

SINOPEC SHANGHAI PETROCHEMICAL CO LTD

Form 6-K

September 11, 2017

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SECURITIES AND EXCHANGE COMMISSION

Washington D.C. 20549

FORM 6-K

REPORT OF FOREIGN PRIVATE ISSUER

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

THE SECURITIES EXCHANGE ACT OF 1934

For the month of September 2017

Commission File Number: 1-12158

Sinopec Shanghai Petrochemical Company Limited

(Translation of registrant's name into English)

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

The People's Republic of China

(Address of principal executive offices)

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

Form 20-F

Form 40-F

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

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

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EXHIBITS

Exhibit

Number

99.1 2017 Interim Report.

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SIGNATURES

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

SINOPEC SHANGHAI PETROCHEMICAL COMPANY
LIMITED

Date: September 11, 2017

By: /s/ Wang Zhiqing
Name: Wang Zhiqing
Title: President

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Exhibit 99.1

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IMPORTANT MESSAGE

(1) The Board, the Supervisory Committee of Sinopec Shanghai Petrochemical Company Limited and its Directors, Supervisors and senior management warrant the truthfulness, accuracy and completeness of the information contained in this 2017 interim report, and warrant that there are no false representations or misleading statements contained in, or material omissions from, the interim report of the Company, and severally and jointly accept responsibility.

(2) Directors who have not attended the Board meeting for considering and approving the 2017 interim report of the Company:

Name of Director	Position	Reason for Absence	Name of Proxy
Lei Dianwu	Director	Business Engagement	Zhang Yimin
Mo Zhenglin	Director	Business Engagement	Zhang Yimin

(3) The interim financial report for the six months ended 30 June 2017 is unaudited.

(4) Mr. Wang Zhiqing, Chairman and President, Mr. Zhou Meiyun, Executive Director and Chief Financial Officer overseeing the accounting operations; and Mr. Zhang Feng, Financial Officer, person in charge of Accounting Department (Accounting Chief), hereby warrant the truthfulness, accuracy and completeness of the financial report contained in the 2017 interim report.

(5) The Company did not distribute the half-year profit for 2017 nor was there any capitalisation of capital reserves.

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

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

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

(9) Reminder of Major Risks

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

(10) The 2017 interim report is published in both Chinese and English. In the event of any discrepancy between the English and Chinese versions, the Chinese version shall prevail.

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DEFINITIONS

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

Company or Sinopec Shanghai Board	Sinopec Shanghai Petrochemical Company Limited the board of directors of the Company
Director(s)	the Director(s) of the Company
Supervisory Committee	the Supervisory Committee of the Company
Supervisor	the Supervisor(s) of the Company
PRC or China	the People's Republic of China
Reporting Period	the six months ended 30 June 2017
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 Company
Hong Kong Listing Rules	The Rules Governing the Listing of Securities on the Hong Kong Stock Exchange
Shanghai Listing Rules	The Rules Governing the Listing of Securities on the Shanghai Stock Exchange
Model Code for Securities Transactions	the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Hong Kong Listing Rules
Securities Law	the PRC Securities Law
Company Law	the PRC Company Law
CSRC	China Securities Regulatory Commission
Articles of Association	the articles of association of the Company
Hong Kong Stock Exchange website	www.hkexnews.hk
Shanghai Stock Exchange website	www.sse.com.cn
Website of the Company	www.spc.com.cn
HSE	Health, Safety, and Environment
COD	Chemical Oxygen Demand
EVA	Ethylene Vinyl Acetate
SFO	the Securities and Futures Ordinance of Hong Kong (Chapter 571 of the Laws of Hong Kong)

Corporate Governance Code	the Corporate Governance Code set out in Appendix 14 to the Hong Kong Listing Rules
Share Option Incentive Scheme	the A Shares Share Option Incentive Scheme of the Company

Table of Contents**MAJOR FINANCIAL DATA AND INDICATORS***Prepared under China Accounting Standards for Business Enterprises (CAS)***(1) Major Accounting Data and Financial Indicators****1. Major Accounting Data**

	The Reporting Period (January to June)	Corresponding period of the previous year	Unit: RMB 000 Increase/decrease as compared to the corresponding period of the previous year (%)
Major accounting data			
Operating income	43,106,950	36,993,191	16.53
Total profit	3,251,226	4,050,004	-19.72
Net profit attributable to equity shareholders of the Company	2,575,479	3,096,675	-16.83
Net profit attributable to equity shareholders of the Company excluding non-recurring items	2,571,583	3,117,585	-17.52
Net cash generated from operating activities	2,358,780	4,645,024	-49.22
			Increase/decrease at the end of the Reporting Period as compared to the end of the previous year (%)
	As at the end of the Reporting Period	As at the end of the previous year	
Net assets attributable to equity shareholders of the Company	24,655,092	24,750,048	-0.38
Total assets	37,301,664	34,123,693	9.31

Table of Contents**MAJOR FINANCIAL DATA AND INDICATORS** (continued)

Prepared under CAS

2. Major Financial Indicators

Major financial indicators	The Reporting Period (January to June)	Corresponding period of the previous year	Increase/decrease as compared to the corresponding period of the previous year (%)
Basic earnings per share (RMB/Share)	0.238	0.287	-17.07
Diluted earnings per share (RMB/Share)	0.238	0.287	-17.07
Basic earnings per share excluding non-recurring items (RMB/Share)	0.238	0.289	-17.65
Return on net assets (weighted average) (%)*	9.821	14.465	Decreased by 4.644 percentage points
Return on net assets excluding non-recurring items (weighted average) (%)*	9.805	14.555	Decreased by 4.75 percentage points

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

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

	Unit: RMB 000			
	Net profit attributable to equity shareholders of the Company		Net assets attributable to equity shareholders of the Company	
	The Reporting Period	Corresponding period of the previous year	At the end of the Reporting Period	At the beginning of the Reporting Period
Prepared under CAS	2,575,479	3,096,675	24,655,092	24,750,048
Prepared under IFRS	2,598,499	3,148,609	24,628,014	24,721,965

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

Table of Contents**MAJOR FINANCIAL DATA AND INDICATORS** *(continued)**Prepared under CAS***(3) Non-recurring Profit and Loss Items**

	Unit: RMB 000
Non-recurring profit and loss items	Amount
Net loss from disposal of non-current assets	-5,130
Employee reduction expenses	-8,806
Government grants recorded in current period's profit and loss (excluding government grants pursuant to the State's unified standard sum or quota to closely related corporate business)	30,548
Income from external entrusted loans	694
Other non-operating income and expenses other than those mentioned above	-10,830
Effect attributable to minority interests (after tax)	-1,041
Income tax effect	-1,539
Total	3,896

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REPORT OF THE DIRECTORS

(1) Management Discussion and Analysis of the Overall Operations during the Reporting Period

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

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

The first half of 2017 saw continuation of a moderate recovery in the global economy, and there was a temporary relief of the previous political uncertainty. The easing monetary policies have promoted more rapid growth, while higher global commodity prices have stimulated both international trade and demand. Consequently, the economies of both developed and emerging economies have improved. While the Chinese economy continued to fluctuate within a reasonable range, there were evident signs of a steady economic development. Particularly, economic growth rate remained stable and a GDP (gross domestic product) growth of 6.9% was recorded in the first half of the year, representing an increase of 0.2 percentage point as compared to the same period of last year. The overall economic operations of the petrochemical industry in the PRC was good. After continuous adjustments over the last few years, the supply and demand structure has improved and development capacity and standards have been strengthened, resulting in a restorative growth. However, problems such as market volatility, weak investment sentiment, increased pressure on external trades and costs rebounding at a faster pace, continued to exist.

The Group made substantial efforts in maintaining stable operations of its equipment, optimizing production and operations, reducing costs and expenses and expanding market share in the first half of 2017. These efforts served to ensure the safety and stability of the enterprise, sound operations in its production, and successful completion of facility overhaul and revamp. As the Group started the equipment overhaul in the first half of the year, there was a reduction in the volume of crude oil processed and a corresponding decrease in the amount of products. Meanwhile, prices of raw material, refined oil and petrochemical products increased significantly compared to the same period of last year. A growth in sales was recorded during the Reporting Period. For the six months ended 30 June 2017, the Group's turnover reached RMB43,081.4 million, an increase of RMB6,112.9 million, representing an increase of 16.54% as compared to the same period of last year. The profit before tax was RMB3,274.2 million (profit before tax for the same period of last year was RMB4,101.9 million), representing a decrease of RMB827.7 million from the same period of last year. Profit after tax and non-controlling shareholder interests was RMB2,598.5 million (profit for the same period of last year was RMB3,148.6 million), representing a decrease of RMB550.1 million from the same period of last year.

Table of Contents**REPORT OF THE DIRECTORS** *(continued)*

In the first half of 2017, the total production volume of the Group reached 6,095,400 tons, representing a year-on-year decrease of 6.38%. From January to June, the Group processed 6,804,200 tons of crude oil (including 1,148,900 tons of crude oil processed on a sub-contract basis), representing a year-on-year decrease of 7.48%. The production volume of refined oil products in total reached 4,064,500 tons, representing a year-on-year decrease of 8.40%. Among these, the output of gasoline was 1,516,600 tons, representing a year-on-year decrease of 2.94%; the diesel output was 1,806,000 tons, representing a year-on-year decrease of 11.42%; and the jet fuel output was 741,900 tons, representing a year-on-year decrease of 11.23%. The Group produced 355,400 tons of ethylene and 284,800 tons of paraxylene, representing a year-on-year decrease of 14.32% and 13.91%, respectively. The Group also produced 465,000 tons of synthetic resins and plastic (excluding polyesters and polyvinyl alcohol), representing a year-on-year decrease of 11.80%; 321,600 tons of synthetic fibre monomers, representing a year-on-year decrease of 3.51%; 200,900 tons of synthetic fibre polymers, representing a year-on-year decrease of 7.63%; and 95,700 tons of synthetic fibres, representing a year-on-year decrease of 13.32%. For the first half of the year, the sales to output ratio and debt recovery ratio of the Group were 99.19% and 100%, respectively.

