period as compared to the end of the previous year (%)
Net assets attributable to equity shareholders of the Company	28,593,789	28,256,306	1.19
Total assets	45,782,720	39,609,536	15.59

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MAJOR FINANCIAL DATA AND INDICATORS *(continued)*

Prepared under China Accounting Standards for Business Enterprises (CAS)

2. Major Financial Indicators

Major financial indicators	The Reporting Period (January to June)	Corresponding period of the previous year	Increase/decrease as compared to the corresponding period of the previous year (%)
Basic earnings per share (RMB/Share)	0.326	0.238	36.97
Diluted earnings per share (RMB/Share)	0.326	0.238	36.97
Basic earnings per share after non-recurring items (RMB/Share)	0.325	0.238	36.55
Return on net assets (weighted average) (%)*	11.618	9.821	18.30
Return on net assets after non-recurring items (weighted average) (%)*	11.589	9.805	18.19

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

(2) Differences between Financial Statements Prepared under CAS and International Financial Reporting Standards (IFRS)

Unit: RMB 000

	Net profit attributable to equity shareholders of the holding company		Total equity attributable to equity shareholders of the holding company	
	The Reporting Period	Corresponding period of the previous year	At the end of the Reporting Period	At the beginning of the Reporting Period
Prepared under CAS	3,524,131	2,575,479	28,593,789	28,256,306
Prepared under IFRS	3,551,259	2,598,499	28,568,721	28,230,233

For a detailed description of the differences between financial statements prepared under CAS and IFRS, please refer to the Supplementary Information to the Financial Statements prepared under CAS.

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MAJOR FINANCIAL DATA AND INDICATORS *(continued)*

Prepared under China Accounting Standards for Business Enterprises (CAS   )

(3) Non-recurring Profit and Loss Items

Unit: RMB   000

Non-recurring profit and loss items	Amount
Net loss from disposal of non-current assets	-2,857
Income from investment disposal included in the investment income statement	1,622
Employee reduction expenses	-13,013
Government grants recorded in profit and loss (excluding government grants closely related to corporate business pursuant to the State s unified standard on quota and amount entitlements)	45,314
Income from external entrusted loans	13
Income from changes in fair value of forward foreign exchange contracts	9,300
Investment losses recognized in forward foreign exchange contracts	-8,066
Other non-operating income and expenses other than those mentioned above	-22,611
Effect attributable to minority interests (after tax)	-698
Income tax effect	-204
Total	8,800

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REPORT OF THE DIRECTORS

Section 1: Business Overview

1. Description of the Principal Business, Operating Model and Industry in which the Company operated during the Reporting Period

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

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

In the first half of the year, the economic operation of the petroleum and chemical industry continued to improve steadily. The domestic supply and demand of oil, gas and major chemicals was basically stable, with the rise in overall price level slowing down, and foreign trade grew rapidly. The performance of the industry was good and profitability continued to increase. However, with the uncertainty and instability of the external economic environment, slowdown in market demand growth and continued investment weakness, the increased pressure on imports of some petrochemical products is worthy of attention.

According to the statistics data from the The National Development and Reform Commission, during the first half of the year, the national crude oil processing volume amounted to 29,388 tons, representing a growth of 6.7%; the production volume of refined oil amounted to 18,333 tons, representing a growth of 8.7%; and the consumption volume of refined oil amounted to 15,975 tons, representing a growth of 5.6%, of which gasoline increased 4.7% and diesel increased 5.3%. During the first half of the year, the added value of petrochemical industry recorded a year-on-year growth of 3.6% while the growth recorded a year-on-year decrease of 0.9 percentage points. Among our main products, the production volume of ethylene amounted to 9 million tons, representing a increase of 0.5%. The production volume of primary-formed plastics amounted to 41.47 million tons, representing a growth of 4.8% while the production volume of synthetic rubber amounted to 2.71 million tons, a growth of 8.2%; and that of synthetic fibre amounted to 21.92 million tons, a growth of 7.5%.

Currently, the international supply and demand of crude oil is basically balanced. In the second half of 2018, the international geopolitical situation will be the main driving force for the fluctuation in the international price of crude oil. The severe sanction imposed by the United States against Iran may further increase the international price of crude oil to as high as over USD80/barrel. The high oil price will promote the development of alternative products such as coal chemical products and electric vehicles. Moreover, starting from the fourth quarter this year, several world class private refining oil projects, which are generally major oil refinery, ethylene and aromatic hydrocarbon projects, will be put into production successively. These projects will bring a big impact to the petrochemical industry and intensify competition in the petrochemical industry. Due to completely allowing foreign investment in the oil station business, the competition in the refined oil market is intensifying. Thus, the current momentum of the petrochemical industry may gradually decline from its high point since the fourth quarter of 2018.

REPORT OF THE DIRECTORS *(continued)*

2. Analysis of core competitiveness during the Reporting Period

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

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

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REPORT OF THE DIRECTORS *(continued)*

Section 2: Management Discussion and Analysis

(1) Management Discussion and Analysis of the Overall Operations during the Reporting Period
(The following discussion and analysis should be read in conjunction with the unaudited financial report of the Group and the notes in this interim report. Unless otherwise specified, certain financial data involved hereinafter are extracted from the unaudited interim financial report prepared in accordance with IFRS.)

