

SINOPEC SHANGHAI PETROCHEMICAL CO LTD

Form 6-K

April 18, 2019

SECURITIES AND EXCHANGE COMMISSION

Washington D.C. 20549

FORM 6-K

REPORT OF FOREIGN PRIVATE ISSUER

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

UNDER THE SECURITIES EXCHANGE ACT OF 1934

For the month of April 2019

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)

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Form 20-F

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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):

EXHIBITS

Exhibit

Number

99.1 Annual Report 2018.

SIGNATURES

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

SINOPEC SHANGHAI PETROCHEMICAL COMPANY
LIMITED

Date: April 16, 2019

By: /s/ Guo Xiaojun
Name: Guo Xiaojun
Title: Secretary to Board of Directors

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IMPORTANT MESSAGE

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

II. Director(s) who has/have not attended the Board meeting for approving the 2018 annual report of the Company is/are:

| Name of Director | Position | Reasons for Absence | Name of Proxy |
|-------------------------|------------------------|----------------------------|----------------------|
| Lei Dianwu | Non-Executive Director | Business Engagement | Wu Haijun |
| Jin Qiang | Executive Director | Business Engagement | Wu Haijun |

III. The financial statements for the year ended 31 December 2018 (the Reporting Period), prepared under the People s Republic of China (PRC or China) s Accounting Standards (CAS) as well as the International Financial Reporting Standards (IFRS), were audited by PricewaterhouseCoopers Zhong Tian LLP and PricewaterhouseCoopers, respectively, and both firms have issued unqualified opinions on the financial statements in their auditors reports.

IV. Mr. Wu Haijun, Chairman and the responsible person of the Company; Mr. Zhou Meiyun, Director, Vice President and Chief Financial Officer overseeing the accounting department; and Ms Yang Yating, person in charge of the Accounting Department (Accounting Chief) and Deputy Director of Finance Department hereby warrant the truthfulness, the accuracy and completeness of the financial statements contained in the 2018 annual report.

V. Plan for Profit Appropriation or Capital Reserve Capitalisation reviewed by the Board
 In 2018, the net profit attributable to shareholders of the Company amounted to RMB5,277,186,000 under CAS (net profit of RMB5,336,331,000 under IFRS). According to the 2018 profit distribution plan approved by the Board on 19 March 2019, the Board proposed to distribute a dividend of RMB0.25 per share (including tax) (the Final Dividend) based on the total number of issued shares of the Company as at the record date for distributing dividend. The 2018 profit distribution plan will be implemented subject to approval of the Company s 2018 annual general meeting (the AGM). The date and time of the AGM and book closure arrangement will be announced later. The notice of the AGM will be announced separately in accordance with the provisions of the Articles of Association of the Company. The notice of the AGM, and proxy form will be despatched to holders of H shares in accordance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (Hong Kong Listing Rules).

Subject to the passing of the resolution by the shareholders of the Company at the AGM, the Final Dividend is expected to be distributed on or around Thursday, 18 July 2019 to shareholders whose names appear on the register of members of the Company's H shares at the close of business on Monday, 1 July 2019. The Final Dividend is denominated and declared in Renminbi. The Final Dividend payable to the holders of the Company's A shares shall be paid in Renminbi while those payable to the holders of the Company's H shares shall be paid in Hong Kong dollars. The amount of Hong Kong dollars payable shall be calculated on the basis of the average closing exchange rates for Hong Kong dollars as announced by the Foreign Exchange Trading Centre of the PRC one calendar week prior to the approval of the Final Dividend at the AGM.

The Company is expected to close the register of members of the Company's H shares from Wednesday, 26 June 2019 to Monday, 1 July 2019 (both days inclusive), during which period no transfer of H shares will be registered in order to confirm the shareholders' entitlement to receive the Final Dividend. The holders of the Company's H shares who wish to receive the Final Dividend should lodge the transfer documents and relevant share certificates with the Company's H shares share registrar, Hong Kong Registrars Limited, at Room 1712-1716, 17/F, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong on or before 4:30 p.m. on Tuesday, 25 June 2019.

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

VI. Declaration of Risks Involved in the Forward-looking Statements

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

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

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

IX. Major Risk Warning

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

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

DEFINITIONS

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

| | |
|--|---|
| Company or SPC | Sinopec Shanghai Petrochemical Company Limited |
| Board | the board of directors of the Company |
| Director(s) | the Director(s) of the Company |
| Supervisory Committee | the Supervisory Committee of the Company |
| Supervisor(s) | the Supervisor(s) of the Company |
| PRC or China or State | the People's Republic of China |
| Reporting Period | the year ended 31 December 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 |
| LDAR | Leak Detection and Repair |
| COD | Chemical Oxygen Demand |
| VOCs | Volatile Organic Compounds |
| SFO | the Securities and Futures Ordinance of Hong Kong (Chapter 571 of the Laws of Hong Kong) |
| Corporate Governance Code | the Corporate Governance Code set out in Appendix 14 to the Hong Kong Listing Rules |
| Share Option Incentive Scheme | the A Share Option Incentive Scheme of the Company |

Company Profile

Sinopec Shanghai Petrochemical Company Limited is one of the largest petrochemical enterprises in the People's Republic of China based on sales in 2018. It is also one of the largest PRC producers of ethylene. Ethylene is one of the most important intermediate petrochemical products used in the production of synthetic fibres, resins and plastics.

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

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

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

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

Financial Highlights

(I) Financial information prepared under IFRS (for the past five years)

| Year ended 31 December | Unit: RMB million | | | | |
|---|-------------------|----------|----------|----------|----------|
| | 2018 | 2017 | 2016 | 2015 | 2014 |
| Net sales | 95,613.5 | 79,218.3 | 65,936.5 | 67,037.2 | 92,725.0 |
| Profit/(loss) before income tax | 6,808.1 | 7,852.9 | 7,778.3 | 4,237.2 | (889.9) |
| Profit/(loss) after income tax | 5,336.2 | 6,154.2 | 5,981.5 | 3,310.4 | (675.8) |
| Profit/(loss) attributable to owners of the Company | 5,336.3 | 6,143.2 | 5,968.5 | 3,274.3 | (692.2) |
| Basic earnings/(loss) per share (RMB) | 0.493 | 0.569 | 0.553 | 0.303 | (0.064) |
| Diluted earnings/(loss) per share (RMB) | 0.493 | 0.568 | 0.552 | 0.303 | (0.064) |
| Basic and diluted earnings/(loss) per share (RMB) (restated) | N/A | N/A | N/A | N/A | N/A |
| As at 31 December: | | | | | |
| Total equity attributable to owners of the Company | 30,346.1 | 28,230.2 | 24,722.0 | 19,797.3 | 16,500.3 |
| Total assets | 44,385.9 | 39,443.5 | 33,945.6 | 27,820.6 | 30,905.6 |
| Total liabilities | 13,923.5 | 10,927.9 | 8,942.4 | 7,726.3 | 14,134.0 |

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

The first tranche of the Share Option Incentive Scheme was exercised in August 2017, led to an increase of 14,176.6 thousands in the total number of issued shares of the company.

The second tranche of the Share Option Incentive Scheme was exercised in January 2018, led to an increase of 9,636.9 thousands in the total number of issued shares of the company.

Financial Highlights (continued)**(II) Main accounting data and financial indicators in the past three years (Prepared under CAS)**

Unit: RMB 000

| Major accounting data | 2018 | 2017 | Increase/ decrease compared to the previous year (%) | 2016 |
|--|--------------------|------------|--|------------|
| Revenue | 107,764,908 | 92,013,569 | 17.12% | 77,894,285 |
| Total profit | 6,748,976 | 7,851,234 | -14.04% | 7,765,405 |
| Net profit attributable to shareholders of the Company | 5,277,186 | 6,141,558 | -14.07% | 5,955,576 |
| Net profit attributable to shareholders of the Company excluding non-recurring items | 5,067,583 | 6,293,745 | -19.48% | 5,921,988 |
| Net cash flows generated from operating activities | 6,695,099 | 7,078,482 | -5.42% | 7,210,957 |

| | End of 2018 | End of 2017 | Increase/ decrease compared to the previous year (%) | End of 2016 |
|---|-------------------|-------------|--|-------------|
| Total equity attributable to equity shareholders of the Company | 30,370,126 | 28,256,306 | 7.48% | 24,750,048 |
| Total assets | 44,539,960 | 39,609,536 | 12.45% | 34,123,693 |

Financial Highlights (continued)

| Major financial indicators | 2018 | 2017 | Increase/decrease compared to the previous year (%) | 2016 |
|--|---------------|--------|---|--------|
| Basic earnings per share (RMB/Share) | 0.488 | 0.568 | -14.08% | 0.551 |
| Diluted earnings per share (RMB/Share) | 0.488 | 0.568 | -14.08% | 0.551 |
| Basic earnings per share excluding non-recurring items (RMB/Share) | 0.468 | 0.583 | -19.73% | 0.550 |
| Return on net assets (weighted average) (%)* | | | Decreased by 4.63 percentage points | 26.383 |
| Return on net assets excluding non-recurring items (weighted average) (%)* | 16.211 | 20.840 | Decreased by 5.79 percentage points | 26.254 |
| Net cash flow per share generated from operating activities (RMB/Share) | 0.619 | 0.655 | -5.5% | 0.668 |

| | End of 2018 | End of 2017 | Increase/decrease compared to the previous year (%) | End of 2016 |
|---|---------------|-------------|---|-------------|
| Net assets per share attributable to shareholders of the Company (RMB/Share)* | 2.806 | 2.613 | 7.39% | 2.292 |
| Gearing ratio (%) | 31.553 | 27.943 | Increased by 3.61 percentage points | 26.645 |

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

Financial Highlights (continued)**(III) Non-recurring items (Prepared under CAS)**

| | Unit: RMB 000 | | |
|--|----------------|----------|---------|
| | 2018 | 2017 | 2016 |
| Non-recurring items | | | |
| Gains/(losses) from disposal of non-current assets | 172,508 | -13,017 | -42,031 |
| Gains on disposal of long-term equity investment | 1,622 | 10,339 | |
| Employee reduction expenses | -34,450 | -176,954 | -19,200 |
| Government grants recognised through profit or loss (excluding government grants pursuant to the State's unified standard sum and quota to closely related corporate business) | 126,329 | 75,703 | 154,631 |
| Income from external entrusted lendings | 11 | 1,164 | 1,818 |
| Foreign exchange option and foreign exchange forward contract gains/(losses) | 14,520 | -1,516 | |
| Other non-revenue and expenses other than those mentioned above | -55,092 | -44,159 | -47,281 |
| Effect on non-controlling interests (after tax) | -7,079 | -1,526 | -1,714 |
| Tax effect for the above items | -8,766 | -2,221 | -12,635 |
| Total | 209,603 | -152,187 | 33,588 |

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

| | Net profit | | Net asset | |
|---------------------|----------------------|---|------------------------------------|--|
| | The Reporting Period | Corresponding period of the previous year | At the end of the Reporting Period | At the beginning of the Reporting Period |
| Prepared under CAS | 5,277,073 | 6,152,495 | 30,486,504 | 28,541,613 |
| Prepared under IFRS | 5,336,218 | 6,154,159 | 30,462,441 | 28,515,540 |

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

Financial Highlights (continued)**(V) Major quarterly financial data in 2018 (Prepared under CAS)**

| | First Quarter (January to March) | Second Quarter (April to June) | Third Quarter (July to September) | Unit: RMB 000 Fourth Quarter (October to December) |
|--|--|--------------------------------------|---|--|
| Revenue | 25,759,522 | 26,428,118 | 28,632,763 | 26,944,505 |
| Net profit attributable to shareholders of the Company | 1,771,513 | 1,752,618 | 1,136,283 | 616,772 |
| Net profit attributable to shareholders of the Company excluding non-recurring items | 1,768,368 | 1,746,963 | 1,156,744 | 395,508 |
| Net cash flows generated from operating activities | 1,635,267 | 2,592,137 | -892,180 | 3,359,875 |

Principal Products

The Company is a highly vertically integrated petrochemical company. Most of the petroleum products and intermediate petrochemical products produced by the Company are used in the production of the Company's downstream products.