The Group achieved progress in HSE and ensured all equipment were operating steadily. During the first half of 2017, the Group strictly implemented the HSE accountability system at all levels and strengthened the specific performance evaluation in terms of HSE management. Source management was strengthened for environmental protection and source management of oil sewage has begun on a pilot basis. With consistent efforts in promoting comprehensive environmental controls, the total emission of various pollutants continued to show a downward trend. While the compliance rate for sewage emission has reached 100%, the total emission of COD, ammonia nitrogen, sulfur dioxide and nitrogen oxides decreased by 4.78%, 15.40%, 31.24% and 18.24%, respectively compared with the same period of last year. Moreover, the Group has strengthened management over its operations and production as well as the management and appraisal over unscheduled suspensions. As a result, the frequency and durations of unscheduled suspensions have decreased by 60.00% and 72.97%, respectively, compared with the same period of last year. The Group's equipment maintained stable operation as a whole. Out of the 80 key technical and economic indicators covered in the assessment, 39 of them achieved a better performance than last year, representing a year-on-year improvement rate of 48.75%, while 24 of them reached the advanced industry level, representing an industry advance ratio of 30.00%. The Group successfully completed the equipment overhaul in the second quarter, where substantial improvement and revamp were made to the No. 3 atmospheric and vacuum distillation series and the old ethylene plant. At present, all equipment that underwent overhaul are operating normally and steadily.

Table of Contents**REPORT OF THE DIRECTORS** *(continued)*

The Group further implemented optimization of production and operations as well as reduction of costs and expenses. During the first half of 2017, the Group continued to adhere to the profit forecast mechanism of dynamic optimization. Based on the profit forecast, the Group adjusted the equipment workload, the configuration of raw materials and products, and the processing workflow to maximize profitability. By optimizing the operations of catalyst facilities and outsourcing the processing of low octane gasoline components, the Group has improved the blending process of gasoline, as well as increased gasoline output and proportion of high-grade gasoline. The aggregate diesel to gasoline ratio was 1.19:1 (2016: 1.35:1), representing a further reduction of 0.16 as compared to the whole year last year. Besides, the Group has also optimized the raw material configuration of ethylene cracking and reduced the cost of ethylene raw materials by optimizing the desulphurization and sweetening process of liquefied light hydrocarbon, and the direct delivery of medium pressure hydrogenated heavy Naphtha to pre-hydrogenation facility. As part of its ongoing reduction of costs and expenses, the Group continued to make vigorous efforts in controls and assessment over costs on catalysts, additives and solvents, and implemented a cost control accountability system on a departmental basis. The Group also fully utilized its indirectly owned subsidiary Shanghai Jinmao International Trading Company Ltd. (Jinmao International), as a platform to develop offshore trading and reduce costs of foreign exchange settlement and sales. In the first half of the year, operation volume reached 1,003,100 tons, representing a year-on-year increase of 48.50%.

The Group made progress in project construction, technological development and digitalization. During the first half of 2017, we further improved the Company's industrial development under the 13th Five-Year Plan and continued advancing progress of projects such as the 300,000 tons/year alkylation plant and revamps in thermal power cogeneration with ultra low emission and energy saving project. The Group also actively implemented environmental management projects, including completion and operational commencement of several projects, such as the revamp of No. 3 and No. 4 sulfur recovery units for compliant exhaust emission, the compliant emission of No. 2 boiler of the thermal power division, which have made outstanding achievements in emission reduction. The Group also actively worked with Jiading government to synchronize with the construction of Shanghai demonstration area. Combined with the construction of G60 Science and Innovation Corridor, the Group was actively seeking cooperation opportunities in the area around Ping Hu City and signed a cooperation memorandum with Ping Hu New Material Industry Park. Besides, the Group also accelerated development of the integrated technology of PAN (Polyacrylonitrile) based carbon fibre, development of large tow fibre precursor technology and the research and development of high performance carbon fibre product series. The Group has also put efforts in research and development (R&D) projects, such as the technology for industrialization and product development of specialized materials for high performance bimodal HDPE (high-density polyethylene) pipelines. In the first half of the year, the Group developed and manufactured 129,400 tons of new products and 345,400 tons of new synthetic resins products and specialized polyolefin materials, with a differentiation rate for synthetic fibres at 87.55%. The Group also submitted 19 patent applications and obtained 15 patent rights. Moreover, the Group accelerated the promotion of its in-depth digitalization and industrialization, and its operation management system and customer service information system have passed inspection and acceptance procedure.

Table of Contents**REPORT OF THE DIRECTORS** (continued)

To further enhance corporate governance, the Group took proactive measures in the first half of the year to optimize its corporate governance structure, the R&D system and mechanism, and the talent development system. The Group also streamlined the organizational structure through adjusting and optimizing its entities with a view to steadily enhancing the Group's operational efficiency. A pilot system has been established to optimize talent development system and to improve the employee performance evaluation system, thereby developing channels for flexible talent recruitment and development. To control the total number of employees, the Group promoted the outsourcing of its business projects.

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

	For the six months ended 30 June					
	2017			2016		
	Sales volume (' 000 tons)	Net Sales (RMB Million)	%	Sales volume (' 000 tons)	Net Sales (RMB Million)	%
Synthetic fibres	90.7	1,032.0	2.8	105.1	966.1	3.1
Resins and plastics	591.7	4,689.2	12.7	664.7	4,609.8	15.0
Intermediate petrochemicals	882.6	4,722.2	12.7	1,016.7	4,105.7	13.3
Petroleum products	3,955.9	14,270.1	38.5	4,100.2	11,669.6	37.9
Trading of petrochemical products		11,941.7	32.2		9,003.3	29.2
Others		420.9	1.1		427.8	1.5
Total	5,520.9	37,076.1	100.0	5,886.7	30,782.3	100.0

In the first half of 2017, net sales of the Group amounted to RMB37,076.1 million, representing an increase of 20.45% over the same period of last year. Among which, net sales of synthetic fibres, resins and plastics, intermediate petrochemical products, petroleum products and trading of petrochemical products increased by 6.82%, 1.72%, 15.02%, 22.28% and 32.64%, respectively. The increase in net sales of products was mainly due to a general increase in the unit prices of products during the Reporting Period as compared to the same period of last year. The increase in the net sales from the trading of petrochemical products was mainly attributable to the increase in the business volume of Jinmao International, an indirectly owned subsidiary of the Group, during the Reporting Period. In the first half of the year, the Group's net sales of Others decreased by 1.64% over the same period of last year, which was mainly attributable to the decrease in the Group's revenue from oil processed on a sub-contract basis, as compared to the same period of last year.

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

In the first half of 2017, the Group's cost of sales increased by 27.79% year-on-year to RMB34,266.0 million, representing 92.42% of total net sales.

Table of Contents**REPORT OF THE DIRECTORS** *(continued)*

The Group's main raw material is crude oil. The global crude oil prices showed a stable but declining pattern in the first half of 2017. Crude oil prices maintained at US\$50-60/barrel in January to May, then prices showed signs of decline from June. In the first half of 2017, the highest and lowest closing prices of Brent crude oil futures were US\$57.10/barrel and US\$44.82/barrel, respectively, and the half-year average price was approximately US\$52.74/barrel, representing a year-on-year increase of 33.18%. The highest and lowest closing prices of West Texas Intermediate crude oil futures were US\$54.45/barrel and US\$42.53/barrel, respectively, and the half-year average price was approximately US\$50.05/barrel, representing a year-on-year increase of 26.55%. The highest and lowest closing prices of Dubai crude oil futures were US\$58.55/barrel and US\$43.55/barrel, respectively, and the half-year average price was approximately US\$52.13/barrel, representing a year-on-year increase of 40.66%.

In the first half of 2017, the average unit cost of crude oil processed by the Group (for its own account) was RMB2,653.83/ton, representing an increase of RMB908.59/ton over the same period of last year, or an increase of 52.06%. The Group processed a total of 5,655,300 tons of crude oil (excluding crude oil processed on a sub-contract basis), representing a decrease of 381,900 tons over the same period of last year. Taken together, the total costs of processed crude oil increased by RMB4,472 million. Processing costs decreased by RMB666 million due to a decrease in the volume of crude oil processed. The increase in unit cost of processed crude oil brought costs up by RMB5,138 million. In the first half of 2017, the Group's cost of crude oil accounted for 43.80% of the total cost of sales.

In the first half of 2017, the Group's cost for other ancillary materials amounted to RMB4,136.2 million, which is basically the same as that of same period of last year. During the Reporting Period, the Group's depreciation and maintenance expenses decreased by 2.07% year-on-year to RMB918.5 million and RMB751.6 million respectively, mainly due to the decrease in depreciation expenses during the Reporting Period as certain fixed assets were fully depreciated. Maintenance expenses grew by 20.26% year-on-year, mainly due to an increase in maintenance work during the Reporting Period, which led to the rise in maintenance costs. Fuel and power expenses increased by 19.24% year-on-year to RMB998 million during the Reporting Period, mainly due to the increase in the unit purchase price of coal.

In the first half of 2017, sales and administrative expenses of the Group amounted to RMB237.6 million, representing a decrease of 6.53% as compared with RMB254.2 million over the same period of last year. This was mainly due to the decrease in transportation and loading fees during the Reporting Period.

In the first half of 2017, other operating income of the Group amounted to RMB53.5 million, representing an increase of RMB19.0 million over the same period of last year. This was mainly due to an increase in government subsidy during the Reporting Period.