1. Review of the Company s operations during the Reporting Period
In the first half of 2018, the world economy continued its growth momentum, with that of the major developed economies relatively strong. Among them, the economic growth of the U.S. was the strongest, with growth rate outperforming that of last year. The emerging economies maintained a medium-to-high growth rate. Driven by policies such as the supply-side structural reform, China s economy continued to grow steadily, with the economic structure continued to be optimized, and its quality and efficiency continue to improve. The trade friction between China and the U.S. became a major uncertainty affecting the stability of the domestic economy. With the de-leveraging and strict supervision, the scale of domestic financing dropped significantly, and growth of domestic infrastructure investment slowed down sharply. In the first half of the year, gross domestic product (GDP) increased by 6.8% year-on-year, and economic growth continued to remain stable. The economy of China s petrochemical industry continued to improve steadily, with the supply and demand of domestic refined oil and major chemicals being basically balanced. The efficiency of the industry further improved. However, the growth of market demand for chemicals was still weak, with weak investment.

In the first half of 2018, amid the still complicated and severe domestic and international economic situation, the Group made substantial efforts in maintaining stable operations of its units, optimizing production and operations, reducing costs and expenses, environmental governance, reform and development, etc. The Company s safety and environmental protection work remained relatively good. The production operation was generally stable with good economic benefits. For the six months ended 30 June 2018, the Group s turnover reached RMB52,161.5 million with an increase of RMB9,080.1 million, representing an increase of 21.08% as compared to the same period last year. The profit before tax was RMB4,542.3 million (profit before tax for the same period last year was RMB3,274.2 million), representing an increase of RMB1,268.1 million from the same period last year. Profit after tax and non-controlling shareholder interests was RMB3,551.3 million (profit for the same period last year was RMB2,598.5 million), representing an increase of RMB952.8 million from the same period last year.

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REPORT OF THE DIRECTORS *(continued)*

In the first half of 2018, the total production volume of the Group reached 7,396,800 tons, representing a year-on-year increase of 21.35%. From January to June, the Group processed 7,343,900 tons of crude oil (including 386,900 tons of crude oil processed on a sub-contract basis), representing a year-on-year increase of 7.93%. The production volume of refined oil products in total reached 4,317,700 tons, representing a year-on-year increase of 6.23%. Among these, the output of gasoline was 1,630,900 tons, representing a year-on-year increase of 7.54%; the diesel output was 1,947,300 tons, representing a year-on- year increase of 7.82%; and the jet fuel output was 739,500 tons, representing a year-on-year decrease of 0.32%. The Group produced 402,500 tons of ethylene and 329,900 tons of paraxylene, representing a year-on-year increase of 13.25% and 15.84%, respectively. The Group also produced 484,000 tons of synthetic resins and plastic (excluding polyesters and polyvinyl alcohol), representing a year-on-year increase of 4.09%; 334,000 tons of synthetic fibre monomers, representing a year-on-year increase of 3.86%; 201,900 tons of synthetic fibre polymers, representing a year-on-year decrease of 0.25%; and 86,700 tons of synthetic fibres, representing a year-on-year decrease of 9.40%. For the first half of the year, the sales to output ratio and debt recovery ratio of the Group were 99.77% and 100%, respectively.

Good control of HSSE and keeping stable operation at its units. In the first half of the year, the Group adhered to the goals of zero accident, zero harm and zero environmental damage , assigned clear responsibilities of production safety to correspondent parties, and strengthened the identification and control of safety risks. Focusing on atmospheric management, the Group continued to push forward the full coverage work of leak, detection and repair (LDAR) and actively promoted the comprehensive environmental remediation in Jinshan District, with 13 environmental management projects launched on schedule. From January to June, the Company s comprehensive compliance rate of discharged wastewater was 100%, and the total emissions of COD, ammonia nitrogen, sulfur dioxide and nitrogen oxides decreased by 29.33%, 88.17%, 70.62% and 30.56%, respectively. In terms of production and operation, in the first half of the year, the Group started the first phase of the maintenance and repair at its units, with the focus on No. 2 ethylene units in newly developed area. It led to six times cumulatively of non-planned halts, four times more than the same period last year. The overall operation of the units remained stable. Among the 71 major technological and economic indicators monitored, 43 items were better than the annual level last year, with a year-on-year progress rate of 60.56%. There were 31 items reaching advanced level of the industry, leading to the industry s advanced rate of 43.66%. During the Reporting Period, the Company s accumulated comprehensive energy consumption was 0.746 tons of standard coal per RMB10,000, representing a decrease of 2.99% compared with the annual total of 0.769 tons of standard coal per RMB10,000 last year.

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REPORT OF THE DIRECTORS *(continued)*

Deepening the optimization of production and operation, market development and cost reduction. In the first half of the year, the Group continued to focus on efficiency and dynamically adjusting the overall production plan through the weekly rolling forecast on the prices of the next three months and the marginal contribution of units based on the actual situation of the units and the inventory of intermediate materials. By measures such as optimization and adjustment of the operation the catalytic units, external processing of low-octane component, flexible arrangement and reorganization of the quantity of oil production, structures of oil products were continuously optimized, with the cumulative diesel to gasoline ratio of 1.19, which was 0.03 lower than that of the previous year. The proportion of high-grade gasoline ratio reached 31.64%, an increase of 2.67 percentage points from 2017. Marketing was stepped up and export of products was smoothened. In the first half of the year, export of asphalt and carbon fiber products was achieved for the first time, with the whole process of export of diesel oil opened. Key cost control continued to be carried out and efficiency of input and output of costs was improved, with a decrease of RMB192 million compared with the target in the key monitoring cost.