The following table sets forth the net sales of the Group's major products in 2018 as a percentage of total net sales and their typical uses.

| Major products sold by the Company | % of 2018 net sales | Typical use |
|------------------------------------|------------------------|--|
| Manufactured products | | |
| Synthetic Fibres | | |
| Polyester staple | 0.23 | Textiles and apparel |
| Acrylic staple | 1.85 | Cotton type fabrics, wool type fabrics |
| Others | 0.20 | |
| Subtotal: | 2.28 | |

Principal Products (continued)

| Major products sold by the Company | % of 2018 net sales | Typical use |
|--|--------------------------------|---|
| Resins and Plastics | | |
| Polyester chips | 2.27 | Polyester fibres, films and containers |
| PE pellets | 3.19 | Films, ground sheeting, wire and cable compound and other injection moulding products such as housewares and toys |
| PP pellets | 4.12 | Films or sheets, injection moulding products such as housewares, toys and household electrical appliances and automobile parts |
| PVA | 0.10 | PVA fibres, building coating materials and textile starch |
| Others | 1.34 | |
| Subtotal: | 11.02 | |
| Intermediate Petrochemical Products | | |
| Ethylene | 0.10 | Feedstock for PE, EG, PVC and other intermediate petrochemical products which can be further processed into resins and plastics and synthetic fibre |
| Ethylene Oxide | 1.65 | Intermediate for chemical and pharmaceutical industry, dyes, detergents and adjuvant |
| Benzene | 1.76 | Intermediate petrochemical products, styrene, plastics, explosives, dyes, detergents, epoxies and polyamide fibre |
| PX | 3.58 | Intermediate petrochemical, polyester |
| Butadiene | 0.92 | Synthetic rubber and plastics |
| Ethylene Glycol | 2.01 | Fine chemicals |
| Others | 2.71 | |
| Subtotal: | 12.73 | |
| Petroleum Products | | |
| Gasoline | 17.78 | Transportation fuels |
| Diesel | 17.06 | Transportation and agricultural machinery fuels |

| | | |
|--|-------|--|
| Jet fuel | 4.69 | Transportation fuels |
| Others | 5.86 | |
| Subtotal: | 45.39 | |
| Trading of petrochemical products | | Import and export trade of petrochemical products (purchased from domestic and overseas suppliers) |
| | 27.76 | |
| Others | 0.82 | |
| TOTAL: | 100 | |

Change in Share Capital of Ordinary Shares and Shareholders

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

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

| Type of shares | Beginning of the Reporting Period | | Increase/decrease (+, -) during the Reporting Period | | | | | Unit: Shares End of the Reporting Period | |
|---|---|-------------------|---|-------------------|---------------------|------------------------|------------------------|--|-------------------|
| | Number of shares | Percentage (%) | Number of Number shares of Number shares of Number of Number | | | Others | Subtotal | Number of shares | Percentage (%) |
| | | | Number of shares | Percentage (%) | Number of shares | | | | |
| 1. Unlisted circulating shares | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| (1) Shares of promoters | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| Including: Shares held by the State | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| (2) Shares of fund-raising legal person | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 2. Shares with trading restrictions | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| (1) Shares held by state-owned legal person | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| (2) Shares held by other domestic investors | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| 3. Listed circulating shares | 10,814,176,600 A shares or H shares | | | | | +9,636,900 A shares | +9,636,900 A shares | 10,823,813,500 A shares or H shares | 100 |
| (1) RMB-denominated ordinary shares | 7,319,176,600 A shares | 67.68 | 0 | 0 | 0 | +9,636,900 A shares | +9,636,900 A shares | 7,328,813,500 A shares | 67.71 |
| (2) Overseas listed foreign shares | 3,495,000,000 H shares | 32.32 | 0 | 0 | 0 | 0 | 0 | 3,495,000,000 H shares | 32.29 |
| Total | 10,814,176,600 A shares or | 100 | 0 | 0 | 0 | +9,636,900 A shares | +9,636,900 A shares | 10,823,813,500 A shares or | 100 |

H shares

H shares

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

| Class of shares and its derivative securities | Date of issue | Issue price | Issue volume | Listing date | Unit: Shares | Currency: RMB |
|---|------------------|-------------|--------------|------------------|--------------------------|------------------------------|
| | | | | | Permitted listing volume | Transaction termination date |
| Ordinary shares | | | | | | |
| RMB-denominated ordinary A shares | 14 February 2018 | 3.85 | 9,636,900* | 28 February 2018 | 9,636,900 | |

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

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

The Company's total number of ordinary shares increased from 10,814,176,600 to 10,823,813,500 during the Reporting Period.

3. Employees shares

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

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

| | |
|--|--------|
| Number of shareholders of ordinary shares as at the end of the Reporting Period | 90,979 |
| Number of shareholders of ordinary shares as at the end of the month immediately preceding the publication date of the annual report | 88,598 |

Change in Share Capital of Ordinary Shares and Shareholders (continued)
2. Shareholding of the top ten shareholders as at the end of the Reporting Period

| Full name of shareholder | Class of shares | Shareholding of the top ten shareholders | | | | | | | Nature of shareholders |
|---|--|---|--|---|--|---------------------|---------------------|--------------------------|------------------------|
| | | Increase/ decrease of shareholding during the Reporting Period (Shares) | Number of shares held at the end of the Reporting Period (Shares) | Percentage of shareholding (%) | Number of shares pledged/frozen with selling restrictions (Shares) | Status of Shares | Number of Shares | | |
| China Petroleum & Chemical Corporation | A shares | 0 | 5,460,000,000 | 50.44 | 0 | None | 0 | State-owned legal person | |
| HKSCC (Nominees) Limited | H shares | 1,508,500 | 3,458,140,821 | 31.95 | 0 | Unknown | | Overseas legal person | |
| China Securities Finance Corporation Limited | A shares | -115,578,227 | 324,111,018 | 2.99 | 0 | None | 0 | Others | |
| HKSCC Limited | A shares | 64,763,147 | 78,698,924 | 0.73 | 0 | None | 0 | Others | |
| Central Huijin Investment Ltd. | A shares | 0 | 67,655,800 | 0.63 | 0 | None | 0 | Others | |
| GF Fund Agricultural Bank of China GF CSI Financial Asset Management Plan | A shares | 22,470,400 | 45,222,300 | 0.42 | 0 | None | 0 | Others | |
| Dacheng Fund Agricultural Bank of China Dacheng CSI Financial Asset Management Plan | A shares | 22,470,400 | 43,531,469 | 0.40 | 0 | None | 0 | Others | |
| China Asset Fund Agricultural Bank of China China Asset CSI Financial Asset Management Plan | A shares | 22,470,400 | 43,083,750 | 0.40 | 0 | None | 0 | Others | |
| Bosera Fund Agricultural Bank of China Bosera CSI Financial Asset Management Plan | A shares | 22,470,400 | 43,083,700 | 0.40 | 0 | None | 0 | Others | |
| E Fund Agricultural Bank of China E Fund CSI Financial Asset Management Plan | A shares | 22,470,400 | 43,083,700 | 0.40 | 0 | None | 0 | Others | |
| Note on connected relationship or acting in concert of the above shareholders: | Among the above-mentioned shareholders, China Petroleum & Chemical Corporation (Sinopec Corp.), a state-owned legal person, does not have any connected relationship with the other shareholders, and does not constitute an act-in-concert party under the Administrative Measures on Acquisition of Listed | | | | | | | | |

Companies. Among the abovementioned shareholders, HKSCC (Nominees) Limited is a nominee and HKSCC Limited is the nominal holder of the Company's Shanghai-Hong Kong Stock Connect. Apart from the above, the Company is not aware of any connected relationships among the other shareholders, or whether any other shareholder constitutes an act-in-concert party under the Administrative Measures on Acquisition of Listed Companies.

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

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

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

Change in Share Capital of Ordinary Shares and Shareholders (continued)**2. Details of the de facto controller****(1) Legal person**

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

| Company Name | Number of shares held | Percentage of shareholding |
|--|-----------------------|----------------------------|
| China Petroleum & Chemical Corporation ^(Note 1) | 82,709,227,393 | 68.31% |
| Sinopec Engineering (Group) Co., Ltd. | 2,907,856,000 | 65.67% |
| Sinopec Oilfield Service Corporation ^(Note 2) | 10,727,896,364 | 56.51% |
| Sinopec Oilfield Equipment Corporation | 351,351,000 | 58.74% |
| China Merchants Energy Shipping | 912,886,426 | 15.05% |

Co., Ltd.

Note 1: The 553,150,000 H shares held by Sinopec Century Bright Capital Investment Limited, an overseas wholly-owned subsidiary of Sinopec Group are included in the total number of shares held by HKSCC (Nominees) Limited.

Note 2: The 2,595,786,987 H shares held by Sinopec Century Bright Capital Investment Limited, an overseas wholly-owned subsidiary of Sinopec Group are included in the total number of shares held by HKSCC (Nominees) Limited.

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

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

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

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

As at 31 December 2018, HKSCC (Nominees) Limited held 3,458,140,821 H shares of the Company, representing 31.95% of the total number of issued shares of the Company.

(VI) Public float

Based on the public information available to the Board, as at 19 March 2019, the Company had a public float which is in compliance with the minimum requirement under the Hong Kong Listing Rules.

Change in Share Capital of Ordinary Shares and Shareholders (continued)**(VII) Interests and short positions of the substantial shareholders of the Company in shares and underlying shares of the Company**

As at 31 December 2018, so far as was known to the Directors or chief executive of the Company, the interests and short positions of the Company's substantial shareholders (being those who are entitled to exercise or control the exercise of 5% or more of the voting power at any general meeting of the Company but excluding the Directors, chief executive and Supervisors) in the shares and underlying shares of the Company who are required to disclose their interests pursuant to Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO") or as recorded in the register of interests required to be kept under section 336 of the SFO were as set out below:

Interests in ordinary shares of the Company

| Name of shareholders | Interests held or deemed as held (shares) | Note | Percentage of total issued shares of the Company (%) | Percentage of total issued shares of the relevant class (%) | Capacity |
|---|--|-------------|---|--|---|
| China Petroleum & Chemical Corporation | 5,460,000,000 A shares (L) Shares of legal person | (1) | 50.44(L) | 74.50(L) | Beneficial owner |
| The Bank of New York Mellon Corporation | 496,076,471 H shares (L) | (2) | 4.58(L) | 14.19(L) | Interests of controlled corporation |
| | 402,870,300 H shares (S) | | 3.72(S) | 11.53(L) | |
| | 81,142,371 H shares (P) | | 0.75(P) | 2.32(L) | |
| BlackRock, Inc. | 301,719,530 H shares (L) | (3) | 2.79(L) | 8.63(L) | Interests of controlled corporation |
| | 920,000 H shares (S) | | 0.01(S) | 0.03(S) | |
| JPMorgan Chase & Co. | 211,318,513 H shares (L) | (4) | 1.95(L) | 6.04(L) | Interests of controlled corporation, investment manager, secured equity holders and approved lending agents |
| | 27,102,814 H shares (S) | | 0.25(S) | 0.77(L) | |

| | | | | | |
|------------------------------|--------------|-----|---------|---------|-----------------------------------|
| | 153,496,014 | | | | |
| | H shares (P) | | 1.42(P) | 4.39(L) | |
| Corn Capital Company Limited | 211,008,000 | | | | |
| | H shares (L) | (5) | 1.95(L) | 6.04(L) | Beneficial owner |
| | 200,020,000 | | | | |
| | H shares (S) | | 1.85(S) | 5.72(S) | |
| Hung Hin Fai | 211,008,000 | | | | Interests of controlled |
| | H shares (L) | (5) | 1.95(L) | 6.04(L) | corporation |
| | 200,020,000 | | | | |
| | H shares (S) | (5) | 1.85(S) | 5.72(S) | |
| Yardley Finance Limited | 200,020,000 | | | | |
| | H shares (L) | (6) | 1.85(L) | 5.72(L) | Secured equity holders |
| Chan Kin Sun | 200,020,000 | | | | Interests of controlled |
| | H shares (L) | (6) | 1.85(L) | 5.72(L) | corporation |
| Citigroup Inc. | | | | | Secured equity holders, Interests |
| | 193,021,290 | | | | of controlled corporation and |
| | H shares (L) | (7) | 1.78(L) | 5.52(L) | approved lending agents |
| | 798,000 | | | | |
| | H shares (S) | | 0.01(S) | 0.02(S) | |
| | 182,593,643 | | | | |
| | H shares (P) | | 1.69(P) | 5.22(P) | |

(L): Long position; (S): Short position; (P): Shares available for lending

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

Note:

- (1) Based on the information obtained by the Directors from the website of the Hong Kong Stock Exchange and as far as the Directors are aware, Sinopec Group directly and indirectly owned 68.77% of the issued share capital of Sinopec Corp. as at 31 December 2018. By virtue of such relationship, Sinopec Group is deemed to have an interest in the 5,460,000,000 A shares of the Company directly owned by Sinopec Corp.
- (2) All the 402,870,300 H shares (short position) held by The Bank of New York Mellon Corporation were held through physical-settlement unlisted derivatives.
- (3) Of the H shares (long position) held by BlackRock, Inc., 2,016,000 H shares (long position) were held through cash settled unlisted derivatives.
- (3) All the 920,000 H shares (short position) held by BlackRock, Inc. were held through cash settled unlisted derivatives.
- (4) Of the H shares (long position) held by JPMorgan Chase & Co., 2,445,835 H shares (long position) were held through cash settled unlisted derivatives.
- (4) Of the H shares (short position) held by JPMorgan Chase & Co., 30,000 H shares (short position) were held through cash settled listed derivatives, 18,283,514 H shares (short position) were held through physical-settlement unlisted derivatives, 2,704,000 H shares (short position) were held through cash settled unlisted derivatives.
- (5) These shares were held by Corn Capital Company Limited. Hung Hin Fai held 100% interests in Corn Capital Company Limited. Pursuant to the SFO, Hung Hin Fai was deemed to be interested in the shares held by Corn Capital Company Limited.
- (6) These shares were held by Yardley Finance Limited. Chan Kin Sun held 100% interests in Yardley Finance Limited. Pursuant to the SFO, Chan Kin Sun was deemed to be interested in the shares held by Yardley Finance Limited.
- (7) Of the H shares (long position) held by Citigroup Inc., 4,061,600 H shares (long position) were held through physical-settlement listed derivatives, 74,000 H shares (long position) were held through cash settled unlisted derivatives.