In the first half of 2017, the Group's net finance income amounted to RMB95.9 million, compared to RMB7.0 million in net finance income over the same period of last year. This was mainly due to a significant increase in interest income during the Reporting Period.

In the first half of 2017, the Group's profit after tax and non-controlling shareholder interests was RMB2,598.5 million, representing a decrease of RMB550.1 million as compared with RMB3,148.6 million over the same period of last year.

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REPORT OF THE DIRECTORS *(continued)*

Liquidity and Capital Resources

The Group's net cash inflow generated from operating activities amounted to RMB2,350.2 million in the first half of 2017 as compared to a net cash inflow of RMB4,613.4 million over the same period of last year, which was mainly due to profit before tax during the Reporting Period amounted to RMB3,274.2 million (profit before tax of the same period of last year was RMB4,101.9 million).

In the first half of 2017, the Group's net cash generated from investing activities amounted to RMB111.0 million as compared to a net cash used of RMB5.9 million over the same period of last year. This was primarily attributable to a year-on-year increase in the dividends received by the Group from joint ventures and associate companies during the Reporting Period, resulting in an increase of RMB258.8 million in net cash generated from investing activities.

In the first half of 2017, the Group's net cash generated from financing activities amounted to RMB63.4 million, compared to a net cash used of RMB1,235.9 million over the same period of last year, primarily attributable to the decrease of RMB3,040.3 million in cash paid by the Group for loan repayment during the Reporting Period.

Borrowings and Debts

The Group's long-term borrowings are mainly used in capital expansion projects. In general, the Group arranges long-term borrowings according to its capital expenditure plans. On the whole, there is no seasonal borrowings. Short-term borrowings are used to replenish the Group's working capital requirements during the normal course of production. During the first half of 2017, the Group's total borrowings increased by RMB67.0 million to RMB613.4 million as at the end of the Reporting Period as compared to the beginning of the Reporting Period, mainly due to the increase of short-term borrowings by RMB67.0 million. As at 30 June 2017, the total borrowings of the Group at fixed interest rates amounted to RMB500 million.

Capital Expenditures

In the first half of 2017, the Group's capital expenditures amounted to RMB398 million, mainly attributable to the implementation of various projects, including management of latent hazards of refined oil pipelines connecting Sinopec Shanghai to Chenshan, the transformation of sulfur recovery equipment for compliance with the standard for exhaust emission, the recycling project of oil tank and railway bridge of the Storage Division, the transformation of cogeneration unit for compliance with the emission standard, the transformation of No. 2 olefin cracking burner for low nitrogen burning and the closed rectification project of the fuel yard of the Thermal Power Division.

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REPORT OF THE DIRECTORS *(continued)*

In the second half of 2017, the Group plans to complete the transformation of sulfur recovery equipment for compliance with the standard for exhaust emission, the recycling project of oil tank and railway bridge of the Storage Division, the transformation of cogeneration unit for compliance with the emission standard, the transformation of No. 2 olefin cracking burner for low nitrogen burning and the closed rectification project of the fuel yard of Thermal Power Division. The Group also plans to start the 300,000 tons/year alkylation plant project, the closed de-coking environmental governance project No. 2 of delayed coking equipment and the transformation of No. 3 and No. 4 boilers for compliance with the emission standard of the Thermal Power Division. The Group's planned capital expenditures would be funded from the resources including cash generated from operations and from bank financing.

Gearing Ratio

As at 30 June 2017, the Group's gearing ratio was 32.91% (As at 30 June 2016: 30.20%). The ratio is calculated using the following formula: total liabilities/total assets.

The Group's Employees

As at 30 June 2017, the total number of enrolled employees of the Group was 10,721, among which the number of production staff was 6,398, the number of sales, financial and other staff was 3,179 and the number of administrative staff was 1,144. 51.49% of the Group's employees were college graduates or above. In the first half of 2017, the total employees' remuneration and benefits paid by the Group amounted to RMB1,204,364,000.

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

Income Tax

The Enterprise Income Tax Law of the PRC took effect from 1 January 2008, subsequent to which the income tax rate for enterprises was uniformly adjusted to 25%. The income tax rate applicable to the Group in 2017 is 25%.

Disclosure Required by the Hong Kong Listing Rules

Save as disclosed herein, pursuant to paragraph 40 of Appendix 16 to the Hong Kong Listing Rules, the Company confirms that there were no material differences between the existing information of the Company relating to the matters as set out in paragraph 32 of Appendix 16 to the Hong Kong Listing Rules and the relevant information disclosed in the Company's 2016 annual report.

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REPORT OF THE DIRECTORS *(continued)*

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

The global economy is expected to continue recovering moderately in the second half of 2017. Policy uncertainties in the developed European nations and the US will reduce, which will strengthen the confidence of investors and consumers. Infrastructure investment in countries along the Belt and Road initiative, especially in the PRC, will grow rapidly and give a strong boost to trade and economic development. The growth rate of international trade and investment would increase substantially, while the rebound in commodity prices would drive the growth of the emerging economies. Against the backdrop of further structural reforms in the supply-side in China and acceleration of the innovation-driven development strategy, there will be further positive changes to economic development. The Group made firm advances in line with cutting overcapacity and excess inventory, deleveraging, reducing costs and strengthening areas of weakness to improve the supply and demand balance. However, the prevailing volatilities and uncertainties of the global economy and the structural imbalance accumulated over a long period in the PRC will remain prominent. While China's economic growth is expected to maintain a smooth and stable trend, the petrochemical industry in the PRC will continue capacity reduction and speed up transformation and upgrade as its top priority. Competition in refined oil market will become increasingly intense with the promulgation of the opinion of the State on the reform of the oil and gas system. It is anticipated that there will not be any fundamental improvement of the oversupply condition while the successive approvals of large-scale refinery and petrochemical projects such as the 40 million tons refining and petrochemical integration project in Zhoushan City, Zhejiang Province, will exacerbate the problem of excessive capacity. The increasingly stringent safety and environmental policies would also add greater pressure and challenges to the petrochemical corporations.

The global demand for petroleum is expected to improve in the second half of 2017 which may result in a decrease in petroleum inventory around the world. However, the crude oil market will still face uncertainty and several bearish factors that will restrain increases in oil prices. For instance, production volume of Libya and Nigeria may still increase, the status of increase in crude oil production of the United States, whether OPEC and non-OPEC oil producing countries would strictly adhere to the agreement to reduce output, and the possibility of another round of rate hikes in the United States, which may trigger a stronger US dollar. The timing for attaining a balance between the global demand and supply of petroleum is expected to be delayed in the second half of 2017 and the average price for Brent crude oil may hover below US\$55 per barrel.

In the second half of 2017, the Group will place more emphasis on enhancing development quality with the primary goal of increasing profitability. The Group will also coordinate to bring about safe and stable operations, enhancement of profitability, and future development in order to achieve its annual targets and missions.

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REPORT OF THE DIRECTORS *(continued)*

- (i) Continue to consolidate the foundation for safety and environmental protection to ensure the stable operation of equipment. The Company will actively launch the I Perform a Diagnosis for Safety activity to identify safety risks, eliminate hidden safety hazards and prevent accidents. Meanwhile, the Company will proactively implement the comprehensive governance project of hidden safety hazards and the environment. It will also continue to strengthen efforts in management and assessment of unscheduled suspension of operation, and the stable operation of equipment after maintenance to ensure its technical economic indicators can achieve the annual assessment target.
- (ii) Continue to work aggressively on optimization and further enhancement of efficiency. The Company will adhere to its prior planning to win principle to optimize dynamic estimation throughout the whole process, emphasize on securing crude oil resources by optimizing and adjusting crude oil procurement strategy and controlling inventory within a reasonable level. The Company will continue to optimize the constitution of refined oil products by increasing the output of gasoline while decreasing diesel output, while raising the proportion of high-grade refined oil at the same time. The Company will adequately explore ethylene and propane resources in refining and petrochemical facilities, optimize raw materials for ethylene equipment with a view to enhancing the hydrocarbon recovery rate and lowering the production cost of ethylene. Optimization will also be carried out for the production technique to raise the loading of reorganization equipment in an effort to increase the production volume of Xylene. The Company will increase its efforts in reducing costs and expenses, and expand the coverage of the related measures. The link between production and sales plan of various products, such as acrylic fibres, polyester fibre and plastic, as well as the linkage between demand and supply of materials will be improved to reduce inventory cost.
- (iii) Actively promote key investment projects and implement R&D projects. The Company will continue to push ahead the implementation of various projects, such as the transformation of cogeneration unit for compliance with the emission standard by Sinopec Shanghai and the No. 2 ethylene cracking burner for low nitrogen burning, and commencement of the preparation works of projects such as 300,000 tons/ year alkylation plant project, the optimization of spinning procedure of Jinyang Acrylic Fibre plant, the transformation project of No. 3 and No. 4 burners for ultra clean discharge. The Company will closely monitor the progress of key R&D projects to ensure that the T300 carbon fibre equipment can achieve its production target at full capacity, while further promoting and expanding the applications of carbon fibre at the same time. The Company will focus on implementing construction of smart plant, accelerating the optimization of the entire refining and petrochemical integration process, and the launch of application of industrial robots, etc.
- (iv) Strengthen corporate management and foster a harmonious and stable environment. The Company will focus on adjusting and optimizing the organizational structure, initiate the trial run of horizontal management model of secondary units, streamline the technical units of equipment department and secondary units, and consolidate and integrate the professional services units. The Company also plans to improve the performance assessment system to continuously enhance the corporate management. The Company will continue to optimize the human resources structure and enhance the service quality of its employees. The Company will also conduct corporate stability risk assessment, formulate and implement

various targeted measures in order to create a harmonious and stable environment for its production and operations as well as its reform and development.