Continuing to promote the project construction and technological innovation. In the first half of the year, the Company s 13th Five-Year Plan industrial development planning was further improved. The Company completed the project of transformation of cogeneration unit to comply with emission reduction. The oil product clean-up project also made progress. The Company started the projects such as No. 2 safe and eco-friendly closed decoking, transportation and waste gas treatment of delay coking facility, third circuit incoming power lines with a supply capacity of 220KV, second stage construction of carbon fiber, etc. The Company s research and development (R&D) focused on the development of new industries of high- performance materials, high value-added synthetic materials and new refining products, new fine chemical engineering, and applications of new technologies and materials for refining. Market development of colored high-end acrylic fiber products was stepped up and the newly developed modified PVA products and scratch-resistant pipe materials had been put into industrial production. With the focus on strengthening the research of carbon fiber technology and expansion the scope of application, the R&D of 48K was a success and passed the appraisal. Carbon fiber pultruded sheet was first used in tunnel reinforcement engineering. In the first half of the year, the Group developed and manufactured 106,800 tons of new products and 367,300 tons of new synthetic resin products and specialized polyolefin materials, with a differentiation rate for synthetic fibers at 90.77%, and submitted three patent applications.

Further strengthened corporate management and advanced the reform. In the first half of the year, the Group carried out the system and mechanism reform of fine chemical engineering business, clarified the integrated management model of Market, Production, Research and Consumer , and formulated the assessment rules for research project leaders. Smoothening of internal business duties and processes of the Petrochemical Department was carried out, which was basically completed together with the preparation of the first draft of division of duties. According to the large workshop management model of the Company, research on the current situation of grassroots units had been launched, in which management scale, production capacity and personnel of the grassroots units were analyzed, and the standards of planning the grassroots units and the initial plan for streamlining and optimizing organization will be studied.

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REPORT OF THE DIRECTORS *(continued)*

The following table sets forth the Group s sales volume and net sales after business tax and surcharges for the Reporting Period:

	For the six months ended 30 June					
	2018			2017		
	Sales volume (000 tons)	Net Sales (RMB million)	%	Sales volume (000 tons)	Net Sales (RMB million)	%
Synthetic fibres	83.5	1,123.5	2.4	90.7	1,032.0	2.8
Resins and plastics	597.8	5,129.5	11.1	591.7	4,689.2	12.7
Intermediate petrochemical products	1,110.6	6,118.6	13.3	882.6	4,722.2	12.7
Petroleum products	4,966.7	20,643.8	44.8	3,955.9	14,270.1	38.5
Trading of petrochemical products		12,644.1	27.5		11,941.7	32.2
Others		387.6	0.9		420.9	1.1
Total	6,758.5	46,047.1	100.0	5,520.9	37,076.1	100.0

In the first half of 2018, net sales of the Group amounted to RMB46,047.1 million, representing an increase of 24.20% over the same period last year. Among which, net sales of synthetic fibres, resins and plastics, intermediate petrochemical products, petroleum products and trading of petrochemical products increased by 8.87%, 9.39%, 29.57%, 44.66% and 5.88%, respectively. The increase in net sales of products was mainly due to a general increase in the unit prices of products during the Reporting Period as compared to the same period last year. The increase in the net sales from the trading of petrochemical products was mainly attributable to the increase in the business volume of Jinmao International, an indirectly owned subsidiary of the Group, during the Reporting Period. In the first half of the year, the Group s net sales of Others decreased by 7.91% compared to the same period last year, which was mainly attributable to the decrease in the Group s revenue from oil processed on a sub-contract basis, as compared to the same period last year.

Most of the Group s products are sold in Eastern China.

In the first half of 2018, the Group s cost of sales increased by 22.90% year-on-year to RMB42,112.0 million, representing 91.45% of total net sales.

The Group s main raw material is crude oil. In the first half of 2018, international crude oil prices rose amid continued production cuts in major oil-producing countries, strong global demand and escalating geopolitical factors in the Middle East. Brent crude oil futures closed at a maximum of USD79.80/barrel, with a minimum of USD62.59/barrel. Half-year average price was approximately USD71.12/barrel, representing a year-on- year increase of 34.85%. WTI crude oil futures closed at a maximum of USD74.15/barrel and minimum of USD59.19/barrel, with the half-year average price of approximately USD65.40/barrel, representing a year-on-year increase of 30.67%. Dubai crude oil futures closed at a maximum of USD77.33/barrel and minimum of USD59.77/barrel, with the half-year average price of approximately USD68.21/barrel, a year- on-year increase of 30.85%.