(7) Of the H shares (short position) held by Citigroup Inc., 798,000 H shares (short position) were held through cash settled unlisted derivatives.

Save as disclosed above, as at 31 December 2018, the Directors have not been notified by any person (other than the Directors, chief executive and Supervisors) who had interests or short positions in the shares and underlying shares of the Company which would fall to be disclosed to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO or as recorded in the register of interests required to be kept by the Company under section 336 of the SFO.

Directors, Supervisors, Senior Management and Employees

(I) Changes in shareholdings and remuneration

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

| Name | Former name/alias | Position | Sex | Age | Date of commencement of service term | End date of service term | Number of shares held at the beginning of the Reporting Period | | | Reason of change | Total remuneration received from the Company during the Reporting Period (before taxation) (RMB of ten thousand) | Whether the received remuneration is from connected person(s) of the Company |
|-------------|-------------------|--|-----|-----|--------------------------------------|--------------------------|--|--|--|-------------------------------|--|--|
| | | | | | | | Number of shares held at the end of the Reporting Period (ten thousand shares) | Change of the number of shares during the Reporting Period | Number of shares held at the end of the Reporting Period | | | |
| Wu Haijun* | None | Executive Director & Chairman | M | 56 | June 2017 | June 2020 | 0 | 0 | 0 | | 132.19 | No |
| Shi Wei* | None | Executive Director & President | M | 59 | September 2018 | June 2020 | 0 | 0 | 0 | | 14.87 | No |
| Jin Qiang | None | Executive Director & Vice President | M | 53 | June 2017 | June 2020 | 17.2 | 30.1 | +12.9 | Share Option Incentive Scheme | 76.81 | No |
| Guo Xiaojun | None | Executive Director, Vice President, Secretary to the Board & Joint Company Secretary | M | 49 | June 2017 | June 2020 | 17.2 | 30.1 | +12.9 | Share Option Incentive Scheme | 75.27 | No |
| Zhou Meiyun | None | Executive Director, Vice President & Chief Financial Officer | M | 49 | June 2017 | June 2020 | 0 | 0 | 0 | | 70.18 | No |
| Jin Wenmin* | None | Executive Director & Vice President | M | 53 | June 2018 | June 2020 | 10 | 17.5 | +7.5 | Share Option Incentive Scheme | 73.42 | No |
| Lei Dianwu | None | Non-executive Director | M | 56 | June 2017 | June 2020 | 0 | 0 | 0 | | 0 | Yes |

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| | | | | | | | | | | | |
|-------------|------|--|---|----|--------------|-----------|---|---|---|-------|-----|
| Mo Zhenglin | None | Non-executive Director | M | 54 | June 2017 | June 2020 | 0 | 0 | 0 | 0 | Yes |
| Zhang Yimin | None | Independent Non-executive Director | M | 64 | June 2017 | June 2020 | 0 | 0 | 0 | 15 | No |
| Liu Yunhong | None | Independent Non-executive Director | M | 42 | June 2017 | June 2020 | 0 | 0 | 0 | 15 | No |
| Du Weifeng | None | Independent Non-executive Director | M | 42 | June 2017 | June 2020 | 0 | 0 | 0 | 15 | No |
| Li Yuanqin | None | Independent Non-executive Director | F | 45 | August 2017 | June 2020 | 0 | 0 | 0 | 15 | No |
| Ma Yanhui | None | Supervisor & Chairman of the Supervisory Committee | M | 48 | October 2017 | June 2020 | 0 | 0 | 0 | 57.49 | No |

Directors, Supervisors, Senior Management and Employees (continued)

| Name | Former name/alias | Position | Sex | Age | Date of commencement of service term | End date of service term | Number of shares held at the beginning of the Reporting Period (ten end of the Reporting Period) | | | Change of number of shares during the Reporting Period | Reason of change | Total remuneration received from the Company during the Reporting Period (before taxation) (RMB thousand) | Whether received remuneration from the Company (Yes/No) |
|--------------|-------------------|---|-----|-----|--------------------------------------|--------------------------|--|--|--|--|------------------|---|---|
| | | | | | | | Number of shares held at the beginning of the Reporting Period (ten end of the Reporting Period) | Number of shares held at the beginning of the Reporting Period (ten end of the Reporting Period) | Number of shares held at the beginning of the Reporting Period (ten end of the Reporting Period) | | | | |
| Zuo Qiang | None | Supervisor | M | 56 | June 2017 | June 2020 | 0 | 0 | 0 | | 56.36 | No | |
| Li Xiaoxia | None | Supervisor | F | 49 | June 2017 | June 2020 | 0 | 0 | 0 | | 57.70 | No | |
| Zhai Yalin | None | Supervisor | M | 54 | June 2017 | June 2020 | 0 | 0 | 0 | | 0 | Yes | |
| Fan Qingyong | None | Supervisor | M | 54 | June 2017 | June 2020 | 0 | 0 | 0 | | 0 | Yes | |
| Zheng Yunrui | None | Independent Supervisor | M | 53 | June 2017 | June 2020 | 0 | 0 | 0 | | 10 | No | |
| Choi Ting Ki | None | Independent Supervisor | M | 64 | June 2017 | June 2020 | 0 | 0 | 0 | | 10 | No | |
| Gao Jinping* | None | Former Executive Director, Vice Chairman & Vice President | M | 52 | June 2017 | September 2018 | 20 | 35 | 15 | Share Option Incentive Scheme | 77.62 | Yes | |
| Total | / | / | / | / | / | / | 64.4 | 112.7 | 48.3 | / | 771.91 | / | |

* Mr. Wu Haijun resigned as President of the Company on 5 September 2018, and his other positions in the Company remain unchanged.

* At the 11th meeting of the Ninth Session of the Board held on 19 September 2018, Mr. Shi Wei was appointed as President of the Company. At the 2018 first extraordinary general meeting held on 8 November 2018, Mr. Shi Wei was elected as a director of the Company; and at the 13th meeting of the Ninth Session of the Board held on the same day, he was elected as Executive Director and a member of the Strategic Committee of the Company.

* Mr. Jin Wenmin was appointed as a director of the Company at the 2017 Annual General Meeting held on 13 June 2018, and was elected as Executive Director at the 9th meeting of the Ninth Session of the Board.

- * On 5 September 2018, Mr. Gao Jinping submitted to the Board a request to cease serving as Vice Chairman, Executive Director and Vice President due to new job arrangements. Mr. Gao Jinping's resignation took effect on 5 September 2018 when his resignation report was submitted to the Board. After Mr. Gao Jinping resigned from the positions the Company, he took office in Shanghai SECCO, the related party, and received remuneration from Shanghai SECCO after his resignation

Directors, Supervisors, Senior Management and Employees (continued)**(II) Profiles of Directors, Supervisors and Senior Management****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, Director of Shanghai SECCO and Chairman of Shanghai Chemical Industry Park Development Co., Ltd.. Mr. Wu joined the Shanghai Petrochemical Complex (the SP Complex) in 1984 and has held various positions, including Deputy Director and Director of the Company's No.2 Chemical Plant, as well as manager of the Chemical Division. He was Vice President of the Company from May 1999 to March 2006 and Director of the Company from June 2004 to June 2006. Mr. Wu was manager and Secretary of the Communist Party Committee of the Chemical Sales Branch of Sinopec Corp from December 2005 to March 2008. From December 2005 to April 2010, he was Director of the Chemical Business Department of Sinopec Corp. In April 2010, he was appointed as a Director of Shanghai SECCO. From April 2010 to February 2011, Mr. Wu was President of Shanghai SECCO. From April 2010 to August 2018, he was Secretary of the Communist Party Committee of Shanghai SECCO and in June 2010, he was appointed as Director of the Company. From June 2010 to December 2017, he served as Vice President of the Company. From February 2011 to March 2015, he acted as Vice President of Shanghai SECCO, and was President of Shanghai SECCO from March 2015 to December 2017. From December 2017 to January 2019, Mr. Wu was Chairman of Shanghai SECCO. He served as President and Deputy Secretary of the Communist Party Committee of the Company from December 2017 to September 2018. In December 2017, he was appointed as Chairman of the Company. In January 2018, he was appointed as Chairman of Shanghai Chemical Industry Park Development Co., Ltd. and was appointed as Secretary of the Communist Party Committee of the Company in August 2018. Mr. Wu graduated from the East China Institute of Chemical Technology in 1984, majoring in chemical engineering, and obtained a bachelor's degree in engineering. In 1997, he obtained a master's degree in business administration from the China Europe International Business School. He is a professor-grade senior engineer by professional title.

Shi Wei, aged 59, is currently a Deputy Secretary of the Communist Party Committee of the Company. Mr. Shi joined the SP Complex in 1982 and held various positions including Deputy Manager of the Refining and Chemical Division, Manager of the Environmental Department, Secretary of the Communist Party Committee and Manager of the Refining and Chemical Division. From October 2003 to June 2014, Mr. Shi served as a Vice President of the Company. From June 2005 to April 2013, he served as a Director of the Company. From May 2012 to March 2014, he served as a Leader of the preparatory team for the Guizhou Zhijin Coal Chemicals Project. From March 2013 to August 2018, he served as a Vice Chairman of Bijie Zhongcheng Energy Company Limited. From March 2014 to August 2018, he served as a Director, President and Secretary of the Communist Party Committee of Sinopec Great Wall Energy & Chemical (Guizhou) Co., Ltd.. In August 2018, he was appointed as a Deputy Secretary of the Communist Party Committee of the Company. On 19 September 2018, Mr. Shi was appointed as the President of the Company. In 1982, Mr. Shi graduated from East China University of Science and Technology majoring in oil refining engineering and obtained a bachelor's degree in engineering. Mr. Shi completed the post-graduate studies in Business Management at East China University of Science and Technology in 1998. Mr. Shi is a senior engineer by professional title.

Directors, Supervisors, Senior Management and Employees (continued)**(II) Profiles of Directors, Supervisors and Senior Management** (Continued)

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

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

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

Directors, Supervisors, Senior Management and Employees (continued)

(II) Profiles of Directors, Supervisors and Senior Management (Continued)

Jin Wenmin, aged 53, is an Executive Director and Vice President of the Company. Mr. Jin joined the SP Complex in 1985 and served as the Secretary of the Communist Party Committee of the Company's No.1 Oil Refining Device of Refining Unit, Head of Butadiene Device, Manager of the storage and transportation, branch company, manager and Deputy Secretary of the Communist Party Committee of Storage and Transportation Department, manager and Deputy Secretary of the Communist Party Committee of Oil Refining Department etc. From April 2013 to February 2017, Mr. Jin was appointed as Head of Production Department of the Company. From May 2013 to August 2016, Mr. Jin was appointed as Assistant to the President of the Company and was appointed as Vice President of the Company in September 2016. He was appointed Executive Director of the Company in June 2018. Mr. Jin graduated from the Shanghai Second Polytechnic University in July 2003, majoring in business administration. He is a senior engineer by professional title.

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

Directors, Supervisors, Senior Management and Employees (continued)**(II) Profiles of Directors, Supervisors and Senior Management** (Continued)

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

Zhang Yimin, aged 64, is an Independent Non-executive Director, Chairman of the Remuneration and Appraisal Committee and the Nomination Committee of the Company and a Professor of Economics and Finance at the China Europe International Business School. He has been an Independent Non-Executive Director of the Company since October 2013. Mr. Zhang has been an independent director of Shanghai Huayi Group Corporation Ltd. (listed on the Shanghai Stock Exchange, stock code: 600623) since April 2015. Mr. Zhang obtained a doctorate's degree majoring in finance and political studies at the Business School of the University of British Columbia, Canada, and has held various positions, including a Post-doctoral Fellow at the Business School of the University of British Columbia, Canada, Assistant Professor at the Business School of the University of New Brunswick, Canada, and Associate Professor of Economics and Finance Department at the City University of Hong Kong. He was appointed as Professor of the China Europe International Business School in September 2004. His major area of research is in operations, financing and industrial economic studies. He possesses a wealth of professional expertise and experience.