Table of Contents**REPORT OF THE DIRECTORS** *(continued)***(2) Analysis of the Company's Principal Performance during the Reporting Period (Certain of the following financial data is extracted from the unaudited interim report prepared under CAS)****1. Analysis of Changes in the Related Financial Data**

Unit: RMB 000

Item	As at 30 June 2017	As at 31 December 2016	Change (%)	Reason for change
Cash at bank and on hand	7,955,926	5,440,623	46.23	Profit of the Reporting Period and a relatively abundant cash flow
Accounts receivable	1,776,299	1,656,580	7.23	Increases in the business volume of the trading business segment with an increase in accounts receivable
Short-term borrowings	613,421	546,432	12.26	Slight increase in credit loans
Accounts payable	5,817,181	5,082,470	14.46	Increases in the business volume of the trading business segment with an increase in accounts payable
Dividends payable	2,720,473	20,473	13,188.10	Increase in dividends declared during the Reporting Period

Table of Contents**REPORT OF THE DIRECTORS** (continued)

Unit: RMB 000

Item	For the six months ended		Change (%)	Reason for change
	2017	2016		
Revenue	43,106,950	36,993,191	16.53	Increase in the price of petrochemical products and growth in the business of the trading segment
Cost of sales	32,841,971	25,177,628	30.44	Increase in the costs of crude oil and other raw materials
Finance expenses net	-88,839	1,983	-4,580.03	Substantial increase in the interest income during the Reporting Period
Asset impairment losses	36,142	150,004	-75.91	The amount of the provision of fixed asset impairment for the Reporting Period was relatively small
Income tax expenses	671,073	948,241	-29.23	Decrease in the profit in the Reporting Period
Net profit attributable to shareholders of the Company	2,575,479	3,096,675	-16.83	Decrease in the profit in the Reporting Period
Net cash generated from operating activities	2,358,780	4,645,024	-49.22	Decrease in profit level in the Reporting Period
Net cash generated from/ (used in) investment activities	111,004	-5,941	-1,968.44	Increase in the investment returns in the Reporting Period
Net cash generated from/ (used in) financing activities	54,803	-1,267,427	-104.32	Reduce in the amount of loan repayment in the Reporting Period
Research and development costs	11,323	47,144	-75.98	Full amortization of the research and development costs of carbon fibre project

Table of Contents**REPORT OF THE DIRECTORS** (continued)**(3) Analysis of Business Operations by Industry, Product and Geographical Location Segment****1. Principal Operations by Industry or Product**

Unit: RMB 000

Principal Operations by Industry or Product						
By industry or product	Revenue	Cost of operations	Gross profit margin (%)	Increase/decrease in cost of operations as compared to same period of last year		Increase/decrease in gross profit margin as compared to same period of last year
				Increase/decrease revenue (%)	Increase/decrease cost of operations (%)	
Synthetic fibres	1,062,461	1,127,830	-6.15	6.35	21.38	Decreased by 13.14 percentage points
Resins and plastics	4,811,255	3,822,509	20.55	1.35	14.01	Decreased by 8.82 percentage points
Intermediate petrochemicals	4,861,394	3,259,968	32.94	14.50	19.64	Decreased by 2.88 percentage points
Petroleum products	19,970,061	12,398,802	37.91 ^{Note}	13.88	38.97	Decreased by 11.21 percentage points
Trading of petrochemical products	11,949,099	11,866,164	0.69	32.71	32.91	Decreased by 0.15 percentage point
Others	210,628	146,611	30.39	6.81	28.89	Decreased by 12.26 percentage points

Note: This gross profit margin is calculated according to the price of petroleum products which includes consumption tax. Gross profit margin of petroleum products after deducting consumption tax was 9.23%.

2. Revenue by Geographical Location

Unit: RMB 000

Geographical location	Revenue	Increase/decrease in revenue as compared to the same period of last year
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		(%)
Eastern China	35,413,813	18.26
Other regions in China	1,511,123	-22.57
Exports	6,182,014	21.30

Table of Contents**REPORT OF THE DIRECTORS** (continued)**(4) Analysis of Assets and Liabilities**

Unit: RMB 000

Item	As at 30 June 2017		As at 31 December 2016		Change of amount on 30 June 2017 as compared to 31 December 2016 (%)	Major reason of the change
	Amount	% of total assets	Amount	% of total assets		
Inventories	7,016,933	18.81	6,159,473	18.05	13.92	Increase in the crude oil and petroleum products prices
Short-term borrowings	613,421	1.64	546,432	1.60	12.26	Decrease in loan due to decrease in capital demand
Accounts payable	5,817,181	15.59	5,082,470	14.89	14.46	Increase in the crude oil price

(5) Analysis of Core Competitiveness

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 in China. The Company also has its 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. The Company has won several 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 strong demand for petrochemical products, the Company has built a comprehensive logistics system and supporting facilities with close geographic proximity with most of its clients which enables the Company to enjoy the convenience of coastal and inland shipping. This gave it a competitive edge in terms of transportation costs and timely delivery. The Company has leveraged its advantages in integrated refinery and petrochemical capacity to actively strengthen product structure, while continuously improving products quality and variety. The Company has also improved production technology and boosted capacity of key upstream equipment to maximize the use and the efficiency in the utilisation of its corporate resources, and is therefore able to achieve strong and sustainable development.

Table of Contents**REPORT OF THE DIRECTORS** (continued)**(6) Analysis of Investments****1. Entrusted Wealth Management and Entrusted Loans****(i) Entrusted wealth management**

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

(ii) Entrusted loans

Name of Borrower	Amount of entrusted loan	Loan period	Interest rate of loan %	Whether it is overdue	Whether it is a transaction	Whether it has been renewed	Whether it is under litigation	Source of funds and whether the funds are from Connected Relationship	Unit:	
									RMB	000
Chevron Phillips Chemicals (Shanghai) Corporation	12,000	30/08/2016 - 29/08/2017	1.75	No	No	No	No	No	Nil	35
	12,000	29/09/2016 - 29/09/2017	1.75	No	No	No	No	No	Nil	52
	28,000	29/11/2016 - 28/11/2017	1.75	No	No	No	No	No	Nil	203
	12,000	27/12/2016 - 26/12/2017	1.75	No	No	No	No	No	Nil	104
	12,000	22/01/2017 - 21/01/2018	1.75	No	No	No	No	No	Nil	119

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

2. Application of Fund Raised

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

3. Analysis of the Principal Subsidiaries and the Companies in which the Company has Investment Interests

Due to the decrease in the cost of raw materials, gross profit of products increased. Shanghai SECCO Petrochemical Company Limited (Shanghai SECCO), an associate company of the Group, recorded a net profit of RMB2,359 million during the Reporting Period, profit attributable to the Group is RMB472 million, representing 18.83% of net profit attributable to equity shareholders of the Company during the Reporting Period.

Table of Contents**REPORT OF THE DIRECTORS** (continued)**4. Projects Funded by Non-Fund Raising Capital**

Unit: RMB 00,000,000

Major project	Total project investment	Amount of project investment in the Reporting Period	Status as at 30 June 2017
The EVA production device with a capacity of 100,000 tons/year	11.32		Preliminary design
Sinopec Shanghai transformation project for standard emission of cogeneration units	2.89	0.14	Construction in progress
The transformation project for low nitrogen burning of No.2 olefin cracking furnace	1.34	0.59	Construction in progress
The airtight transformation project of the fuel yard of the Thermal Power Division	1.00	0.18	Construction in progress
The transformation project of the oil refining department for standard emission of sulfur recovery unit	0.54	0.29	Completed

(7) Other Disclosure Items**1. Risk exposure****(i) The cyclical characteristics of the petroleum and petrochemicals markets and price volatility in crude oil and petrochemical products may have an adverse impact on the Group's operations**

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

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REPORT OF THE DIRECTORS *(continued)*

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

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

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

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

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

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REPORT OF THE DIRECTORS *(continued)*

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

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

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

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

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REPORT OF THE DIRECTORS *(continued)*

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

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

(vii) Risks associated with control by the major shareholder

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

Table of Contents**MAJOR EVENTS****(1) General Meeting**

Meeting session	Date	Designated websites for enquiry of publication of the resolutions	Date of publication of the resolutions
2016 annual general meeting	15 June 2017	Shanghai Securities News, China Securities Journal and Securities Times; the websites of the Shanghai Stock Exchange, the Hong Kong Stock Exchange and the Company	16 June 2017

(2) Plan for Ordinary Shares Profit Distribution or Capital Reserves Capitalization**1. The Formulation, Implementation or Adjustment of Cash Dividend Policy**

The 2016 Profit Distribution Plan was considered and approved at the 2016 annual general meeting held on 15 June 2017: to distribute a dividend of RMB2.50 per 10 shares (including tax) totalling RMB2,700,000,000 based on the total number of issued shares of 10.8 billion as at the record date for dividend payment. The relevant announcement was published in Shanghai Securities News, China Securities Journal and Securities Times on 16 June 2017 and was uploaded to the websites of the Hong Kong Stock Exchange, Shanghai Stock Exchange and the Company. On 6 July 2017, the Company published an announcement on the implementation of profit distribution plan for A shares for the year 2016. The record date for A shares dividend payment is 12 July 2017 and the ex-dividend date is 13 July 2017. The dividend payment date for both H shares and A public shares is 13 July 2017. The Profit Distribution Plan has been implemented as scheduled.

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

Nil.

(3) Performance of Undertakings**1. Undertakings Made by the De Facto Controller, Shareholders, Connected Parties, Purchaser of the Company and the Company during the Reporting Period or Continuing up to the Reporting Period**
Undertakings about the Share Reform Scheme

The Company disclosed The Explanatory Memorandum on the Share Reform Scheme (the Revised Draft) on 20 June 2013, in which the Company's controlling shareholder, Sinopec Corp., made the following major undertakings that

continued up to the Reporting Period:

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

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MAJOR EVENTS *(continued)*

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

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

With regard to the aforementioned undertakings, the Company did not notice any violation of the undertakings.