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REPORT OF THE DIRECTORS *(continued)*

In the first half of 2018, the average unit cost of crude oil processed by the Group (for its own account) was RMB3,067.71/ton, representing an increase of RMB413.88/ton compared to the same period last year, or an increase of 15.60%. The Group processed a total of 6,957,000 tons of crude oil (excluding crude oil processed on a sub-contract basis), representing an increase of 1,301,700 tons compared to the same period last year. Taken together, the total costs of processed crude oil increased by RMB6,334 million. Processing costs increased by RMB3,455 million due to an increase in the volume of crude oil processed. The increase in unit cost of processed crude oil brought costs up by RMB2,879 million. From January to June, the Group processed 386,900 tons of crude oil processed on a sub-contract basis, representing a year-onyear decrease of 762,000 tons compared to the same period last year. In the first half of 2018, the Group s cost of crude oil accounted for 50.68% of the total cost of sales.

In the first half of 2018, the Group s cost for other ancillary materials amounted to RMB5,151 million, which was basically the same as that of the same period last year. During the Reporting Period, the Group s depreciation and maintenance expenses increased by 1.97% year-on-year to RMB921.7 million and RMB766.4 million respectively, mainly due to the increase in depreciation expenses during the Reporting Period as an increase in the fixed assets. Maintenance expenses grew by 0.35% year-on-year, mainly due to an increase in maintenance work during the Reporting Period, which led to the rise in maintenance costs. Fuel and power expenses increased by 17.13% year-on-year to RMB1,169 million during the Reporting Period, mainly due to the increase in the unit purchase price of coal.

In the first half of 2018, sales and administrative expenses of the Group amounted to RMB282.2 million, representing an increase of 18.77% as compared to RMB237.6 million for the same period last year. This was mainly due to the increase in transportation and loading fees during the Reporting Period.

In the first half of 2018, other operating income of the Group amounted to RMB66.8 million, representing an increase of RMB13.3 million compared to the same period last year. This was mainly due to an increase in government subsidy during the Reporting Period.

In the first half of 2018, the Group s net finance income amounted to RMB209.2 million, compared to the net finance income of RMB95.9 million for the same period last year. This was mainly due to a significant increase in interest income during the Reporting Period.

In the first half of 2018, the Group s profit after tax and non-controlling shareholder interests was RMB3,551.3 million, representing an increase of RMB952.8 million as compared to the profit of RMB2,598.5 million for the same period last year.

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REPORT OF THE DIRECTORS *(continued)*

Liquidity and Capital Resources

In the first half of 2018, the Group s net cash inflow generated from operating activities amounted to RMB4,213.5 million and the net cash inflow for the same period last year was RMB2,350.2 million. This was primarily due to profit before tax of RMB4,542.3 million during the Reporting Period (profit before tax for the same period last year was RMB3,274.2 million).

In the first half of 2018, the Group s net cash inflow generated from investing activities amounted to RMB48.3 million and the net cash inflow for the same period last year was RMB111.0 million. This was primarily attributable to a year-on-year decrease in the dividends received by the Group from joint ventures and associate companies during the Reporting Period, resulting in a decrease of RMB443.0 million in net cash inflow generated from investing activities.

In the first half of 2018, the Group s net cash inflow generated from financing activities amounted to RMB821.6 million and the net cash inflow for the same period last year was RMB63.4 million. This was primarily attributable to the increase of RMB1,106.5 million in cash received by the Group as loans during the Reporting Period.

Borrowings and Debts

The Group s long-term borrowings are mainly used in capital expansion projects. In general, the Group arranges long-term borrowings according to its capital expenditure plans. On the whole, there are no seasonal borrowings. Short-term borrowings are used to replenish the Group s working capital requirements during the normal course of production. During the first half of 2018, the Group s total borrowings increased by RMB789.4 million to RMB1,395.6 million as at the end of the Reporting Period as compared to the beginning of the Reporting Period, mainly due to the increase of short-term borrowings by RMB789.4 million. As at 30 June 2018, the total borrowings of the Group at fixed interest rates amounted to RMB1,250 million.

Capital Expenditures

In the first half of 2018, the Group s capital expenditures amounted to RMB151 million, mainly attributable to the implementation of various projects, including the completion of transformation of cogeneration unit for compliance with the emission standard, launch of light oil storage tank of storage and transportation department and Zhanqiao oil and gas recovery project ( ), high-sulfur flare system optimization and renovation of storage and transp department project ( ), No. 2 olefin cracking burner low nitrogen combustion project (2# 烴裂解爐低氮燃燒), No. 3 and No. 4 boilers for compliance with the emission standard of the Thermal Power Division (熱電 3號、4號爐達標排放 工&#3124 and closed rectification project of the fuel yard of Thermal Power Division (熱電 燃料堆場密閉整).

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REPORT OF THE DIRECTORS *(continued)*

In the second half of 2018, the Group plans to complete the transformation of No. 2 olefin cracking burner for low nitrogen combustion, No. 2 safe and eco-friendly closed decoking, transportation and waste gas treatment of delay coking facility and No. 3 and No. 4 boilers for compliance with the emission standard of the Thermal Power Division. The Group also plans to start projects such as oil clean-up project, No. 2 safe and eco-friendly closed decoking, transportation and waste gas treatment of delay coking facility, third circuit incoming power lines with a supply capacity of 220KV, second stage of PAN (Polyacrylonitrile) based carbon fibre project with annual production of 1500 tons. The Group s planned capital expenditures would be funded from the resources including cash generated from operations and from bank financing.

Gearing Ratio

As at 30 June 2018, the Group s gearing ratio was 36.75% (As at 30 June 2017: 32.91%). The ratio is calculated using the following formula: total liabilities/total assets.