Liu Yunhong, aged 42, is an Independent Non-executive Director and member of Audit Committee of the Company, Assistant to General Manager of Hwabao Securities Co. Ltd. and 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. From 13 May 2014 to 24 March 2018, Mr. Liu was an independent director of Guangdong HEC Technology Holding Co., Ltd. (listed on the Shanghai Stock Exchange, stock code: 600673), and currently 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

Directors, Supervisors, Senior Management and Employees (continued)**(II) Profiles of Directors, Supervisors and Senior Management** (Continued)

was conferred as an assistant professor and master postgraduate instructor. From October 2010 to July 2012, he worked for fund product development and supervision of listed companies at the Shanghai Stock Exchange. From August 2012 to September 2013, Mr. Liu was General Manager of Investment Banking Department of Aerospace Securities Co., Ltd.. Since October 2013, Mr. Liu has been the General Manager of the Institutional Business Department (Renamed as Investment Banking Department since May 2015) of Hwabao Securities Co. Ltd.. From May 2015 to November 2017, he was the General Manager of the Investment Banking Department 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 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, member of the Audit Committee, the Remuneration and Appraisal Committee and the Nomination Committee of the Company, and a Partner of Beijing JunZeJun (Shanghai) Law Offices. He has served as the Company s Independent Non-executive Director since June 2015. Mr. Du began his career in July 1998. He has held various positions, including Clerk and Assistant Judge of Shanghai Pudong New Area People s Court and worked as a lawyer at Watson & Band Law Offices in Shanghai and at Wintell & Co Law Firm in Shanghai. He has been a Partner of the Shanghai branch of Beijing JunZeJun Law Offices since February 2009. With extensive experience as a lawyer, Mr. Du is the designated lawyer of some banks headquarters, Shanghai branches, Shanghai branch of the state-owned asset management companies and private asset management companies. Mr. Du obtained a bachelor s degree in Commercial Law from Shanghai University in July 1998, and a master s degree in commercial law from Bristol University in September 2005. He also obtained a master s degree in business administration from China Europe International Business School in 2013.

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

Directors, Supervisors, Senior Management and Employees (continued)**(II) Profiles of Directors, Supervisors and Senior Management** (Continued)**Supervisors:**

Ma Yanhui, aged 48, is a Supervisor, Chairman of Supervisory Committee, Deputy Secretary of the Communist Party Committee, Secretary of the Communist Party Discipline Supervisory Committee and Chairman of the Labour Union of the Company. Mr. Ma started his career in 1996. He served as Secretary of Office of Yanhua Refinery, Secretary and Deputy Director of Yanhua Office of Great Wall Lubricant Oil, Supervisor, Acting Director and Deputy Director of Integrated Corporate Reform Department of China Petrochemical Corporation, and Deputy Director and Director of Structure Reform Sector, Corporate Reform Department of Sinopec Assets Management Co., Ltd., etc.. From June 2008 to August 2017, Mr. Ma was Director of Integrated Corporate Reform Department of China Petrochemical Corporation. In August 2017, Mr. Ma was appointed as Deputy Secretary of the Communist Party Committee and Secretary of the Communist Party Discipline Supervisory Committee of the Company. He was appointed as Supervisor, Chairman of Supervisory Committee and Chairman of the Labour Union of the Company in October 2017. Mr. Ma graduated from East China University of Science and Technology in July 1996, majoring in petroleum processing, and obtained a bachelor's degree in engineering. In June 2006, he obtained a master's degree in corporate management from Renmin University of China. Mr. Ma is a senior economist by professional title.

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

Li Xiaoxia, aged 49, is a Supervisor and Secretary of the Communist Party Committee and Deputy Director of the Plastics Division of the Company. Ms. Li joined the SP Complex in 1991 and has held various positions, including Controller of the operation zone of the marine terminal of the Company, Assistant to the Workshop Director, Deputy Workshop Director and Deputy Section Chief of Storage and Transportation Area No. 2 of the Refining and Chemical Division, Deputy Secretary of the Youth League Committee of the Company, Secretary of Party

Directors, Supervisors, Senior Management and Employees (continued)**(II) Profiles of Directors, Supervisors and Senior Management** (Continued)

General Branch for Staff Exchange and Relocation Centre, Secretary of the Communist Party Committee and Deputy Manager of the Refining Division of the Company. She was appointed as Supervisor of the Company in June 2011 and served as Vice Chairman of the Labour Union of the Company from December 2011 to August 2017. She was appointed as Secretary of the Communist Party Committee and Deputy Director of the Plastics Division of the Company in July 2017. Ms. Li graduated from Liaoning University of Petroleum and Chemical Technology in 1991 majoring in petroleum and natural gas transportation 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, Deputy Director of the Auditing Bureau of Sinopec Group, Deputy Director of Auditing Department of Sinopec Corp. and Chief of Team Nine of the Sinopec Group Party Committee Discipline Inspection 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 Deputy Head of the Head Office and Director of the Auditing Department of Qianguo Refinery, Deputy Director of the General Office of Sinopec Huaxia Auditing Company, Deputy Director of the General Administrative Office of the Auditing Bureau of China Petrochemical Corporation, Director of the General Administrative Office of the Auditing Bureau of Sinopec Group, and Director of the General Administrative Office of the Auditing Bureau of Sinopec Group (Auditing Department of Sinopec Corp.). Since December 2001, Mr. Zhai has concurrently held the posts of Deputy Director of the Auditing Bureau of Sinopec Group and Deputy Director of Auditing Department of Sinopec Corp. He was appointed the ninth group leader of Sinopec leading Party group inspection group in April 2018. Since April 2018, he has been serving as Chief of Team Nine of the Sinopec Group Party Committee Discipline Inspection Group. Mr. Zhai graduated from the 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, Deputy Chief of the Supervisory Bureau and member of the Discipline Inspection Group of Sinopec Group, Deputy Director of the Supervisory Department of Sinopec Corp., the controlling shareholder of the Company, and Supervisor of Sinopec Refinery & Marketing Limited. Mr. Fan has been an External Supervisor of the Company since June 2017. Mr. Fan started his career in 1987, and has held various positions, including Deputy Director of the Communist Party Office of No. 2 Oil Plant and Director of Corporate Management Department of Fushun Petrochemical Company, Discipline Inspector (Deputy level) and Deputy Director of the Second Discipline Inspection and Supervision Group of the Supervisory Bureau of Sinopec Group (Supervisory Department of Sinopec Corp.), and Director of the First Discipline Inspection and Supervision Group of the Supervisory Bureau of Sinopec Group (Supervisory Department of Sinopec Corp.). He has been the Deputy Director of the Supervisory Bureau of Sinopec Group and Deputy Director of the Supervisory Department of Sinopec Corp. since April 2010. He served as Supervisor of Sinopec Star Petroleum Co., Ltd. from July 2010 to April 2015. He has served as a member of the Discipline Inspection Group of the Communist Party Committee of Sinopec Group and Supervisor of Sinopec Refinery & Marketing Limited since May 2012. Mr. Fan graduated from Fushun Normal College (now known as Fushun Teachers College) majoring in Chinese in 1987, from Liaoning Normal University majoring in Chinese in July 1991, and from Renmin University of China, majoring in law in January 2003 obtained a master's degree in law. He is a professor-grade senior professional by professional title and is qualified to practice law.

Directors, Supervisors, Senior Management and Employees (continued)**(II) Profiles of Directors, Supervisors and Senior Management** (Continued)

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 Member of Expert Consultation Committee of Shanghai Yangpu District People's Procuratorate and Mediator of Shanghai Second Intermediate People's Court. He has served as the Company's Independent Supervisor since December 2014. Mr. Zheng is an independent director of Hangzhou Innover Technology Co., Ltd. (listed on the Shenzhen Stock Exchange, stock code: 002767), 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 the Shangrao Normal University in Jiangxi Province, majoring in English Language. Mr. Zheng obtained a master's degree in law and a doctorate's degree in law from the Faculty of Law of Peking University in July 1993 and July 1998, respectively. Mr. Zheng previously worked at the Education Bureau of Shangrao County, Jiangxi Province, Hainan Airport Limited, China Township Enterprise Investment and Development Company Limited and the Legal Affairs Office of the Shanghai Municipal People's Government. He has been teaching at East China University of Political Science and Law since August 2001. He was a visiting scholar at the Faculty of Law of National University of Singapore between July 2002 and December 2002. Mr. Zheng has been engaged in trials, teaching and research relating to civil law, property law, contract law, company law, insurance law, social insurance law and government procurement law. He is experienced in the legal affairs on corporate governance and has great academic achievements. He is also an arbitrator at the Arbitration Commission of Shenzhen, Shenyang, Xuzhou and Wuxi. Mr. Zheng was appointed as member of Expert Advisory Committee of the People's Procuratorate of Shanghai Yangpu District and mediator of Shanghai No. 2 intermediate People's Court on 24 March 2017 and 26 June 2017, respectively.

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

Directors, Supervisors, Senior Management and Employees (continued)**(III) Share options held by the Directors, Supervisors and senior management during the Reporting Period**

| Name | Position | Unit: Shares | | | | | Number of A share options held at the end of the Reporting Period |
|--------------|--|---|---|--|--|---|--|
| | | Number of A shares share options held at the beginning of the Reporting Period | Number of A share options granted during the Reporting Period | Number of A shares share options exercisable during the Reporting Period | Number of A shares share options exercised during the Reporting Period | Number of A shares share options cancelled or lapsed during the Reporting Period | |
| Jin Qiang | Executive Director & Vice President | 258,000 | 0 | 129,000 | 129,000 | 129,000 | 0 |
| Guo Xiaojun | Executive Director, Vice President, Secretary to the Board & Joint Company Secretary | 258,000 | 0 | 129,000 | 129,000 | 129,000 | 0 |
| Jin Wenmin* | Executive Director & Vice President | 150,000 | 0 | 75,000 | 75,000 | 75,000 | 0 |
| Gao Jinping* | Former Executive Director, Vice Chairman & Vice President | 300,000 | 0 | 150,000 | 150,000 | 150,000 | 0 |
| Total | / | 966,000 | 0 | 483,000 | 483,000 | 483,000 | 0 |

* Mr. Jin Wenmin was appointed as a director of the Company at the 2017 Annual General Meeting held on 13 June 2018, and was elected as Executive Director at the 9th meeting of the Ninth Session of the Board.

* On 5 September 2018, Mr. Gao Jinping requested to resign from his positions as Executive Director, Chairman and Vice President due to new working arrangements. Mr. Gao's resignation took effect upon the submission of the resignation letter to the Board on 5 September 2018. The 150,000 outstanding A shares share options granted to him have lapsed in accordance with the relevant provisions of the Share Option Incentive Scheme.