(4) Appointment and Dismissal of Auditors

During the Reporting Period, the Company has not changed the auditors.

(5) Material Lawsuits or Arbitration

The Company has no material lawsuits or arbitration during the Reporting Period.

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

During the Reporting Period, Mr. Pan Fei, independent non-executive Director, informed the Board that he has received an Advance Notice of Administrative Penalties and Prohibition to Access the Market issued by the CSRC. The CSRC intended to issue a warning and impose a fine of RMB50,000 on Mr. Pan in relation to the suspected illegal acts of information disclosure of Jiangsu Yabaite Technology Co., Ltd. (Yabaite) during Mr. Pan's tenure as an independent director of Yabaite. The above information has been set out in the announcement dated 29 June 2017. On 7 July 2017, Mr. Pan Fei tendered his resignation as an independent non-executive Director and Chairman of the Audit Committee and member of the Strategy Committee of the Board due to personal work arrangement. His resignation took effect upon the election of a new independent non-executive Director at the first extraordinary general meeting of the Company of 2017 held on 2 August 2017.

Save as disclosed above, during the Reporting Period, the Company and its Directors, Supervisors, senior management, controlling shareholder, de facto controller and purchasers had not been investigated, administratively punished, publicly criticized by the CSRC nor publicly censured by the stock exchanges.

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MAJOR EVENTS *(continued)*

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

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

(8) Share Option Incentive Scheme

1. Share Option Incentive Scheme Disclosed in Relevant Announcements

Summary

The fifth meeting of the Eighth Session of the Board considered and passed the Resolution on the adjustment to list of grantees and amount of initial grant under the Share Option Incentive Scheme and the Resolution on implementation of the initial grant under the Share Option Incentive Scheme .

The 18th meeting of the Eighth Session of the Board considered and passed the Resolution on the adjustment of peer benchmark enterprises of the A Shares Share Option Incentive Scheme of the Company .

The Resolution on the adjustment of peer benchmark enterprises of the A Shares Share Option Incentive Scheme of the Company was considered and passed at the 2016 annual general meeting.

Index of enquiry

Published in China Securities Journal, Shanghai Securities News, Securities Times on 7 January 2015 and uploaded to the websites of the Shanghai Stock Exchange, the Hong Kong Stock Exchange and the Company.

Published in China Securities Journal, Shanghai Securities News and Securities Times on 16 March 2017 and uploaded to the websites of the Shanghai Stock Exchange, the Hong Kong Stock Exchange and the Company.

Published in China Securities Journal, Shanghai Securities News and Securities Times on 16 June 2017 and uploaded to the websites of the Shanghai Stock Exchange, the Hong Kong Stock Exchange and the Company.

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MAJOR EVENTS *(continued)*

2. Share Option Incentive Scheme

(i) Date and number of the initial grant

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

Number of A shares share options grantees: 214 persons

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

(ii) Outstanding share options of Directors, chief executive and substantial shareholder during the Reporting Period

As at the beginning of the Reporting Period, the total number of outstanding A shares share options held by a total of five persons including directors, chief executive and substantial shareholders, and Mr. Jin Wenmin, Vice President, were 2,540,000.

As at the end of the Reporting Period, the total number of outstanding A shares share options held by the four persons, including Mr. Wang Zhiqing, Chairman and President, Mr. Gao Jinping, Vice Chairman and Vice President, Mr. Jin Qiang, Director and Vice President, Mr. Guo Xiaojun, Director, Vice President, Secretary to the Board and Joint Company Secretary, and Mr. Jin Wenmin, Vice President, were 2,110,000. Mr. Ye Guohua, former Director and Chief Financial Officer, resigned on 26 January 2017. Pursuant to the relevant terms of the Share Option Incentive Scheme, the 430,000 A shares share options granted to him lapsed during the Reporting Period.

(iii) Outstanding share options granted to employees other than the persons mentioned in item (ii)

As at the beginning of the Reporting Period, the total number of outstanding A shares share options held by the Company's key business personnel were 35,970,000.

During the Reporting Period, a total of 900,000 A shares share options granted to the Company's key business personnel lapsed due to resignation of grantees and other reasons. As at the end of the Reporting Period, the total number of outstanding A shares share options held by the Company's key business personnel was 35,070,000.

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

According to the principle disclosed by the Company on the determination of exercise price, the exercise price of the initial grant was RMB4.20 per share (in the event of dividend payment, capitalisation of capital reserves, bonus issue, subdivision or reduction of shares or placement of shares during the validity period, the exercise price shall be adjusted according to the Share Option Incentive Scheme). On 15 June 2016, the 2015 Profit Distribution Plan was considered and passed at the 2015 annual general meeting of the Company, whereby cash dividend of RMB1.00 was paid for every 10 shares. On 15 June 2017, the 2016 Profit Distribution Plan was considered and passed at the 2016

annual general meeting of the Company, whereby cash dividend of RMB2.50 was paid for every 10 shares, and the exercise price was adjusted to RMB3.85 per share.

Table of Contents**MAJOR EVENTS** *(continued)***(v) Validity period and exercise arrangement for the initial grant**

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

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

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

(vi) Update on the Share Options Incentive Scheme up to the report date

At the third meeting of the Ninth Session of the Board of the Company held on 23 August 2017, Resolution in respect of adjustment to the participants list and the number of share options of the A Shares Share Option Incentive Scheme

of Sinopec Shanghai , Resolution in respect of adjustment to the exercise price of share options initially granted under the A Shares Share Option Incentive Scheme of Sinopec Shanghai and Resolution in respect of determination of the exercise date and fulfillment of exercise conditions for the first exercisable period of share options initially granted under the A Shares Share Option Incentive Scheme of Sinopec Shanghai were considered and passed. A total of 2,410,000 A shares share options held by 15 participants shall lapse due to their resignation and other reasons. A total of 2,733,000 A shares share options held by 27 participants shall lapse after adjustment due to job transfer and other reasons.

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MAJOR EVENTS *(continued)*

A total of 5,143,000 A shares share options shall lapse after adjustment. The total number of outstanding A shares share options after adjustment is 33,617,000. For the first exercisable period, a total of 14,212,500 A shares share options granted is exercisable.

(9) Major Connected Transactions

1. Connected Transactions related to Daily Operations

During the Reporting Period, pursuant to the Mutual Product Supply and Sales Services Framework Agreement entered into with the controlling shareholder of the Company, Sinopec Corp., and the de facto controller Sinopec Group on 23 August 2016, the Company purchased raw materials from Sinopec Group, Sinopec Corp. and their associates and sold petroleum products and petrochemicals products and leased properties to Sinopec Corp. and its associates, and Sinopec Corp. and its associates provided agency sales services for petrochemical products to the Company. Pursuant to the Comprehensive Services Framework Agreement entered into between the Company and the Company's de facto controller Sinopec Group on 23 August 2016, the Company obtained construction installation, engineering design, petrochemical industry insurance and financial services from Sinopec Group and its associates.

The abovementioned transactions under the Mutual Product Supply and Sales Services Framework Agreement and the Comprehensive Services Framework Agreement constituted continuing connected transactions under Chapter 14A of the Hong Kong Listing Rules and constituted day-to-day connected transactions under the Shanghai Listing Rules. The Company has disclosed the two agreements and the respective continuing connected transactions under the agreements in the announcement dated 23 August 2016 and the circular dated 2 September 2016. These two agreements and the respective continuing connected transactions under the agreements, together with the associated annual caps from 2017 to 2019, were considered and approved at the first extraordinary general meeting of 2016 held on 18 October 2016.

During the Reporting Period, the relevant continuing connected transactions were conducted in accordance with the terms of the Mutual Product Supply and Sales Services Framework Agreement and the Comprehensive Services Framework Agreement. The transaction amounts of the respective continuing connected transactions did not exceed the caps of the respective continuing connected transactions approved at the first extraordinary general meeting of 2016.

Table of Contents**MAJOR EVENTS** (continued)

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

Type of connected transactions	Connected parties	Annual cap for 2017	Transaction amount during the Reporting Period	Unit: RMB 000 Percentage of the transaction amount of the same type of transaction (%)
Mutual Product Supply and Sales Services Framework Agreement				
Purchases of raw materials	Sinopec Group, Sinopec Corp. and their associates	63,257,000	18,570,990	56.55%
Sales of petroleum and petrochemical products	Sinopec Corp. and its associates	82,507,000	21,483,561	49.84%
Property leasing	Sinopec Corp. and its associates	36,000	13,878	60.44%
Agency sales of petrochemical products	Sinopec Corp. and its associates	195,000	50,595	100%
Comprehensive Services Framework Agreement				
Construction installation and engineering design services	Sinopec Group and its associates	1,788,000	53,476	13.42%
Petrochemical industry insurance services	Sinopec Group and its associates	140,000	63,387	97.32%
Financial services	Sinopec Group and its associates	200,000	0	

On 5 December 2016, the Company entered into an asset leasing agreement (the Lease Agreement) with Baishawan branch of Sinopec Petroleum Reserve Company Limited (Baishawan Branch), a wholly-owned subsidiary of the Company's de facto controller Sinopec Group. Pursuant to the Lease Agreement, the Company rents the oil tanks and ancillary facilities from Baishawan Branch at an annual rent up to RMB53,960,000 (exclusive of VAT), with the leasing period from 1 January 2016 to 31 December 2018. The Lease Agreement was considered and approved at the 16th meeting of the Eighth Session of the Board on 24 November 2016. Related announcements were published on the websites of the Shanghai Stock Exchange, the Hong Kong Stock Exchange and the Company, as well as on Shanghai Securities News, China Securities Journal and Securities Times on 25 November 2016. During the Reporting Period, the Company incurred leasing cost of RMB26,980,000.