The Group s Employees

As at 30 June 2018, the total number of enrolled employees of the Group was 9,939, among which the number of production staff was 6,160, the number of sales, financial and other staff was 2,691 and the number of administrative staff was 1,088. 53.22% of the Group s employees were college graduates or above.

The Group s employees and Directors are remunerated with reference to their position, performance, experience and prevailing salary trends in the market. Other benefits include the Share Option Incentive Scheme and the State-managed retirement pension scheme. The Group also provides professional and vocational training to employees.

Income Tax

The Enterprise Income Tax Law of the PRC took effect from 1 January 2008, subsequent to which the income tax rate for enterprises was uniformly adjusted to 25%. The income tax rate applicable to the Group in 2018 is 25%.

Disclosure Required by the Hong Kong Listing Rules

Save as disclosed herein, pursuant to paragraph 40 of Appendix 16 to the Hong Kong Listing Rules, the Company confirms that there were no material differences between the existing information of the Company relating to the matters as set out in paragraph 32 of Appendix 16 to the Hong Kong Listing Rules and the relevant information disclosed in the Company s 2017 annual report.

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REPORT OF THE DIRECTORS *(continued)*

2. Market Outlook and Work Plans for the Second Half of the Year

Looking forward to the second half of 2018, the risks the world economy is exposed to are rising. Many multilateral rules and institutions formed after the Second World War are facing major challenges, in particular, the intensified global trade frictions, the increased market turmoil brought about by the spillover effects of the return of normalization of monetary policies of major powers and the uncertainty of world economic development constantly increasing. There are financing difficulties in China and there are relatively more financial risks such as credit defaults. The downward pressure of the economy will increase. However, under the effect of supply-side structural reform, innovative entrepreneurship and steady growth policies, the resilience, potential and stability of China s economic growth remained relatively strong. It is expected that the domestic economy will decline only to a moderate extent in the second half of the year. The launch of a series of new environmental protection policies for China s petrochemical industry will increase the costs incurred and pressures on the development of the entire industry. Sizable private refining projects with scale and technological advantage will gradually enter the production period, and market competition will become more intense.

In the second half of 2018, global trade uncertainty will bring risks to the economic prospects, or drag down the world economic growth, which in turn will undermine demand for oil. In terms of oil supply, factors such as reducing crude oil import from Iran as urged by United States to various countries, turmoil in Libya and oil production disruption in Canada are unlikely to recover in short term, which will lend support and boost oil prices. In addition, factors such as gradual increase in oil production from major oil-producing countries of Saudi Arabia and Russia, and continued increase in US crude oil production, the risk premium on the supply side will be offset while current global oil inventories has fallen below the average level in five years, market fundamentals have improved significantly. It is expected that international crude oil prices will remain strong in the second half of the year.

In the second half of the year, the Group will further focus on improving development quality and efficiency, and solidly promote environmental protection, system optimization, reform and development, and accomplish the full-year goals and tasks.

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REPORT OF THE DIRECTORS *(continued)*

1. To put efforts in safety and environmental protection and maintain stable operation of equipment. Construction of the HSSE management system is pushed forward, comprehensive risk hazard investigation is conducted, dynamic management and control as well as rectification is implemented. Full coverage of LDAR is promoted to ensure that more than 800,000 points of testing will be completed during the year. Proper parking maintenance or catalyst replacement of equipment such as No. 2 ethylene new zone, No. 3 diesel hydrogenation, medium pressure hydrogenation, RDS equipment B series, focus on strengthening contractor management, and proper on-site overhaul of standard chemical engineering site to ensure safety and eco-friendliness of equipment. High-quality overhaul and successful establishment at one time, laying a solid foundation for the completion of various production and operation tasks throughout the year.

2. To strive proper system optimization and strived to create and increase efficiency. The Group continues to adhere to the market-oriented and efficiency-centered dynamic optimization, actively push forward crude oil processing and allocation plan for further increase of processing volume of crude oil and high-grade refined oil production. Leveraging the advantages of Chenshan Wharf (陳山碼 頭), the Group aims to expand the export of refined oil. Efforts will be stepped up in R&D of new products of chemical engineering, monitoring of product chains and profitability of equipment, and continuous optimization of materials, equipment and product structures. The Group will strengthen the market awareness to improve the three-month rolling price forecasting mechanism and to enhance the expectation management capability of production and operation. The Group will also continue to manage costs, execute on proper crude oil procurement, resource optimization, material procurement and fund management in an effort to build low-cost competitiveness of the Company.

3. To accelerate project construction and R&D of products. In accordance with the requirements of the Company s 13th Five-Year development plan, the Group will focus on promoting the implementation or preliminary work of projects such as oil product clean-up project, No. 2 safe and eco-friendly closed decoking, transportation and waste gas treatment of delay coking facility, second stage of carbon fibre project, transportation and waste gas treatment projects, carbon fiber project two-stage construction and third circuit incoming power lines with a supply capacity of 220KV, ensuring the completion of the project of comprehensive environmental remediation in Jinshan District by nodes. In terms of scientific R&D, the Group will speed up key scientific research projects and key core technologies. It will test the accelerated production of carbon fiber units, 48K large tow fibre production technology, and expand the application scope of carbon fiber. The Group will develop and apply the new materials such as high value-added synthetic resin and medical supplies polymer materials, to enhance the core competitiveness of the enterprise.