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

| Name | Name of shareholder | Position held | Commencement of term of service | End of term of service |
|--------------|----------------------------|---|--|-------------------------------|
| Lei Dianwu | Sinopec Corp. | Vice President | October 2018 | May 2021 |
| Mo Zhenglin | | Deputy Director of the Finance Division | | |
| Zhai Yalin | Sinopec Corp. | Department Deputy Director of the Auditing Department | May 2018 | May 2021 |
| Fan Qingyong | Sinopec Corp. | Deputy Director of the Supervisory Department | May 2018 | May 2021 |
| | Sinopec Corp. | | May 2018 | May 2021 |

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

| Name | Name of other company | Position held | Commencement of term of service | End of term of service |
|-------------|---|----------------------------------|--|-------------------------------|
| Wu Haijun | Shanghai SECCO | Director | October 2017 | October 2020 |
| Wu Haijun | | Secretary of the Communist Party | | |
| Wu Haijun | Shanghai SECCO | Committee Chairman | April 2017 | August 2018 |
| Wu Haijun | Shanghai SECCO | Chairman | December 2017 | January 2019 |
| Wu Haijun | Shanghai SECCO | President | March 2017 | December 2017 |
| | Shanghai chemical industrial zone development co. LTD | Chairman | September 2018 | September 2021 |
| Guo Xiaojun | Shanghai chemical industrial zone development co. LTD | Chairman | September 2018 | September 2021 |
| Zhou Meiyun | Jinshan Associated Trading | Director | September 2018 | September 2021 |
| | | Chairman | July 2017 | July 2020 |

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

Directors, Supervisors, Senior Management and Employees (continued)

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

| | |
|---|--|
| <p>Procedures for determining the remuneration of Directors, Supervisors and senior management</p> | <p>Remuneration for Independent Non-executive Directors are determined in accordance with the Remuneration System for Independent Directors approved at the 2007 Annual General Meeting. Remuneration for Independent Supervisors are determined in accordance with the Remuneration Payment Method for Independent Supervisors approved at the 2016 Annual General Meeting. Remuneration of the other Directors, Employee Representative Supervisors and External Supervisors and senior management are determined in accordance with the Remuneration System for Directors, Supervisors and Senior Management approved at the 2002 Annual General Meeting.</p> <p>For details of the remuneration of the Directors and Supervisors of the Company, please refer to Note 12 and Note 34 to the consolidated financial statements prepared under IFRS.</p> |
| <p>Basis for determining the remuneration of Directors, Supervisors and senior management</p> | <p>The remuneration of Directors, Supervisors and senior management of the Company is determined on the principles of efficiency, motivation and fairness and in accordance with the Remuneration System for Directors, Supervisors and senior management.</p> |
| <p>Remuneration paid to Directors, Supervisors and senior management</p> | <p>Please refer to item (1) Changes in shareholdings and remuneration of this chapter.</p> |
| <p>Total remuneration received by all Directors, Supervisors and senior management for the Reporting Period</p> | <p>RMB7,719,000</p> |
| <p>The five highest paid individuals</p> | <p>Please refer to note 34(i) to the consolidated financial statements prepared under IFRS. The five individuals are the Directors and Supervisors of the Company.</p> |
| <p>Pension scheme</p> | <p>Please refer to Notes 2.25 and 28(f) to the consolidated financial statements prepared under IFRS.</p> |

Directors, Supervisors, Senior Management and Employees (continued)**(VII) Changes in Directors, Supervisors and senior management during the Reporting Period**

| Name | Position held | Change | Reason |
|-------------|---|----------------------|-----------------------------|
| Gao Jinping | Executive Director, Chairman & Vice President | Resigned | Change of work arrangements |
| Wu Haijun | President | Resigned | Change of work arrangements |
| Shi Wei | Executive Director & President | Elected | |
| | | and | |
| Jin Wenmin | Executive Director | Appointed Elected | |

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

As at 31 December 2018, the interests and short positions of the Directors, chief executive and Supervisors of the Company in the shares, underlying shares and debentures of the Company or its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Hong Kong Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions which they were taken or deemed to have under such provisions of the SFO); or to be recorded in the register of interests required to be kept under section 352 of the SFO; or as otherwise notified to the Company and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions set out in Appendix 10 to the Hong Kong Listing Rules were as follows:

Interests in the shares and underlying shares of the Company:

| Name | Position held | Number of shares held (Shares) | Number of Option Incentive Scheme (Shares) | Percentage of the total issued shares of the Company (%) | Percentage of the total issued A shares (%) | Capacity |
|-------------|---------------------------------------|---------------------------------------|---|---|--|------------------|
| Jin Qiang | Executive Director and Vice President | 301,000 | | 0.0028 | 0.0041 | Beneficial owner |
| Guo Xiaojun | Executive Director, Vice President, | 301,000 | | 0.0028 | 0.0041 | Beneficial owner |
| | | A shares (L) | | | | |
| | | A shares (L) | | | | |

Secretary to the
Board and Joint
Company
Secretary

| | | | | | |
|------------|------------------------------|--------------|--------|--------|------------------|
| Jin Wenmin | Executive | 175,000 | | | |
| | Director & Vice President | A shares (L) | 0.0016 | 0.0024 | Beneficial owner |

(L): Long position

Save as disclosed above, as at 31 December 2018, so far as was known to the Directors, chief executive and Supervisors of the Company, none of the Directors, chief executive or Supervisors of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or its associated corporations which were required to be disclosed or recorded pursuant to the SFO and the Hong Kong Listing Rules as mentioned above.

Directors, Supervisors, Senior Management and Employees (continued)

(IX) Changes in Directors and Supervisors information

Save as disclosed since the 2018 interim report, disclosure of changes in Directors and Supervisors information pursuant to Rule 13.51B(1) of the Hong Kong Listing Rules are set out as below:

- (1) Mr. Zheng Yunrui, Independent Supervisor, has been an independent director of Fuxin Dare Automotive Parts Co., Ltd. (listed on the Shenzhen Stock Exchange, stock code: 300473) since March 2018.
- (2) Mr. Wu Haijun, Executive Director, has no longer served as the deputy secretary of the party committee and the President of the Company since September 2018, and he has served as the secretary of the party committee of the Company since September 2018.
- (3) Mr. Liu Yunhong, Non-executive Director, has ceased to be an independent director of Guangdong East Sunshine Technology Holding Co., Ltd. (listed on Shanghai Stock Exchange, stock code: 600673) since March 2018.
- (4) Mr. Lei Dianwu, Non-executive Director, has been the senior vice president of Sinopec Corp. since October 2018.
- (5) Mr. Zuo Qiang, Supervisor, has no longer served as deputy secretary of the Discipline Inspection Commission, director of the Inspection Office and director of the Supervisory Committee Office since December 2018.

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

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

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

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

Directors, Supervisors, Senior Management and Employees (continued)

(XI) Directors rights to acquire shares or debentures

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

(XII) Compliance of Model Code for Securities Transactions

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

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

(XIII) Management contracts

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

(XIV) Permitted indemnity provision

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

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

Nil.

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

| | Number (Person) |
|---|-----------------|
| Number of employees of the Company | 9,512 |
| Number of employees of the subsidiaries | 85 |
| Total number of employees of the Group | 9,597 |
| Number of retired workers whose retirement costs are borne by the Group | 18,344 |
| Professionals | |
| Category of professionals | |
| Production personnel | 5,753 |
| Sales staff | 86 |
| Technical staff | 2,598 |
| Financial staff | 103 |
| Administrative staff | 1,057 |
| Total | 9,597 |
| Education level | |
| Educational attainment | |
| Specialist college graduate and below | 6,940 |
| Bachelor's degree | 2,469 |
| Master's degree and above | 188 |
| Total | 9,597 |

2. Remuneration policy

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

3. Training programs

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

world class petrochemicals enterprise.

Directors, Supervisors, Senior Management and Employees (continued)

(XVI) Employees (continued)

4. Professional structure chart

5. Level of education chart

6. Outsourcing services

The total remuneration paid for outsourcing services of the Company during the Reporting Period was RMB115,932,500.

Corporate Governance

(I) Notes for corporate governance and insider registration management

1. Corporate governance

In 2018, the Company strictly complied with the regulatory legislation such as Company Law, Securities Law and the Corporate Governance Principles for Listed Companies issued by the CSRC, as well as the relevant provisions and requirements of the Shanghai Stock Exchange, the Hong Kong Stock Exchange and the New York Stock Exchange. It continued to improve its corporate governance structure, developed its corporate system, standardized the corporate operations and enhanced its overall corporate image.

Improving governance policies: During the Reporting Period, in accordance with the requirements of the relevant laws and regulations of the places where the Company's shares are listed, the Company amended and improved the Company's Articles of Association and its appendices which were considered and approved at the Company's annual general meeting in 2016 and the first extraordinary general meeting of 2018. The Company also amended and improved the Company's Internal Control Manual (2018 Edition).

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

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

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

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

Corporate Governance (continued)**(II) Brief introduction of general meeting**

| Session of the meeting | Convening date | Title of the motions | Status of the resolutions | Designated websites for publication of resolutions | Date of publication of resolutions |
|---|-----------------------|--|----------------------------------|---|---|
| The Company's 2017 annual general meeting | 13 June 2018 | 1. 2017 Work Report of the Board of the Company | Passed | Websites of the Shanghai Stock Exchange, the Hong Kong Stock Exchange and the Company | 13 June 2018 |
| | | 2. 2017 Work Report of the Supervisory Committee of the Company | | | |
| | | 3. 2017 Audited Financial Statements of the Company | | | |
| | | 4. 2017 Profit Distribution Plan of the Company | | | |
| | | 5. 2018 Financial Budget Report of the Company | | | |
| | | 6. The re-appointment of PricewaterhouseCoopers Zhong Tian LLP and PricewaterhouseCoopers as the domestic and international auditors, respectively, of the Company for the year 2018 and authorization to the Board to fix their remunerations | | | |
| | | 7. The election of Mr. Jin Wenmin as non-independent directors of the Ninth Session of the Board | | | |
| | | 8. The 2017 annual report on the work of the company's independent | | | |

| | | | | | |
|---|-----------------|--|--------|---|-----------------|
| The first extraordinary general meeting for 2018 of the Company | 8 November 2018 | directors 1. The election of Mr. Shi Wei as non-independent directors of the Ninth Session of the Board 2.The amendments to the Articles of Association of the Company and its appendix as proposed by the Board | Passed | Websites of the Shanghai Stock Exchange, the Hong Kong Stock Exchange and the Company | 8 November 2018 |
|---|-----------------|--|--------|---|-----------------|

Corporate Governance (continued)

(III) Performance of duties by the directors

1. Directors attendance at the Board meetings and general meetings

| Name of Director | Independent Director or not | Information on participating in the Board meeting | | | | | Information on participating in general meetings | |
|------------------|-----------------------------|---|----------------------|------------------------------|---------------------|-------------------|--|--------------------------------|
| | | Attendance at the Board meetings during the year | Attendance in person | Attendance by correspondence | Attendance by proxy | Absence | Failure to attend the meeting | Attendance at general meetings |
| | | (number of times) | (number of times) | (number of times) | (number of times) | (number of times) | (number of times) | (number of times) |
| Wu Haijun | No | 9 | 9 | 6 | 0 | 0 | No | 2 |
| Shi Wei | No | 2 | 2 | 1 | 0 | 0 | No | 0 |
| Jin Qiang | No | 9 | 9 | 6 | 0 | 0 | No | 2 |
| Guo Xiaojun | No | 9 | 9 | 6 | 0 | 0 | No | 2 |
| Zhou Meiyun | No | 9 | 8 | 6 | 1 | 0 | No | 1 |
| Jin Wenmin | No | 6 | 6 | 4 | 0 | 0 | No | 1 |
| Lei Dianwu | No | 9 | 6 | 6 | 3 | 0 | No | 0 |
| Mo Zhenglin | No | 9 | 7 | 6 | 2 | 0 | No | 0 |
| Zhang Yimin | Yes | 9 | 9 | 6 | 0 | 0 | No | 1 |
| Liu Yunhong | Yes | 9 | 7 | 6 | 2 | 0 | No | 1 |
| Du Weifeng | Yes | 9 | 9 | 6 | 0 | 0 | No | 1 |
| Li Yuanqin | Yes | 9 | 9 | 6 | 0 | 0 | No | 1 |
| Gao Jinping | No | 5 | 5 | 3 | 0 | 0 | No | 1 |

| | |
|--|---|
| Number of Board meetings held during the year | 9 |
| Including: number of meetings held on site | 3 |
| number of meetings held by correspondence | 6 |
| number of meetings held on site and by correspondence concurrently | 0 |

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

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

Corporate Governance (continued)

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

On 19 March 2018, the Board's Audit Committee reviewed together with the management the accounting principles and standards adopted by the Company, discussed matters regarding auditing, risk management, internal control and financial reporting, and have reviewed the financial statements for the year ended 31 December 2017.

On 19 March 2018, the Board's Remuneration and Appraisal Committee reviewed the remuneration of Directors, Supervisors and senior management set out in the Company's annual report for the year ended 31 December 2017.

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

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

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

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

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

The Remuneration System for the senior management was considered and approved at the 2002 annual general meeting of the Company on 18 June 2003. In 2018, the Company continued to implement this system as the basis of appraising and rewarding the Company's senior management.

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

Internal Control

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

1. Statement of responsibility for internal control

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

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

The Board has evaluated the internal controls pertinent to financial reporting in accordance with the requirements under the Basic Standards for Enterprise Internal Control, and is of the view that such internal control was effective in the year of 2018.

2. Establishment of internal control system **Overall plan of internal control establishment**

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

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

Internal Control (continued)

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

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

The Internal Control Manual (2018 Edition) comprises 22 categories, 56 operation process and sets out 1,571 control points and 182 authorization control indicators. The scope of control covers the major areas of the Company's production, operations and development, as well as the key procedures of relevant business such as financial management, accounting and auditing, procurement of resources, product sales, capital expenditures, human resources and information management. The scope of control also includes reviewing the sufficiency of the Company's resources of accounting, financial management and reporting functions as well as employee qualifications and experience and the adequacy of the training courses attended by the employees and the relevant budget.