Table of Contents**MAJOR EVENTS** (continued)

On 27 April 2017, the Company considered and approved the Resolution on waiver of the pre-emptive rights in the assigned equity interests in a joint venture company, a connected transaction under the Shanghai Listing Rules at the 19th meeting of the Eighth Session of the Board to give up its pre-emptive rights in acquiring the 50% equity interests in Shanghai SECCO held by BP Chemical East China Investment Company Limited (BP East China). Sinopec Corp. intended to acquire the above equity interests through its subsidiary, Sinopec Shanghai Gaoqiao Petrochemical Co., Ltd (Sinopec Shanghai Gaoqiao). Shanghai SECCO is a joint venture company of the Company, Sinopec Corp. and BP East China. Sinopec Corp. is a connected party of the Company. The Company's waiver of its pre-emptive rights to acquire the equity interests in the co-invested company with the connected party constituted a connected transaction under the Shanghai Listing Rules. The transaction did not constitute a connected transaction under the Hong Kong Listing Rules. On 15 June 2017, the Company considered and passed the above connected transaction at its 2016 annual general meeting. Related announcements were published on the websites of the Shanghai Stock Exchange, the Hong Kong Stock Exchange and the Company, as well as on Shanghai Securities News, China Securities Journal and Securities Times on 28 April 2017 and 16 June 2017, respectively.

2. Credits and Liabilities with Connected Parties

Connected party	Connected relationship	Funds provided to connected parties			Funds provided by connected parties to the listed company		
		Opening balance	of transaction	Closing balance	Opening balance	of transaction	Closing balance
		Amount			Amount		
Sinopec Corp. and its subsidiaries, joint venture companies and associates & Sinopec Group and its subsidiaries	Controlling shareholder, de facto controller and its connected parties	179	0	179	71,924	21,020	50,904

Unit: RMB '000

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

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

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

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MAJOR EVENTS *(continued)*

(10) Material Contracts and their Performance

1. Entrustments, Sub-contracts and Lease Arrangements

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

2. Guarantees

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

3. Other Major Contracts

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

(11) Environmental Protection Situation of Key Pollutant-discharging Companies and their Subsidiaries as Announced by the Ministry of Environmental Protection

The Company is one of the contaminating enterprises under Intensive Monitoring and Control by the State proclaimed by the Ministry of Environmental Protection. According to Measures for Self-Monitoring and Information Disclosure by the Enterprises subject to Intensive Monitoring and Control of the State (Trial Implementation) (has disclosed to the public on the website of the Shanghai Environmental Protection Bureau the sites of the source of pollution, pollutant types and concentration of pollution which are subject to intensive monitoring and control of the State.

The Company, as a manufacturing enterprise in the petrochemical industry, consistently places environmental protection as its top priority. The Company continues to participate in ISO14001 Environmental Management System Certification. In January 2013, the Company received certifications from the Shanghai Audit Center of Quality regarding quality (GB/T 19001: 2008), environment (GB/T 24001: 2004) and occupational health and safety (GB/T28001: 2011). On 26 October 2016, the continued use of the title All-China Environmentally Friendly Enterprise (21451; 12301;) was approved.

In 2017, the Company practiced development concepts of Innovation, Coordination, Green, Openness and Sharing persisted in green development and low-carbon strategy, adapted itself to the new norm of environment protection, continuously promoted the comprehensive environmental remediation in Jinshan District, carried on the sixth round of environmental protection three-year action and volatile organic compounds (VOCs) special treatment, implemented various measures to reduce emissions in order to realize economic, environmental and social effectiveness and achieve a multi-win situation. Besides, the Company standardized the management of environmental protection of the Three Simultaneous Activities for construction projects to keep on improving environmental protection capability.

Table of Contents**MAJOR EVENTS** *(continued)*

In the first half of 2017, the Company actively organized and implemented environmental protection and improvement projects, accelerated the construction of the Refining sulfur unit exhaust and Improvement of low-nitrogen burners for the heating furnace projects. In the first half of 2017, the emissions of sulfur dioxide and nitrogen oxides decreased by 31.24% and 18.24% year-on-year, respectively. At the same time, the compliance rate on both waste water and waste gas emissions were 100%, and all hazardous wastes were disposed of properly with a rate of 100%. The Company continually implements LDAR (Leak Detection and Repair) work and emission reduction of VOCs, to ensure the attainment of the emission reduction targets issued by the Municipal Environmental Protection Bureau. In the first half of 2017, a total of 736,069 sealing points were inspected, a total of 1,417 leakage points were detected, and a total of 1,289 leakage points were repaired. The repair rate was 90.97%.

In the first half of 2017, the Company paid a total of pollution discharge fees of RMB50,712,600 to the Shanghai Environmental Protection Bureau.

In the first half of 2017, the Company had 8 incidents of environmental administrative punishment, involving a total fine of RMB880,000. The main reasons for the punishment were: ineffective control on stable operations and continuous compliance of environmental management facilities, insufficient attention to the hazardous waste site management, insufficient control on the on-site emissions of production plants, and poor implementation of regular inspection and timely repairment in LDAR work.

(12) Corporate Governance

The Company acted in strict compliance with regulatory legislations such as the Company Law, the Securities Law, the Corporate Governance Principles for Listed Companies and the Guidelines for Establishing the Independent Directors System for Listed Companies issued by the CSRC, as well as the relevant requirements of the Shanghai Stock Exchange, the Hong Kong Stock Exchange and the New York Stock Exchange to push forward the innovation of the Company's system and management, to improve the corporate governance structure, and to strengthen the establishment of the Company's system in order to enhance the overall image of the Company.

(13) Event after the Reporting Period

At the third meeting of the Ninth Session of the Board of the Company held on 23 August 2017, Resolution in respect of adjustment to the participants list and the number of share options of the A Shares Share Option Incentive Scheme of Sinopec Shanghai, Resolution in respect of adjustment to the exercise price of share options initially granted under the A Shares Share Option Incentive Scheme of Sinopec Shanghai and Resolution in respect of determination of the exercise date and fulfillment of exercise conditions for the first exercisable period of share options initially granted under the A Shares Share Option Incentive Scheme of Sinopec Shanghai were considered and passed. A total of 2,410,000 A shares share options held by 15 participants shall lapse due to their resignation and other reasons. A total of 2,733,000 A shares share options held by 27 participants shall lapse after adjustment due to job transfer and other reasons. A total of 5,143,000 A shares share options shall lapse after adjustment. The total number of outstanding A shares share options after adjustment is 33,617,000. For the first exercisable period, a total of 14,212,500 A shares share options granted is exercisable.

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CHANGE IN SHARE CAPITAL OF ORDINARY SHARES AND SHAREHOLDERS

(1) Change in Share Capital of Ordinary Shares during the Reporting Period

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

There were no changes in the total number of shares and the share capital structure of the Company during the Reporting Period.

(2) Issue of Securities

1. Issue of Securities during the Reporting Period

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

2. Change in the Company's Total Number of Ordinary Shares, Shareholding Structure and the Company's Assets and Liabilities

There were no changes in the Company's total number of shares, shareholding structure and the Company's assets and liabilities as a result of bonus issues or share placements during the Reporting Period.

3. Employees Shares

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

(3) Shareholders

1. Total Number of Shareholders

Number of shareholders of ordinary shares as at the end of the Reporting Period	107,178
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Table of Contents**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****Shareholding of the top ten shareholders**

Unit: Share

Name of shareholders (Full name)	Class of shares	Increase/ decrease of shareholding during the Reporting Period (shares)	Number of shares held at the end of the Reporting Period (shares)	Percentage of shares held (%)	Number of			Nature of
					rest of the Reporting Period (shares)	Pledged/Frozen shares	Number of shares	
Sinopec Petroleum & Chemical Corporation	A shares	0	5,460,000,000	50.56	0	None	0	State-owned legal person
CCC (Nominees) Limited	H shares	331,000	3,455,297,321	31.99	0	Unknown		Overseas legal person
China Securities Finance Corporation Limited	A shares	153,956,949	486,060,039	4.50	0	None	0	Other
Central Huijin Investment Ltd.	A shares	0	67,655,800	0.63	0	None	0	Other
China Life Insurance Company Limited-Dividend-Individual-Dividend-005L-FH002	A shares	-593,473	31,978,667	0.30	0	None	0	Other
Shanghai Kangli Industry and Trade Co., Ltd	A shares	0	22,375,300	0.21	0	None	0	Other
Bank of China Limited - China New Economy Sustainable Allocation Hybrid Start-up Securities Investment Fund	A shares	0	19,645,656	0.18	0	None	0	Other
Abu Dhabi Investment Authority	A shares	-583,020	18,172,619	0.17	0	None	0	Other
ETF Combination 412	A shares	1,913,800	15,499,197	0.14	0	None	0	Other
Bank of China Limited - Huatai Pinebridge Quantitative Index Enhanced Equity Securities Investment Fund	A shares	Unknown	14,324,939	0.13	0	None	0	Other
None of the above shareholders are on connected relationship or acting in concert of the above shareholders								Among the above-mentioned shareholders, 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 above-mentioned shareholders, HKSCC (Nominees) Limited is a nominee. Apart from the above, the Company is not aware of any connected relationship among the other shareholders, or whether any other shareholder constitutes an act-in-concordance party under the Administrative Measures on Acquisition of Listed Companies.

Table of Contents**CHANGE IN SHARE CAPITAL OF ORDINARY SHARES AND SHAREHOLDERS** (continued)**(4) Change in Controlling Shareholder or De Facto Controller**

During the Reporting Period, there was no change in the controlling shareholder or the de facto controller of the Company.