4.

To promote reform and optimize the structure of the workforce. The Group will actively promote the adjustment and optimization of the organization struction, and explore reform measures related to the employee benefits, such as the health management and operation mode adjustment. The Group will adjust and optimize the performance appraisal methods and do proper research and analysis before the appraisal to build a team of qualified talents. The Group aims to make breakthroughs on the job evaluation management in order to establish a scientific and effective job evaluation model suitable for the features of production and management of the Group. The Group will also explore and establish an open and mature in-system talent introduction mechanism to recruit appropriate talents for the understaffed posts, such as meters management and refinery aromatic hydrocarbon operators.

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REPORT OF THE DIRECTORS *(continued)*

(2) Analysis of the Company s Principal Performance during the Reporting Period (Certain of the following financial data is extracted from the unaudited interim report prepared under CAS)

(i) Analysis of Changes in the Company s Related Financial Data

Unit: RMB 000

Item (with significant changes, including but not limited to)	As at 30 June 2018	As at 31 December 2017	Change (%)	Reason for change
Cash at bank and on hand	14,612,063	9,504,266	53.74	Profit of the Reporting Period and a relatively abundant cash flow
Notes receivable and accounts receivable	3,890,578	3,426,439	13.55	Increases in the business volume of the petroleum business segment with an increase in accounts receivable
Short-term borrowings	1,395,600	606,157	130.24	Increase in loan due to an increase in capital demand
Notes payable and accounts payable	7,498,936	5,573,281	34.55	Increases in the business volume of the petroleum business segment

				with an increase in accounts payable
Dividends payable	3,270,830	23,686	13,709.13	Increase in the declared dividends during the Reporting Period

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REPORT OF THE DIRECTORS *(continued)*

Unit: RMB 000

Item (with significant changes, including but not limited to)	For the six months ended 30 June 2018	2017	Change (%)	Reason for change
Revenue	52,187,640	43,106,950	21.07	Increase in the price of petrochemical products and growth in the business of the petroleum segment
Cost of sales	40,707,831	32,841,971	23.95	Increase in the costs of crude oil and other raw materials
Finance expenses – net	-174,217	-88,839	96.10	Substantial increase in the interest income during the Reporting Period
Asset impairment losses	10,155	36,142	-71.90	The amount of the provision of fixed asset impairment for the Reporting Period was relatively small
Income tax expenses	983,672	671,073	46.58	Increase in the profit in the Reporting Period
Net profit attributable to shareholders of the Company	3,524,131	2,575,479	36.83	Increase in the profit in the Reporting Period
Net cash generated from operating activities	4,227,404	2,358,780	79.22	Increase in profit level in the Reporting Period
Net cash generated from/ (used in) investment activities	48,310	111,004	-56.48	

				Decrease in the investment returns in the Reporting Period
Net cash generated from/ (used in) financing activities	807,712	54,803	1,373.85	Increase in loan due to an increase in capital demand
Research and development costs	13,427	11,323	18.58	Increase in research and development expenses due to a new project added in the Reporting Period

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REPORT OF THE DIRECTORS *(continued)*

(3) Analysis of Business Operations by Industry, Product or Geographical Location Segment

(i) Principal Operations by Industry or Product

Unit: RMB 000

Business Segment/Product Segment	Revenue	Cost of operations	Gross profit margin (%)	Increase/ decrease in revenue compared to last year (%)	Increase/ decrease in cost of sales compared to last year (%)	Increase/decrease in gross profit margin compared to last year (percentage point)
Synthetic fibers	1,147,441	1,267,676	-10.48	8.00	12.40	Decrease 4.33 percentage points
Resins and plastics	5,227,305	4,236,819	18.95	8.65	10.84	Decrease 1.60 percentage points
Intermediate petrochemicals	6,249,148	4,550,039	27.19	28.55	39.57	Decrease 5.75 percentage points
Petroleum products	26,489,911	17,789,875	32.84 [Note]	32.65	43.48	Decrease 5.07 percentage points
Trading of petrochemical products	12,651,718	12,546,663	0.83	5.88	5.73	Increase 0.14 percentage point
Others	220,703	169,816	23.06	4.78	15.83	Decrease 7.33 percentage points

Note: This gross profit margin is calculated according to the price of petroleum products which includes consumption tax. Gross profit margin of petroleum products after consumption tax was 12.86%.

(ii) Revenue by Geographical Location

Unit: RMB 000

Geographical location segment	Revenue	Increase/decrease in revenue as compared to the same period last year (%)
Eastern China	41,822,068	18.10%
Other regions in the PRC	1,916,861	26.85%
Exports	8,247,296	33.41%

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REPORT OF THE DIRECTORS *(continued)*

(4) Analysis of Assets and Liabilities

Unit: RMB 000

Item	As at 30 June 2018 Amount	% of total assets	As at 31 December 2017 Amount	% of total assets	Change of amount on 30 June 2018 compared to 31 December 2017 (%)	Major reason of the change
Inventories	7,237,029	15.81	6,597,598	16.66	9.69	Increase in the crude oil and oil product price
Short-term borrowings	1,395,600	3.05	606,157	1.53	130.24	Increase in borrowings due to the increase in capital demand
Accounts payable	7,423,611	16.21	5,573,281	14.07	33.20	Increase in the crude oil price