In 2018, the Company diligently enforced the Internal Control Manual approved by the Board, and conducted self-assessment, walk-through test on procedures and integrated inspection on internal control in accordance with the relevant rules and regulations. PricewaterhouseCoopers Zhong Tian LLP, external auditor of the Company also reviewed the status of the Company's internal control. The management of the Company considers that the internal control of the Company was effective during the Reporting Period.

Internal Control (continued)

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

Establishment of the department inspecting and supervising internal control

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

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

The Company has established an internal control supervisor working network consisting of 38 members. These internal control supervisors, representing their respective departments, and administrative heads of second-tier units, each conduct internal control work and activities within their respective supervisory scope, and functionally report to the internal control office of the Company.

Internal Control (continued)

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

The Board's work arrangements for internal control

The Audit Committee set up by the Board regularly takes into account reports on the establishment of the internal control system of the Company and the findings of the implementation and inspection of the internal control on a regular basis. The Board also considers and publishes a self-assessment report on the internal control of the Company on an annual basis, and considers and approves the revised Internal Control Manual of the Company annually.

PricewaterhouseCoopers, the Company's external auditor, issued an auditor's report on internal control over financial reporting according to the Sarbanes-Oxley Act. PricewaterhouseCoopers Zhong Tian LLP, the Company's external auditor, issued an auditor's report on internal control over financial reporting according to Audit Guidelines for Enterprise Internal Control in 2018.

Improvements in the internal control system in relation to financial audit

The Company took the lead for assessing the rules and regulations and fully assessed the compliance and effectiveness of each system. A total of 58 amendments were made, 49 systems were amended and 9 system were added.

Deficiencies in internal control and the relevant rectification

The Company conducted a self-assessment on its internal control work in 2018. The results of the assessment are: no material deficiencies were detected in the design or implementation of the internal control of the Company from 1 January 2018 to 31 December 2018.

Internal Control (continued)

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

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

(III) Auditor's report on internal control

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

The Company has engaged PricewaterhouseCoopers Zhong Tian LLP to conduct an audit on the effectiveness of the internal control over financial reporting of the Company for the year ended 31 December 2018 pursuant to the requirements of the Audit Guidelines for Enterprise Internal Control and an auditor's report on internal control has been issued.

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

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

Corporate Governance Report

(Prepared in accordance with the Hong Kong Listing Rules)

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

(I) Corporate Governance Practices

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

In the opinion of the Directors, throughout the Reporting Period, the Company has complied with all applicable principles and code provisions set out in the Corporate Governance Code, except for the deviation from code provision A.2.1 which states that the roles of chairman and chief executive should be separate and should not be performed by the same individual, details of which are set out in the Chairman and President section in this report. Since 5 September 2018, the Company has eliminated this deviation and has complied with the code provision A.2.1 of the Corporate Governance Code.

In the opinion of the Directors, throughout the Reporting Period, the Company has complied with all applicable principles and code provisions set out in the Environmental, Social and Governance Reporting Guide, details of which are set out in the Company's 2018 Corporate Social Responsibility Report.

(II) Securities Transactions by Directors and Supervisors

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

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

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

Corporate Governance Report (continued)

(Prepared in accordance with the Hong Kong Listing Rules)

(III) Board of Directors

1. Composition of the Board

The Board currently consists of 12 Directors, including 6 Executive Directors, 2 Non-executive Directors and 4 Independent Non-executive Directors, among whom there is one Chairman, one President and four Vice Presidents. Details of the current Board composition are as follows:

Executive Directors:

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

Shi Wei, *President and member of the Strategy Committee* Jin Qiang, *Vice President*

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

Jin Wenmin, *Vice President*

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

Non-executive Directors:

Lei Dianwu, *member of the Strategy Committee*

Mo Zhenglin, *member of the Strategy Committee*

Independent Non-executive Directors:

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

Liu Yunhong, *member of the Audit Committee*

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

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

The biographical information of the Directors are set out in the section headed "Directors, Supervisors, Senior Management and Employees" on pages 23 to 30 of this annual report. The Directors (including the Chairman and the President (equivalent to the chief executive officer) have no financial, business, family or other material relationship with each other.

Corporate Governance Report (continued)

(Prepared in accordance with the Hong Kong Listing Rules)

2. Attendance Records of Directors

The Board meets at least once per quarter. In 2018, the Board held nine meetings. Most of the Directors entitled to attend the meetings had actively attended the nine meetings held this year in person or by alternates. Before each Board meeting, the joint company secretary would consult each Director on matters to be tabled at the Board meeting. Any matters raised by the Directors would be included in the agenda of the Board meeting. During the Reporting Period, notices and draft agenda of Board meetings were sent to all Directors at least 14 days before the date of the meeting.

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

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

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

| Name of Director | Board Meeting Attendance | | Annual General Meeting | Extraordinary General Meeting |
|---|---|--|-------------------------------|-------------------------------|
| | Attendance in Person/Number of Meetings | Attendance by Alternate/Number of Meetings | Attendance/Number of Meetings | Attendance/Number of Meetings |
| Executive Directors: | | | | |
| Wu Haijun | 9/9 | | 1/1 | 1/1 |
| GaoJinping ⁽¹⁾ | 5/5 | | 1/1 | 0/0 |
| Shi Wei ⁽²⁾ | 2/2 | | 0/0 | 0/0 |
| Jin Qiang | 9/9 | | 1/1 | 1/1 |
| Guo Xiaojun | 9/9 | | 1/1 | 1/1 |
| Jin Wenmin ⁽³⁾ | 9/9 | | 1/1 | 1/1 |
| Zhou Meiyun | 8/9 | 1/9 | 0/1 | 1/1 |
| Non-executive Directors: | | | | |
| Lei Dianwu | 6/9 | 3/9 | 0/1 | 0/1 |
| Mo Zhenglin | 7/9 | 2/9 | 0/1 | 1/1 |
| Independent Non-executive Directors: | | | | |
| Zhang Yimin | 9/9 | | 1/1 | 0/1 |
| Liu Yunhong | 7/9 | 2/9 | 0/1 | 1/1 |
| Du Weifeng | 9/9 | | 0/1 | 1/1 |
| Li Yuanqin | 9/9 | | 1/1 | 0/1 |

(1) Mr. Gao Jinping resigned as Executive Director on 5 September 2018.

(2) Mr. Shi Wei was appointed as Executive Director on 8 November 2018.

(3) Mr. Jin Wenmin was appointed as Executive Director on 13 June 2018.

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

Corporate Governance Report (continued)

(Prepared in accordance with the Hong Kong Listing Rules)

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

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

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

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

During the Reporting Period, Mr. Wu Haijun served as the Chairman and the President (equivalent to chief executive officer), but resigned as the President on 5 September 2018. Mr. Wu Haijun has extensive experience in the management of petrochemicals production business and was the most suitable candidate to serve as both the Chairman and the President of the Company from 1 January 2018 to 4 September 2018. Mr. Shi Wei was appointed as the President with effect from 19 September 2018. Since 5 September 2018, the Company has complied with provision A.2.1 of the Corporate Governance Code.

Corporate Governance Report (continued)

(Prepared in accordance with the Hong Kong Listing Rules)

4. Independent Non-executive Directors

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

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

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

5. Appointment and Re-election of Directors

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

6. Responsibilities of the Directors

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

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

Corporate Governance Report (continued)

(Prepared in accordance with the Hong Kong Listing Rules)

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

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

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

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

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

7. Continuous Professional Development of Directors & Company Secretary

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

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

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

Corporate Governance Report (continued)

(Prepared in accordance with the Hong Kong Listing Rules)

All Directors should participate in continuous professional development to upgrade their expertise and skills and to refresh their knowledge to ensure that they perform their duties better in contributing to the Board. Each of the Directors has provided the Company records of their participation in the relevant training in 2018. The Company is also committed to organizing training programs for its Directors. Internally-facilitated briefings for Directors would be arranged and reading material on relevant topics would be provided to Directors where appropriate.

During the Reporting Period, Mr. Wu Haijun participated in the 5th Seminar on Chairmen and General Managers of Listed Companies in 2018. Mr. Guo Xiaojun participated in the 47th Affiliated Persons Enhanced Continuing Professional Development Seminar organized by the Hong Kong Institute of Chartered Secretaries. Mr. Liu Yunhong participated in the follow-up training of independent directors of listed companies organized by Shanghai Stock Exchange and the senior certificate course of capital market risk management organized by China Capital Market Institute. Ms. Li Yuanqin read the journal articles related to accounting. Mr. Zuo Qiang read the publications related to the Company Law of the PRC and the management measures of the information disclosure of listed companies. Ms. Li Xiaoxia read the publications related to the Company Law of the PRC and the measures for the implementation of equity incentives for listed companies. Mr. Zhai Yalin and Mr. Fan Qingyong read publications related to the Company Law and Securities Law of the PRC. Mr. Zheng Yunrui read publications related to corporate law. Mr. Choi Ting Ki participated in training courses on tax impact of new financial instrument standards, comprehensive tax considerations for investment and mergers and acquisitions, seminars on new leases standards and real estate securitization, and International Financial Reporting Standards (No. 15-Income) held by Shanghai KPMG.

(IV) Board Committees

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

Corporate Governance Report (continued)

(Prepared in accordance with the Hong Kong Listing Rules)

1. The Remuneration and Appraisal Committee**(i) Role and Functions of the Remuneration and Appraisal Committee**

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

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

(ii) Members of the Remuneration and Appraisal Committee

The Remuneration and Appraisal Committee of the Board comprises one Executive Director and two Independent Non-executive Directors.

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

Chairman: Zhang Yimin, *Independent Non-executive Director*

Members: Du Weifeng, *Independent Non-executive Director*
Zhou Meiyun, *Executive Director*

(iii) Meetings of the Remuneration and Appraisal Committee

The Remuneration and Appraisal Committee convenes at least one meeting each year. In 2018, the Remuneration and Appraisal Committee held three meetings with a record of attendance as follows:

| Name of Director | Attendance in Person/ Attendance by Alternate/ | |
|------------------|--|--------------------|
| | Number of Meetings | Number of Meetings |
| Zhang Yimin | 3/3 | |
| Du Weifeng | 3/3 | |
| Zhou Meiyun | 2/3 | 1/3 |

Corporate Governance Report (continued)

(Prepared in accordance with the Hong Kong Listing Rules)

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

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

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

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

During the Reporting Period, the Remuneration and Appraisal Committee reviewed the remuneration policy of the Directors and conducted annual appraisals with the Directors and the senior management. The committee also reviewed the remuneration structure of the Directors, Supervisors and senior management, and regarding the Share Option Incentive Scheme, the Committee reviewed the implementation, eligible participant, number of shares and management measures for incentivizing targets, as well as the fulfillment of exercise conditions for the second exercisable period of share options, failure of meeting exercise conditions for the third exercisable period of share options as well as the adjustments to the number of share options outstanding due to job transfer.

2. The Audit Committee

(i) Role and Functions of the Audit Committee

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

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

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

(ii) Members of the Audit Committee

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

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

Chairman: Li Yuanqin, *Independent Non-executive Director*

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

(iii) Meetings of the Audit Committee

The Audit Committee convenes at least two meetings each year. In 2018, the Audit Committee held two meetings without the presence of the Executive Directors with a record of attendance as follows:

| Name of Director | Attendance in Person/ Attendance by Alternate/ | |
|-------------------------|---|---------------------------|
| | Number of Meetings | Number of Meetings |
| Li Yuanqin | 2/2 | |
| Liu Yunhong | 2/2 | |
| Du Weifeng | 2/2 | |

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

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

Corporate Governance Report (continued)

(Prepared in accordance with the Hong Kong Listing Rules)

3. The Nomination Committee

(i) Role and Functions of the Nomination Committee

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

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

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

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

(ii) Members of the Nomination Committee

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

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

Chairman: Zhang Yimin, *Independent Non-executive Director*

Members: Du Weifeng, *Independent Non-executive Director*
Wu Haijun, *Executive Director*

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

(iii) Meetings of the Nomination Committee

The Nomination Committee convenes at least one meeting each year. In 2018, the Nomination Committee held two meetings during the Reporting Period. The attendance record of the meetings of the Nomination Committee is set out in the table below:

| Name of Director | Attendance in Person/ Number of Meetings | Attendance by Alternate/ Number of Meetings |
|-------------------------|---|--|
| Zhang Yimin | 2/2 | |
| Du Weifeng | 2/2 | |
| Wu Haijun | 1/2 | 1/2 |

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

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

4. The Strategy Committee

(i) Role and Functions of the Strategy Committee

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

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

(ii) Members of the Strategy Committee

The Strategy Committee comprised four Executive Directors, two Non-executive Directors and one Independent Non-executive Director

Chairman: Wu Haijun, *Executive Director*

Members: Shi Wei, *Executive Director (appointed on 8 November 2018)*

Guo Xiaojun, *Executive Director*

Zhou Meiyun, *Executive Director*

Lei Dianwu, *Non-executive Director*

Mo Zhenglin, *Non-executive Director*

Li Yuanqin, *Independent Non-executive Director*

(iii) Meetings of the Strategy Committee

In 2018, the Strategy Committee held one meeting during the Reporting Period. The attendance record of the meeting of the Strategy Committee is set out in the table below:

| Name of Director | Attendance in Person/ Attendance by Alternate/ | |
|------------------|--|--------------------|
| | Number of Meetings | Number of Meetings |
| Wu Haijun | 1/1 | |
| Shi Wei | 1/1 | |
| Guo Xiaojun | 1/1 | |
| Zhou Meiyun | 1/1 | |
| Lei Dianwu | 0/1 | |
| Mo Zhenglin | 0/1 | |
| Li Yuanqin | 1/1 | |

Corporate Governance Report (continued)

(Prepared in accordance with the Hong Kong Listing Rules)

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

During the Reporting Period, the Strategic Committee, aiming at building a leading domestic and world-class refining and chemical enterprise and relying on the internal and external forces of the enterprise, carried out strategic research on cracking the bottleneck of development, carried out research on the Company's phased strategic direction and implementation plan, the promotion of new material industry, the development of fine chemical business and other topics, and improved the Company's recent planning projects and specified the medium and long-term development ideas and objectives of the Company, striving to gradually build Shanghai Petrochemical into an internationally competitive refining and chemical enterprise in two three-year periods and two ten-year periods.