(5) Interests and Short Positions of the Substantial Shareholders of the Company in Shares and Underlying Shares of the Company

As at 30 June 2017, so far as was known to the Directors and 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) who are required to disclose their interests pursuant to Divisions 2 and 3 of Part XV of the SFO, in the shares and underlying shares of the Company 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 shareholder	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) Promoter legal person shares		50.56	74.74	Beneficial owner
BlackRock, Inc.	242,638,937 H shares (L)	(1)	2.25	6.94	Interest of controlled corporation
	1,136,000 H shares (S)	(2)	0.01	0.03	Interest of controlled corporation
Corn Capital Company Ltd	187,478,000 H shares (L)	(3)	1.74	5.36	Beneficial owner
Qian Liying	187,478,000 H shares (L)	(3)	1.74	5.36	Interest of controlled corporation

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

- Notes: (1) Of the H shares (long position) held by BlackRock, Inc., 5,692,400 H shares (long position) were held through cash settled unlisted derivatives.
- (2) Of the H shares (short position) held by BlackRock, Inc., 934,000 H shares (short position) were held through cash settled unlisted derivatives.
- (3) These shares were held by Corn Capital Company Ltd. Qian Liying held 70% interests in Corn Capital Company Ltd. Pursuant to the SFO, Qian Liying was deemed to be interested in the shares held by Corn Capital Company Ltd.
- (4) 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 owns 71.32% of the issued share capital of Sinopec Corp. as at 30 June 2017. 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.

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CHANGE IN SHARE CAPITAL OF ORDINARY SHARES AND SHAREHOLDERS *(continued)*

Save as disclosed above, as at 30 June 2017, the Directors have not been notified by any person (other than the Directors, chief executive and Supervisors) that he or she had interests or short positions in the shares or 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.

Table of Contents**DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND OTHERS****(1) Change in Shareholdings****1. Changes in Shareholdings of the Current Directors, Supervisors and Senior Management and those Resigned during the Reporting Period**

Name	Position	Unit: Shares		
		Number of shares held at the beginning of the Reporting Period	Number of shares held at the end of the Reporting Period	Change in the number of shares during the Reporting Period
Wang Zhiqing	Executive Director, Chairman and President	Nil	Nil	No Change
Wu Haijun	Executive Director and Vice Chairman	Nil	Nil	No Change
Gao Jinping	Executive Director, Vice Chairman and Vice President	Nil	Nil	No Change
Jin Qiang	Executive Director and Vice President	Nil	Nil	No Change
Guo Xiaojun	Executive Director, Vice President, Secretary to the Board and Joint Company Secretary	Nil	Nil	No Change
Zhou Meiyun	Executive Director, Vice President and Chief Financial Officer	Nil	Nil	No Change
Lei Dianwu	Non-executive Director	Nil	Nil	No Change
Mo Zhenglin	Non-executive Director	Nil	Nil	No Change
Zhang Yimin	Independent non-executive Director	Nil	Nil	No Change
Liu Yunhong	Independent non-executive Director	Nil	Nil	No Change
Du Weifeng	Independent non-executive Director	Nil	Nil	No Change
Pan Fei*	Independent non-executive Director	Nil	Nil	No Change
Li Yuanqin*	Independent non-executive Director	Nil	Nil	No Change
Zhang Jianbo*	Chairman of the Supervisory Committee and Supervisor	Nil	Nil	No Change
Zuo Qiang	Supervisor	Nil	Nil	No Change
Li Xiaoxia	Supervisor	Nil	Nil	No Change
Zhai Yalin	Supervisor	Nil	Nil	No Change
Fan Qingyong	Supervisor	Nil	Nil	No Change
Zheng Yunrui	Independent Supervisor	Nil	Nil	No Change
Choi Ting Ki	Independent Supervisor	Nil	Nil	No Change
Jin Wenmin	Vice President	Nil	Nil	No Change
Ye Guohua		Nil	Nil	No Change

Former Executive Director, Vice President
and Chief Financial Officer

Table of Contents**DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND OTHERS** (continued)

- * On 7 July 2017, Mr. Pan Fei requested to resign from his positions as independent non-executive Director, Chairman of the Audit Committee and member of the Strategy Committee due to personal work arrangement. Mr. Pan's resignation took effect upon the election of a new independent non-executive Director at the first extraordinary general meeting of 2017 of the Company held on 2 August 2017.
- * On 2 August 2017, Ms. Li Yuanqin was appointed as independent non-executive Director at the first extraordinary general meeting of 2017. She was also appointed as the Chairman of the Audit Committee and member of the Strategy Committee at the second meeting of the Ninth Session of the Board on the same day.
- * On 11 July 2017, Mr. Zhang Jianbo requested to resign from his positions as Chairman of the Supervisory Committee and Supervisor due to a change of job assignment. Mr. Zhang's resignation took effect upon the submission of the resignation letter to the Supervisory Committee of the Company on 11 July 2017.

(2) A Shares Share Options Held by the Directors, Supervisors and Senior Management during the Reporting Period

Unit: A shares share options

Name	Position	Number of					
		Number of A shares share options held at the beginning of the Reporting Period	Number of A shares share options granted during the Reporting Period	Number of A shares share options exercised during the Reporting Period	Number of A shares share options cancelled/lapsed during the Reporting Period	Number of A shares share options held at the end of the Reporting Period	
Wang Zhiqing	Executive Director, Chairman and President	500,000	0	0	0	500,000	
Gao Jinping	Executive Director, Vice Chairman and Vice President	500,000	0	0	0	500,000	
Ye Guohua*	Executive Director, Vice President and Chief Financial Officer	430,000	0	0	430,000	0	
Jin Qiang	Executive Director and Vice President	430,000	0	0	0	430,000	
Guo Xiaojun	Executive Director, Vice President, Secretary to the Board and Joint Company Secretary	430,000	0	0	0	430,000	
Jin Wenmin	Vice President	250,000	0	0	0	250,000	
Total		2,540,000				2,110,000	

- * On 26 January 2017, Mr. Ye Guohua requested to resign from his position. Pursuant to the term of the Share Option Incentive Scheme, the share options granted to Mr. Ye lapsed.

Table of Contents**DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND OTHERS** (continued)**(3) Changes in Directors, Supervisors and Senior Management during the Reporting Period**

Name	Position held	Change	Reason/Former Position
Ye Guohua	Executive Director, Vice President and Chief Financial Officer	Resigned	Resignation on own accord
Zhang Jianbo	Secretary to the Board and Joint Company Secretary	Resigned	Resignation on own accord
Guo Xiaojun	Secretary to the Board and Joint Company Secretary	Appointed	
Zhang Jianbo	Chairman of the Supervisory Committee and Supervisor	Appointed	
Zhou Meiyun	Executive Director, Vice President and Chief Financial Officer	Elected	
Pan Fei	Independent non-executive Director	Elected	Former Independent Supervisor
Choi Ting Ki	Independent Supervisor	Elected	Former Independent non-executive Director
Pan Fei*	Independent non-executive Director	Resigned	Resignation on own accord
Zhang Jianbo*	Chairman of the Supervisory Committee and Supervisor	Resigned	Resignation on own accord
Li Yuanqin*	Independent non-executive Director	Elected	

* On 7 July 2017, Mr. Pan Fei requested to resign from his positions as independent non-executive Director, Chairman of the Audit Committee and member of the Strategy Committee due to personal work arrangement. Mr. Pan's resignation took effect upon the election of a new independent non-executive Director at the first extraordinary general meeting of 2017 of the Company held on 2 August 2017.

* On 2 August 2017, Ms. Li Yuanqin was appointed as an independent non-executive Director at the first extraordinary general meeting of 2017. She was also appointed as the Chairman of the Audit Committee and member of the Strategy Committee at the second meeting of the Ninth Session of the Board on the same day.

* On 11 July 2017, Mr. Zhang Jianbo requested to resign from his positions as a Chairman of the Supervisory Committee and Supervisor due to a change of job assignment. Mr. Zhang's resignation took effect upon the submission of the resignation letter to the Supervisory Committee of the Company on 11 July 2017.

(4) Interests and Short Positions of the Directors, Chief Executive and Supervisors in the Shares, Underlying Shares and Debentures of the Company or Its Associated Corporations

As at 30 June 2017, 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:

Table of Contents**DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND OTHERS** (continued)**Interests in underlying shares of the Company**

Name	Position held	Number of underlying shares held in respect of A shares share options under the Share Option Incentive Scheme (shares)	Percentage of		Capacity
			Percentage of total issued shares of the Company (%)	Percentage of total issued shares of the relevant class (%)	
Wang Zhiqing	Executive Director, Chairman and President	500,000 (L)	0.005	0.007	Beneficial owner
Gao Jinping	Executive Director, Vice Chairman and Vice President	500,000 (L)	0.005	0.007	Beneficial owner
Jin Qiang	Executive Director and Vice President	430,000 (L)	0.004	0.006	Beneficial owner
Guo Xiaojun	Executive Director, Vice President, Secretary to the Board and Joint Company Secretary	430,000 (L)	0.004	0.006	Beneficial owner

(L): Long position

Save as disclosed above, as at 30 June 2017, 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 and 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.

(5) Changes in Directors and Supervisors Information

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. From 15 June 2017, Mr. Choi Ting Ki's position changed from independent non-executive Director to independent Supervisor and he resigned as Chairman of the Audit Committee.
2. From 15 June 2017, Mr. Pan Fei's position changed from independent Supervisor to independent non-executive Director and he was appointed as Chairman of the Audit Committee and member of the Strategy Committee.
3. On 15 June 2017, Mr. Guo Xiaojun, executive Director and Vice President was appointed as Secretary to the Board, Joint Company Secretary and member of the Strategy Committee.

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DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND OTHERS *(continued)*

4. Mr. Wang Zhiqing, executive Director, Chairman & President, was appointed as Chairman of the Strategy Committee; Mr. Zhou Meiyun, executive Director, Mr. Lei Dianwu and Mr. Mo Zhenglin, non-executive Directors and Mr. Pan Fei ^{Note}, independent non-executive Director, were appointed as members of the Strategy Committee, effective on 15 June 2017.