(5) Analysis of Investments

(i) Entrusted Wealth Managements and Entrusted Loans

(1) Entrusted Wealth Management

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

(2) Entrusted Loans

Unit: RMB 000

Borrower	Amount of entrusted loan	Loan period	Interest rate of loan %	Whether it is overdue	Whether it is a connected transaction	Whether it has been renewed	Whether it is under litigation	Source of funds and whether the funds are from fund-	Connected relationship	Expected income

								raising		
Chevron Phillips Chemicals (Shanghai) Corporation	12,000	22/01/2017-21/01/2018	1.75	No	No	No	No	No	Nil	12.8

Note: The aforementioned entrusted loans are loans provided to shareholders according to the proportion of shareholding by Shanghai Golden Phillips Petrochemical Company Limited, a subsidiary of the Company.

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REPORT OF THE DIRECTORS *(continued)*

(ii) Application of Funds Raised

During the Reporting Period, the Company did not raise funds, nor has it used the funds raised from the previous reporting periods.

(iii) Analysis of the Companies in which the Company has Controlling Interests or Investment Interests

Due to strong market demand for downstream products and rising sales of products, Shanghai SECCO Petrochemical Company Limited, an associate company of the Group, recorded a net profit of RMB2,669 million during the Reporting Period, profit attributable to the Group was RMB534 million, representing 15.15% of net profit attributable to equity shareholders of the Company during the Reporting Period.

(iv) Projects funded by Non-fund Raising Capital

Unit: RMB 000

Major Project	Estimated total project investment	Estimated total project investment in the Reporting Period	Status as at 30 June 2018
Light oil storage tank of storage and transportation department and Zhanqiao oil and gas recovery	65,257	15,316	Under construction
Oil product clean-up	794,640	10,565	Preliminary design
High-sulfur flare system optimization and renovation of storage and transportation department	44,234	7,534	Under construction
No. 2 olefin cracking burner of the Thermal Power Division	120,929	6,705	Under construction
No. 3 and No. 4 boilers for compliance with the emission standard of the Thermal Power Division	98,820	7,528	Under construction
The airtight transformation project of Thermoelectricity Department Fuel Assembly	99,800	2,859	Under construction

REPORT OF THE DIRECTORS *(continued)*

(6) Other Disclosure Items

1. Possible Risks

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

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

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

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

REPORT OF THE DIRECTORS *(continued)*

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

The petrochemical industry is a capital-intensive industry. The Group s ability to maintain and raise income, net income and cash flows is closely connected with ongoing capital expenditures. The Group s estimated capital expenditures is estimated to amount to approximately RMB1,100.0 million in 2018, which will be met by financing activities and by internal funding. The Group s effective capital expenditures may vary significantly due to the Group s ability to generate sufficient cash flows from operations, investments and other factors that are beyond control. Furthermore, there is no assurance as to the completion, cost or outcome of the Group s fund raising projects.

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

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

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

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REPORT OF THE DIRECTORS *(continued)*

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

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

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

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

(vii) Risks associated with control by the majority shareholder

Sinopec Corp., the controlling shareholder of the Company, owns 5,460,000,000 shares of the Company, which represents 50.44% of the total number of shares of the Company and gives it an absolute controlling position. Sinopec Corp. may, by using its controlling position, exercise influence over the Group s production operations, fund allocations, appointment or removal of senior staff and so forth, thereby adversely affecting the Group s production operations as well as minority shareholders interests.

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MAJOR EVENTS

(1) Annual General Meeting

Meeting session	Date	Designated websites for enquiry of publication of the resolutions	Date of publication of the resolutions
2017 Annual General Meeting	13 June 2018	Shanghai Securities News, China Securities Journal and Securities Times; the websites of the Shanghai Stock Exchange, Hong Kong Stock Exchange and the Company	14 June 2018

(2) Plan for Ordinary Shares Profit Distribution or Capital Reserves Capitalization

1. The Formulation, Implementation or Adjustment of Cash Dividend Policy

The 2017 Profit Distribution Plan was considered and approved at the 2017 Annual General Meeting held on 13 June 2018: to distribute a dividend of RMB3.00 per 10 shares (including tax) totalling RMB3,247,144,050 based on the total issued share capital of RMB10.8238135 billion as at dividend payout date. The relevant announcement was published in Shanghai Securities News, China Securities Journal and Securities Times on 14 June 2018 and was uploaded to the websites of the Hong Kong Stock Exchange, Shanghai Stock Exchange and the Company on 13 June 2018. The record date for H shares dividend payment was 26 June 2018 and the dividend payment date for H shares was 13 July 2018. On 11 July 2018, the Company published an announcement on the implementation of profit distribution for A shares for the year 2017. The record date for A shares dividend payment was 16 July 2018 and the ex-dividend date was 17 July 2018. The dividend payment date for A shares was 17 July 2018. The Profit Distribution Plan was implemented as scheduled.

2. Plan for Profit Distribution or Capital Reserves Capitalization During the Reporting Period

Nil.

(3) Performance of Undertakings

1. Undertakings Made by De Facto Controller, Shareholders, Connected Parties, Purchaser and the Company during the Reporting Period or Continuing up to the Reporting Period

Undertakings about share reform

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

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

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MAJOR EVENTS *(continued)*

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

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

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

(4) Appointment and Dismissal of Accounting Firm

During the Reporting Period, the Company had not changed its auditors.