5. Corporate Governance Functions

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

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

6. Supervisory Committee

The Company's Ninth Session of the Supervisory Committee comprised seven members, including three Employee Representative Supervisors (one of whom had served as Chairperson of the Supervisory Committee), two External Supervisors and two Independent Supervisors as at 1 January 2018.

The Supervisors are appointed for a fixed term of office and the term of office of each Supervisor including those who have resigned during the Reporting Period are set out in the section headed "Directors, Supervisors, Senior Management and Employees" on pages 23 to 30 of this annual report.

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

In 2018, the Supervisory Committee convened six meetings with a record of attendance as follows:

| Name of Supervisor | Position | Attendance in Person/Number of Meetings | Attendance by alternate/Number of Meetings |
|---------------------------|--|--|---|
| Ma Yanhui | Employee Representative Supervisor and Chairperson | 6/6 | |
| Zuo Qiang | Employee Representative Supervisor | 6/6 | |
| Li Xiaoxia | Employee Representative Supervisor | 6/6 | |
| Zhai Yalin | External Supervisor | 5/6 | 1/6 |
| Fan Qingyong | External Supervisor | 4/6 | 2/6 |
| Zheng Yunrui | Independent Supervisor | 6/6 | |
| Choi Ting Ki | Independent Supervisor | 6/6 | |

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

Corporate Governance Report (continued)

(Prepared in accordance with the Hong Kong Listing Rules)

(V) Risk Management and Internal Controls

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

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

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

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

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

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

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

Corporate Governance Report (continued)

(Prepared in accordance with the Hong Kong Listing Rules)

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

1. Implementation of Internal control

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

Since the implementation of the internal control system of the Company in 2004, the Company has strictly complied with the requirements of internal control regulations of the CSRC. Combined with corporate management and internal controls, the Internal Control Manual was reviewed annually so as to improve the internal control business process, to specify responsibilities of different departments and positions in charge of the respective control processes, and to urge staff to perform internal control responsibility. The 2018 version of the Internal Control Manual specifies 22 categories, 55 processes and a total of 1,571 control points.

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

Corporate Governance Report (continued)

(Prepared in accordance with the Hong Kong Listing Rules)

2. Implementation of comprehensive risk management

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

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

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

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

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

Corporate Governance Report (continued)

(Prepared in accordance with the Hong Kong Listing Rules)

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

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

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

For further details of the risk management and internal controls of the Company, please refer to the section headed **Internal Control** on pages 43 to 47 of this annual report.

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

The Directors acknowledge their responsibilities for preparing the financial statements of the Company for the year ended 31 December 2018.

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

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

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

The statements of the independent auditors of the Company (both international and domestic) about their reporting responsibilities on the financial statements are set out in the respective Report of the Independent Auditor and Report of the PRC Auditor on pages 153 to 157 and pages 277 to 281, respectively of this annual report.

(VII) Auditors Remuneration

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

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

Corporate Governance Report (continued)

(Prepared in accordance with the Hong Kong Listing Rules)

(VIII) Company Secretary

Mr. Guo Xiaojun, secretary of the Board, was appointed as joint company secretary on 15 June 2017. Ms. Chan Sze Ting, Corporate Services Manager of Tricor Services Limited, external service provider, was appointed as joint company secretary in place of Ms. Siy Ling Lung following Ms. Siy's resignation as joint company secretary on 26 April 2018. Ms. Chan's primary contact person in the Company is Mr. Guo Xiaojun.

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

(IX) Shareholders' Rights

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

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

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

1. Convening an Extraordinary General Meeting

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

2. Putting Forward Proposals at General Meeting

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

Corporate Governance Report (continued)

(Prepared in accordance with the Hong Kong Listing Rules)

3. Putting Forward Enquiries to the Board

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

4. Contact Details

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

48 Jinyi Road

Jinshan District

Shanghai

The People's Republic of China

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

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

Corporate Governance Report (continued)

(Prepared in accordance with the Hong Kong Listing Rules)

(X) Investor Relations

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

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

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

In principle, the Company convenes results briefings every six months after the release of its annual and interim results. In 2018, the Company held two large-scale results briefings and press conferences in Hong Kong while several one-to-one meetings were held within and outside China. The Company has also welcomed hundreds of domestic and foreign investors to its headquarters, and replied to telephone queries and letters from investors, intermediaries and fund managers. In addition, the Directors and senior management also actively attended capital market meetings organized by securities research companies and investment banks.

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

During the Reporting Period, the Company has amended its Articles of Association at the first extraordinary general meeting in 2018 held on 8 November 2018. Details of the amendments are set out in the circular dated 21 September 2018 to the shareholders. An up-to-date version of the Company's Articles of Association is also available on the websites of the Hong Kong Stock Exchange, the Shanghai Stock Exchange and the Company.

Report of the Directors

Section I Business Overview

(I) 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 petroleum products, intermediate petrochemical products, resins and plastics and synthetic fibres. 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 high-quality development is supported by the ever-increasing demand in the PRC for petrochemical products. Relying on the competitive advantage of its high degree of integration, the Company is optimizing its product mix, improving the quality and variety of its existing products, upgrading technology and increasing the capacity of its key upstream plants.

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

(II) 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 petrochemicals, 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.

Report of the Directors (continued)

Section II Management Discussion and Analysis

(I) Management Discussion and Analysis

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

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

In 2018, the recovery of the world economy remained on track. While the US economic performance was impressive, the European economy showed signs of a slowdown and the Japanese economy suffered from downward pressure. The economic growth of emerging and developing economies was generally flat. Amid complicated domestic and international environment and various challenges, China's economy generally remained stable. The old growth drivers were replaced by the new growth drivers at a faster pace, and its economic structure was further optimized with the quality of growth and efficiency was enhanced. However, due to the increasing risk of external environment uncertainty, the increasing fluctuation of domestic stock and exchange markets, and the difficulties that the real economy encountered, China's economy moderated downwards throughout the year. The gross domestic product (GDP) grew by 6.6%, down 0.3% from the growth rate of a year ago. The overall situation of China's petrochemical industry continued to be stable with positive outlook. Domestic production and market demand was basically stable, and the product prices went up. Both of total market revenue and profit climbed.

In 2018, focusing on overall efficiency and profits of the Company, the Group actively responded to the complex and constantly changing market environment, worked on safety and environmental protection, optimizing operation, cost reduction, market development, research and development, human resource development, etc. The Group has achieved major improvement in production and operation and has continued to maintain a relatively high level of profitability.

Report of the Directors (continued)**(1) Enhancing HSSE management, strengthening the foundation of production and operation**

In 2018, the Group actively explored a new mode of HSSE management, implemented an accountability system for work safety and environmental protection, built a process safety management system on a pilot basis, thereby laying a solid foundation for the full implementation of process management. Moreover, it addressed the importance of leadership's responsibilities in managing risk issues; strengthened safety management of contractors and field operations; actively promoted green enterprises initiatives, focusing on air pollution control; improved basic LDAR data base and promoted full coverage of LDAR; actively implemented Shanghai Clean Air Action Plan and carried out relevant projects of the second round of Jinshan District Environmental Comprehensive Remediation Action; and continuously carried out All Employees Safety Diagnosis and 10,000 Employees Checking Odor programmes. The Company maintained an HSSE record of Seven Zeros for the whole year and was won the Excellence in Safety Production and Environment Protection award in Sinopec Group; strengthened production and operation management; intensified unplanned shutdown management and examination and enhanced maintenance management of key unit equipment. The Company successfully completed the centralized inspection and modification of 48 sets of equipment mainly in 2# ethylene new area and all achieved success in the first text operation. In 71 main technical and economic indicators under the corporate monitoring, 38 indicators were better than those year with year-on-year progress rate of 53.52%; and 29 indicators reached an advanced level of the industry with an industry advance rate of 40.85%.

In 2018, the Group's facilities ran smoothly. The processing volume of crude oil remained stable but the processing business was reduced, leading to an increase in the amount of the Group's products and commodities. The total volume of main product sales was 13,416,000 tons, representing an increase of 6.42% as compared to the previous year. In 2018, the Group's turnover was RMB107,689 million, representing a decrease of 17.10% as compared to the previous year. The product sales rate was 100.21% and the loan return rate was 100%. The Group maintained the high quality of its products.

(2) Continuous improvement in petroleum and petrochemical market and increase in product prices

In 2018, underpinned by the increased prices of bulk commodities and a revival of industry investment, domestic petroleum and petrochemical market continued to thrive and the prices of petrochemical products went up further. Nevertheless, the refined oil market became increasingly saturated and market competition intensified. The gross profit margin of chemical industry narrowed. As of 31 December 2018, weighted average prices (excluding taxes) of synthetic fibres, resins and plastics, intermediate petrochemical products and petroleum products of the Group increased by 20.35%, 7.77%, 9.68% and 24.72% respectively when compared with the previous year.

Report of the Directors (continued)

(3) International crude oil prices fluctuated greatly, while the annual average oil price increased, and the volume of refined crude oil has remained the same

In 2018, international crude oil prices showed 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. The average price of WTI crude oil in 2018 was 64.22 US dollars per barrel, increasing by 26.12% from 50.92 US dollars per barrel in 2017. Average price of Brent crude oil was 71.59 US dollars per barrel, increasing by 30.66% from 54.79 US dollars per barrel in 2017. Average price of Dubai crude oil was 69.87 US dollars per barrel, increasing by 30.72% from 53.45 US dollars per barrel in 2017.

As of 31 December 2018, the Group totally processed 14,379,000 tons of crude oil (including 729,200 tons of processing on given materials), increasing by 26,200 tons than in previous year with slightly increase of 0.18%. In 2018, the average unit cost of processing crude oil (proprietary part) by the Group was RMB3,382.38 per ton (RMB2,581.35 per ton in 2017) with an increase of 31.03%. The total costs for crude oil processing of the Group in 2018 was RMB46,168 million with an increase of 40.31% compared with RMB32,904 million in previous year, which accounted for 51.39% of the total cost of sales.

Report of the Directors (continued)**(4) Continuous optimization of operation and cost reduction**

In 2018, the Group adhered to market-oriented and efficiency-centered principles, continued to optimize its production and operation, and costs reduction, achieved effective improvement of management levels and capabilities of improving efficiency. The Group continued the three-month rolling price forecast, dynamically adjusted production and operation arrangements, optimized crude oil distribution plan and the structure of ethylene raw materials. The cost of ethylene raw materials per ton ranked the second in Sinopec. The Group optimized structure of refined oil products and sped up the upgrade of oil quality. In August, the Group launched gasoline and diesel of China 6 Standard in the market. The accumulated diesel to gasoline ratio was 1.16, which declined by 0.06 as compared with the end of 2017. High-grade gasoline ratio reached 31.42%, increased by 2.46 percentage points year-on-year. The Group continuously worked on cost reduction, vigorously implemented measures such as reducing the cost of crude oil procurement, cost control and developing monetary financial derivatives business. The crude oil procurement cost was lower than the average price of Sinopec by US\$1.12/barrel, and the major expenses were RMB128 million lower than the target amount. The Group actively strive for various tax incentives, with cumulative savings of RMB95 million. Finance expenses of this year was RMB -337 million, decreased by RMB130 million year-on-year.