(5) Material Lawsuits or Arbitration

During the Reporting Period, the Company had no material lawsuits or arbitration.

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

During the Reporting Period, the Company and its Directors, Supervisors, senior management, controlling shareholder, de facto controller and purchasers had not been investigated, administratively punished, publicly criticized by the CSRC or publicly censured by the stock exchanges on which the Company is listed.

(7) Credit Status of the Company and its Controlling Shareholder and De Facto Controller during the Reporting Period

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

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MAJOR EVENTS *(continued)*

(8) Share Option Incentive Scheme

1. Share Option Incentive Scheme Disclosed in Relevant Announcements

Summary	Index of enquiry
The Sixth meeting of the Ninth Session of the Board considered and passed the Resolution on the adjustment to list of grantees and amount of grant under the Share Option Incentive Scheme and the Resolution in respect of determination of the exercise date and fulfillment of exercise conditions for the second exercisable period of share options initially granted under the A Shares Share Option Incentive Scheme of Sinopec Shanghai .	Published on 9 January 2018 in China Securities Journal, Shanghai Securities News, Securities Times and uploaded to the websites of the Shanghai Stock Exchange, the Hong Kong Stock Exchange and the Company on 8 January 2018.
Completion of the second exercisable period of the initial grant of share options.	Published on 23 February 2018 in China Securities Journal, Shanghai Securities News and Securities Times and uploaded to the websites of Shanghai Exchange and Hong Kong Stock Exchange and the Company on 22 February 2018.

2. Share Option Incentive Scheme

(i) Date and number of the initial grant

Date of grant of A shares share options: 6 January 2015

Number of A shares share options grantees: 214 persons

Number of A shares share options granted: 38,760,000

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

Exercise date: 29 August 2017

Number of exercisable share options: 14,212,500

Number of share options lapsed: 5,228,900

Number of share options exercised: 14,176,600

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

Number of people who exercised the share options: 199

Exercise price: RMB3.85/share

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MAJOR EVENTS *(continued)*

(iii) The status of the second exercise of share options under the initial grant

Exercise date: 12 January 2018

Number of exercisable share options: 9,636,900

Number of share options lapsed during the Reporting Period: 520,700

Number of share options exercised: 9,636,900

Date of completion of registration formalities for newly increased stocks: 14 February 2018

Number of people who exercised the share options: 185

Exercise price: RMB3.85/share

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

At the beginning of the Reporting Period, the total number of outstanding A shares share options held by three directors, chief executives or substantial shareholders and Mr. Jin Wenmin, Vice President, were 966,000.

During the Reporting Period, Vice President Mr. Jin Wenmin was appointed as an Executive Director of the Company on 13 June 2018. During the Reporting Period, a total of 483,000 A shares share options were exercised by Mr. Gao Jinping, Mr. Jin Qiang, Mr. Guo Xiaojun and Mr. Jin Wenmin.

At the end of the Reporting Period, the total number of outstanding A shares share options held by Vice Chairman and Vice President Mr. Gao Jinping; Director and Vice President Mr. Jin Qiang; Director, Vice President, Secretary to the Board and Joint Company Secretary Mr. Guo Xiaojun; and Director and Vice President Mr. Jin Wenmin was 483,000.

(v) Outstanding share options granted to employees other than the persons mentioned in item (iv)

At the beginning of the Reporting Period, the total number of outstanding A shares share options held by the Company s key business personnel were 18,138,500.

During the Reporting Period, a total of 9,153,900 A shares share options were exercised by the Company s key business personnel.

During the Reporting Period, 520,700 A shares share options granted to the Company s key business personnel lapsed due to resignation of the participants and other reasons.

At the end of the Reporting Period, the total number of outstanding A shares share options held by the Company s key business personnel was 8,463,900.

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

According to the principle disclosed by the Company on the determination of exercise price, the exercise price of the initial grant was RMB4.20 per share (in the event of dividends payment, 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

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MAJOR EVENTS *(continued)*

Incentive Scheme). On 15 June 2016, the 2015 Annual Profit Distribution Plan was considered and passed at the 2015 Annual General Meeting of the Company, whereby cash dividend of RMB1.00 was paid for each 10 shares. On 15 June 2017, the 2016 Annual Profit Distribution Plan was considered and passed at the 2016 Annual General Meeting of the Company, 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 13 June 2018, the 2017 Annual Profit Distribution Plan was considered and passed at the 2017 Annual General Meeting of the Company, whereby cash dividend of RMB3.00 was paid for each 10 shares, and the exercise price was adjusted to RMB3.55 per share accordingly.

(vii) Validity of and Exercise Arrangements for the Initial Grant

The share options shall be exercisable within five years from the date of the grant, subject to the exercise arrangements. The exercisable period for the share options shall be three years, commencing from the expiry of the two-year period after the date of grant. There are three exercisable periods (one year for each exercisable period, same hereinafter) under the Share Option Incentive Scheme. Upon the fulfillment of the exercise conditions, 40%, 30% and 30% of the total number of share options granted shall become exercisable within the 1st, 2nd and 3rd exercisable periods, respectively.

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

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

MAJOR EVENTS *(continued)*

(9) Major Connected Transactions of the Company

1. Connected Tran