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

In 2018, the Group continued to implement various energy conservation and emission reduction measures in accordance with relevant requirements of the state for energy conservation and emission reduction, and fully completed the energy conservation and emission reduction targets issued by the government. In 2018, the accumulated comprehensive energy consumption of the Company was 6,849 thousand tons of standard coal and the comprehensive energy consumption of ten-thousand-Yuan output value was 0.760 tons of standard coal (unchanged price in 2010), which decreased by 1.17% from 0.769 tons of standard coal/ten thousand Yuan in previous year. Compared with the previous year, the annual COD emissions decreased by 24.58%, ammonia nitrogen emissions by 39.20%, sulfur dioxide emissions by 64.01%, nitrogen oxide emissions by 39.96% and volatile organic compounds (VOCs) emissions by 16.63%. The control rate of wastewater excretion and controlled exhaust gas excretion reached 100% and the proper disposal rate of hazardous waste was also 100%. The average thermal efficiency of heating furnace was 92.67%, up 0.13 percentage points compared to the previous year.

Report of the Directors (continued)

(6) Strived for developing market and improved sales services

In 2018, the Group actively coordinated export plans, flexibly transformed trade methods, and expanded refined oil exports. In April, the Group successfully started the entire diesel fuel export process of Chenshan Oil Depot. The annual export of refined oil products reached 2.12 million tons, an increase of 14.35% year-on-year. The Group also achieved asphalt exports for the first time. The Group established a sales tracking mechanism for key products, actively promoted the sales of dope-dyed acrylic fibers and other products, vigorously promoted online platform listing auction transactions and E-trade platform sales. The Group also strengthened technical services, invested in user visits and technical exchanges, continued to carry out technical expert services for the sale of acrylic, polyester, plastic and other products, and continuously improved capabilities of customer service.

(7) Steady implementation of project construction, R&D and IT projects

In 2018, the Group made every effort to promote the environmental impact assessment of the oil cleanup project, and completed the project environmental assessment public participation in July; strengthened joint development with the surrounding areas and successfully sign the public pipe gallery project of Dushan Port Zhejiang-Shanghai New Material Industrial Park; promoted cooperation projects such as downstream development of raw materials of carbon four and research and development (R&D) and application of carbon fiber technology. Four achievements including Development and Industrial Application of Poor Quality Oil Slurry Producing High-quality Needle Coke Technology won the Sinopec Science and Technology Progress Award. The Group applied for 71 patents and 32 patents were granted throughout the year. The Group put great efforts in the R&D and application of carbon fiber technology, and 48K large tow carbon fiber won the first prize of the outstanding exhibiting products of the New Materials Industry Exhibition at the 20th Industrial Fair. The Group continued to implement the Integration of Information Technology and Industrialization initiative. Upgrading laboratory information management system, geographic information platform and large-scale unit three-dimensional training platform and other projects have started on-line operation. The Group continuously promote refinery-chemical integration value chain characterization and other projects. The Company was awarded 2018 Pilot Demonstration Enterprise of Intelligent Manufacturing by the Ministry of Industry and Information Technology of the People's Republic of China.

Report of the Directors (continued)

(8) Further enhancement of corporate management

In 2018, the Group steadily promoted the optimization of management system and mechanism, carried out the reform of management system and mechanism in fine chemicals and carbon fiber business units; further stimulated motivation of scientific research personnel. The Group continued to promote pilot programme of flat management in chemical department, completed evaluation of specialized and centralized management effect, and adjusted the management function of official vehicles, so as to continuously improve the efficiency and vitality of grass-roots work. The Group actively promoted the reduction of legal persons' pressures. The Inspection Company achieved reduction of legal persons' pressures by means of capital increase and share expansion. Shanghai Golden Conti Petrochemical Company Limited was integrated by Shanghai Petrochemical Investment Development Company Limited. The Group actively promoted the establishment of electricity distribution supply company and completed the equity structure design, stock assets evaluation and signing of the Letter of Intent for joint venture and cooperation in the year. The Group announced and implemented the Company's 2018 post setting and labor personnel quota standard, and promoted the optimal allocation of labor. The group promoted the construction of training materials system and initially established training materials systems for skilled posts. The Group further improved the Company's basic salary system and optimized the incentive mechanism for production and operation posts; continuously optimized the personnel structure, continuously cleared exit ways for staff leaving the post, and put great efforts in recruiting talents.

As of 31 December 2018, the Group had a net attrition of 764 people (including voluntary resignation and retirees), accounting for 7.37% of a total of 10,361 staff registered at the beginning of the year.

Report of the Directors (continued)

(9) Continued to promote Party building and strengthen integration of Party building and enterprise operation

In 2018, the Company's Communist Party Committee stick to the principle of setting the right direction, keeping in mind the big picture and ensuring the implementation of Party policies and principles; took enhancing political building as the overarching principle and make comprehensive efforts to ensure that the Party's political work is stressed. Moreover, we strived to be demand-oriented, problem-oriented and effect-oriented to effectively exerts the political and service functions of the Party organization. Paying every effort to reach advanced level and keep abreast of the highest standards, we implemented the working requirements of being strict, careful, detail-oriented and pragmatic. Tightly revolves around three main principles of improving quality and efficiency, deepening reform and innovation, exercising strict self-governance of the Party in every respect, we created strategies to win three battles : environmental treatment, developmental challenges and reserve of talents. We earnestly pushed forward the extension of the overall strict self-governance of the Party to the grass-roots level, transformed the political advantages of Party organizations into the development advantages and core competitiveness of enterprises. The measures we took laid solid political, ideological and organizational foundation for building the enterprise into an important platform to practice Xi Jinping Thought on Socialism with Chinese Characteristics for a New Era, and to comprehensively accomplish the tasks of enterprise reformation and development, as well as responsibilities of production and operation.

The measures are:

Strengthened the construction of managing officers through optimizing talent allocation at all levels and persisted in building high-quality professional officers with high standards.

Revised and completed the decision-making system for the Major Issues, Major Personnel Appointments and Dismissals, Investments in Major Projects and Use of Large Sums of Money, further refined the rules and standardized the operation.

Intensified our efforts to combat corruption and build clean government, we broke it down into 62 working tasks, established supervisory committee of Sinopec Shanghai to improved supervisory mechanism. We also effectively carried out mutual support in family to combat corruption and conducted a pilot inspection work.

Strengthened the construction of grass-roots Party organizations, implemented the requirements of heart-to-heart talks, Party members' quarterly reports, and family visits of all employees, to effectively help the workers solve practical problems of ideology, work and life.

Furthermore, we enhanced ideological and political work and corporate culture construction, focused on responsibility, strengthened the coverage of education, and constantly enhanced the influence of public open day activities.

Report of the Directors (continued)

2. Accounting judgements and estimates

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

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

(i) Inventory Provision

Any excess of the cost over the net realisable value of each item of inventories is recognised as a provision for diminution in the value of inventories. Net realisable value represents the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale. Management bases the estimates on all available information, including the current market prices of the finished goods and raw materials, and historical cost of sales. If the actual selling prices were to be lower or the costs of completion were to be higher than estimated, the actual allowance for diminution in value of inventories could be higher than estimated.

Report of the Directors (continued)

(ii) Impairment of long-term assets

Long-term assets are reviewed for impairment at each balance sheet date when events or changes in circumstance have indicated that their carrying amounts may not be recoverable. If any such evidence indicated that their carrying amounts may not be recoverable, the carrying amounts exceed the recoverable amounts would be recognized as impairment loss and accounted in current profit or loss.

The recoverable amount of an asset (or an asset group) is the greater of its net selling price and its present value of expected future cash flows. In assessing value in use, significant judgements are exercised over the assets (or the asset group s) production and sales, selling prices, related operating expenses and discount rate to calculate the present value. All relevant materials which can be obtained are used for estimation of the recoverable amount, including the estimation of the production, selling prices and related operating expenses based on reasonable and supportable assumptions.

(iii) Estimated useful life and estimated net residual value of fixed assets

The Group assessed the reasonableness of estimated useful life of fixed assets in line with the historical experience on the basis of similar function or characteristic for the assets. If there are significant changes in estimated useful lives and residual value from previous years, the depreciation expenses for future periods are adjusted.

The Group reviews and adjusts the useful lives and estimated residual value of the assets regularly at the end of each year end.

Report of the Directors (continued)

(iv) Income taxes

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

In addition, the Group recognises deferred tax assets only to the extent that it is probable that future taxable profit will be available against the assets which can be realised or utilized. If profit forecasts deviate from original estimates, the deferred tax assets will need to be adjusted in future, which has significant impact on profit.

In making the assessment of whether it is probable the Group will realise or utilise the deferred tax assets, management primarily relies on the generation of future taxable income to support the recognition of deferred tax assets. In order to fully utilise the deferred tax assets recognised at 31 December 2018, the Group would need to generate future taxable income of at least RMB476 million (31 December 2017: 4.77 million). Based on estimated forecast and historical experience, management believes that it is probable that the Group will generate sufficient taxable income.

(v) Measurement of estimated credit loss

The group calculates the expected credit loss through default risk exposure and the expected credit loss rate, and determines the expected credit loss rate based on the default probability and the expected credit loss rate. In determining the expected credit loss rate, the group uses data such as internal historical credit loss experience and adjusts historical data in combination with current conditions and forward looking information. In considering forward-looking information, the indicators used by the group include risks of economic downturn, growth of expected unemployment rate, changes in external market environment, technical environment and customer situation, etc. The group regularly monitors and reviews assumptions related to the calculation of expected credit losses. The above estimated techniques and key assumptions have not changed significantly in 2018.

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

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

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

Report of the Directors (continued)

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

| | For the years ended 31 December | | | | | |
|--|---------------------------------|-------------------|----------------|-------------------|----------------|-------------------|
| | 2018 | | 2017 | | 2016 | |
| | RMB million | % of net sales | RMB million | % of net sales | RMB million | % of net sales |
| Synthetic fibres | | | | | | |
| Net sales | 2,182.4 | 2.3 | 2,005.3 | 2.5 | 1,855.5 | 2.8 |
| Cost of sales and operating expenses | (2,755.9) | (2.9) | (2,480.6) | (3.1) | (2,464.4) | (3.7) |
| Segment loss from operations | (573.5) | (0.6) | (475.3) | (0.6) | (608.9) | (0.9) |
| Resins and plastics | | | | | | |
| Net sales | 10,542.1 | 11.0 | 10,218.4 | 12.9 | 9,797.6 | 14.9 |
| Cost of sales and operating expenses | (9,641.7) | (10.1) | (8,862.5) | (11.2) | (8,160.0) | (12.4) |
| Segment profit from operations | 900.4 | 0.9 | 1,355.9 | 1.7 | 1,637.6 | 2.5 |
| Intermediate petrochemical products | | | | | | |
| Net sales | 12,160.6 | 12.7 | 10,070.2 | 12.7 | 8,827.6 | 13.4 |
| Cost of sales and operating expenses | (10,225.7) | (10.7) | (7,864.1) | (9.9) | (7,017.6) | (10.6) |
| Segment profit from operations | 1,934.9 | 2.0 | 2,206.1 | 2.8 | 1,810.0 | 2.7 |
| Petroleum products | | | | | | |
| Net sales | 43,403.0 | 45.4 | 32,400.6 | 40.9 | 24,002.6 | 36.4 |
| Cost of sales and operating expenses | (40,493.0) | (42.4) | (29,280.6) | (37.0) | (20,189.6) | (30.6) |
| Segment profit from operations | 2,910.0 | 3.0 | 3,120.0 | 3.9 | 3,813.0 | 5.8 |
| Trading of petrochemical products | | | | | | |
| Net sales | 26,544.0 | 27.8 | 23,697.3 | 29.9 | 20,585.4 | 31.2 |
| Cost of sales and operating expenses | (26,439.1) | (27.7) | (23,636.7) | (29.8) | (20,534.2) | (31.1) |
| Segment profit from operations | 104.9 | 0.1 | 60.6 | 0.1 | 51.2 | 0.1 |
| Others segments | | | | | | |
| Net sales | 781.4 | 0.8 | 826.5 | 1.1 | 867.8 | 1.3 |
| Cost of sales and operating expenses | (473.0) | (0.5) | (691.9) | (0.9) | (792.8) | (1.2) |
| Segment profit from operations | 308.4 | 0.3 | 134.6 | 0.2 | 75.0 | 0.1 |

Report of the Directors (continued)

| For the years ended 31 December | | | |
|--|------------------|----------------|-------------|
| 2018 | | 2017 | 2016 |
| RMB | % of | RMB | |
| million | net sales | million | |