5. The remuneration of Mr. Zheng Yunrui and Mr. Choi Ting Ki, independent Supervisors, was determined in accordance with the Remuneration Payment Method for Independent Supervisors approved at the Company's 2016 AGM. Pursuant to the Remuneration Payment Method for Independent Supervisors, the standard allowance of independent Supervisors is RMB100,000 per annum payable by two instalments. The Company shall reimburse the independent Supervisors out of pocket expenses necessarily incurred in carrying out their duties in accordance with the Articles of Association and the travel expenses incurred for attending Supervisory Committee meetings, Board meetings and shareholders meetings.

6. Mr. Zheng Yunrui, independent Supervisor, was appointed as member of the Expert Advisory Committee of Yangpu District of Shanghai People's Procuratorate, and arbitrator of Shanghai No. 2 Intermediate People's Court effective on 24 March 2017 and 26 June 2017, respectively.
Mr. Zheng submitted his written resignation to the board of directors of Yangzhou Chenhua New Material Co., Ltd. (Chenhua) on 17 April 2017 due to personal reason. Mr. Zheng's resignation will become effective upon filling of his vacancy at the first extraordinary general meeting of 2017 of Chenhua.

7. Mr. Zhou Meiyun, executive Director, ceased to be the manager of the Finance Department of Shanghai SECCO in April 2017.

8. Mr. Liu Yunhong, independent non-executive Director, was appointed as an independent director of Shenergy Company Limited and Bank of Guiyang Co. Ltd. (both listed on the Shanghai Stock Exchange, stock code: 600642 and 601997, respectively) in May and July 2017, respectively.

Note: On 7 July 2017, Mr. Pan Fei tendered his resignation as an independent non-executive Director and Chairman of the Audit Committee and member of the Strategy Committee due to personal work arrangement. The resignation of Mr. Pan Fei took effect upon the election of a new independent non-executive Director in the first extraordinary general meeting of 2017 of the Company held on 2 August 2017.

(6) Audit Committee

On 22 August 2017, the Audit Committee of the Ninth Session of the Board held its first meeting, primarily to review the interim financial report of the Group for the Reporting Period.

(7) Purchase, Sale and Redemption of the Company's Securities

During the Reporting Period, the Company did not purchase, sell or redeem any of the Company's securities (for the definition of "securities", please refer to paragraph 1 of Appendix 16 to the Hong Kong Listing Rules).

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DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND OTHERS *(continued)*

(8) Compliance with Corporate Governance Code

During the Reporting Period, the Company applied and complied with all code provisions set out in the Corporate Governance Code contained in Appendix 14 to the Hong Kong Listing Rules except for the deviation from code provision A.2.1 of the Corporate Governance Code as set out below.

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

Deviation: Mr. Wang Zhiqing was appointed as the Chairman and the President (equivalent to chief executive) of the Company.

Reason: Mr. Wang Zhiqing has extensive experience in the operations and management of petrochemicals enterprise. Mr. Wang is the most suitable candidate to serve both the positions of Chairman and President of the Company. For the time being, the Company has not been able to identify another person who is in possession of better or similar competency and talent as Mr. Wang to serve either of the above positions.

(9) Compliance with Model Code for Securities Transactions

The Company has adopted and implemented the Model Code for Securities Transactions to regulate the securities transactions of the Directors and Supervisors. After making specific enquiries with all of the Directors and Supervisors and having obtained written confirmations from each Director and Supervisor, no incident of non-compliance with the Model Code for Securities Transactions by the Directors and Supervisors during the Reporting Period was noted by the Company.

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

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DOCUMENTS FOR INSPECTION

- (1) 2017 interim report signed by the Chairman;
- (2) Financial statements signed and sealed by the legal representative, chief financial officer and accounting chief of the Company;
- (3) Originals of all documents and announcements of the Company which were disclosed in the newspapers designated by the CSRS during the Reporting Period;
- (4) Written confirmation of the interim report signed by the Company's directors, supervisors and senior management.

The Company keeps all the documents listed above at the Company's Secretariat, the address of which is as follows:

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

Postal code: 200540

Chairman: Wang Zhiqing

Date of filing approved by the Board: 23 August 2017

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REPORT ON REVIEW OF INTERIM FINANCIAL INFORMATION

TO THE BOARD OF DIRECTORS OF SINOPEC SHANGHAI PETROCHEMICAL COMPANY LIMITED

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

Introduction

We have reviewed the interim financial information set out on pages 47 to 77, which comprises the interim condensed consolidated balance sheet of Sinopec Shanghai Petrochemical Company Limited (the Company) and its subsidiaries (together, the Group) as at 30 June 2017 and the related interim condensed consolidated statement of income, comprehensive income, changes in equity and cash flows for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and International Accounting Standard 34 Interim Financial Reporting issued by the International Accounting Standards Board. The directors of the Company are responsible for the preparation and presentation of this interim financial information in accordance with International Accounting Standard 34 Interim Financial Reporting. Our responsibility is to express a conclusion on this interim financial information based on our review and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Scope of Review

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410, Review of Interim Financial Information Performed by the Independent Auditor of the Entity issued by the Hong Kong Institute of Certified Public Accountants. A review of interim financial information consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Conclusion

Based on our review, nothing has come to our attention that causes us to believe that the interim financial information is not prepared, in all material respects, in accordance with International Accounting Standard 34 Interim Financial Reporting.

PricewaterhouseCoopers

Certified Public Accountants

Hong Kong, 23 August 2017

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**A. Condensed consolidated interim financial information prepared under
International Financial Reporting Standards (unaudited)
Sinopec Shanghai Petrochemical Company Limited - For the six months ended 30 June 2017
INTERIM CONDENSED CONSOLIDATED INCOME STATEMENT**

		Unaudited	
		Six-month period ended 30 June	
		2017	2016
	Note	RMB 000	RMB 000
Revenue	6	43,081,380	36,968,510
Sales taxes and surcharges		(6,005,273)	(6,186,162)
Net sales		37,076,107	30,782,348
Cost of sales		(34,265,969)	(26,814,760)
Gross profit		2,810,138	3,967,588
Selling and administrative expenses		(237,647)	(254,238)
Other operating income		53,533	34,497
Other operating expenses		(7,326)	(8,909)
Other losses - net	7	(5,454)	(25,696)
Operating profit	6	2,613,244	3,713,242
Finance income	7	119,203	41,500
Finance expenses	7	(23,269)	(34,549)
Share of profit of investments accounted for using the equity method		565,068	381,745
Profit before income tax		3,274,246	4,101,938
Income tax expense	8	(671,073)	(948,241)
Profit for the period		2,603,173	3,153,697
Profit attributable to:			
- Owners of the Company		2,598,499	3,148,609
- Non-controlling interests		4,674	5,088
		2,603,173	3,153,697

Earnings per share attributable to owners of the Company for the period (expressed in RMB per share)

Basic earnings per share	9	RMB0.241	RMB0.292
Diluted earnings per share	9	RMB0.240	RMB0.291

The notes on pages 53 to 77 form an integral part of this condensed consolidated interim financial information.

Wang Zhiqing

Chairman and President

Zhou Meiyun

Director and Chief Financial Officer

Table of Contents**INTERIM CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME**

	Unaudited	
	Six-month period ended 30 June	
	2017	2016
	RMB 000	RMB 000
Profit for the period	2,603,173	3,153,697
Other comprehensive losses for the period - net of tax	(552)	
Total comprehensive income for the period	2,602,621	3,153,697
Profit attributable to:		
- Owners of the Company	2,597,947	3,148,609
- Non-controlling interests	4,674	5,088
Total comprehensive income for the period	2,602,621	3,153,697

The notes on pages 53 to 77 form an integral part of this condensed consolidated interim financial information.

Wang Zhiqing

Chairman and President

Zhou Meiyun

Director and Chief Financial Officer

Table of Contents**INTERIM CONDENSED CONSOLIDATED BALANCE SHEET**

	Note	Unaudited 30 June 2017 RMB 000	Audited 31 December 2016 RMB 000
Assets			
Non-current assets			
Lease prepayment and other assets		831,557	705,456
Property, plant and equipment	11	12,791,321	13,474,287
Deferred income tax assets		100,543	103,091
Investment properties		390,537	380,429
Construction in progress		959,490	717,672
Investments accounted for using the equity method	12	3,793,956	3,688,794
		18,867,404	19,069,729
Current assets			
Inventories		7,016,933	6,159,473
Trade receivables	13	603,800	414,944
Bills receivable	13	1,052,398	1,238,620
Other receivables	13	213,690	165,798
Prepayments		139,340	165,804
Amounts due from related parties	13,19(c)	1,280,095	1,290,619
Cash and cash equivalents	14	7,955,926	5,440,623
		18,262,182	14,875,881
Total assets		37,129,586	33,945,610
Equity			
Equity attributable to owners of the Company			
Share capital	9	10,800,000	10,800,000
Reserves	18	13,828,014	13,921,965
		24,628,014	24,721,965
Non-controlling interests		282,311	281,270
Total equity		24,910,325	25,003,235

Table of Contents**INTERIM CONDENSED CONSOLIDATED BALANCE SHEET** *(continued)*

	Note	Unaudited 30 June 2017 RMB 000	Audited 31 December 2016 RMB 000
Liabilities			
Current liabilities			
Borrowings	15	613,421	546,432
Trade payables	17	2,276,634	2,123,904
Advance from customers		424,270	462,992
Bills payable	17	88,000	5,000
Other payables	17	3,732,398	2,139,378
Amounts due to related parties	17,19(c)	4,960,990	3,044,304
Income tax payable		123,548	620,365
		12,219,261	8,942,375
Total liabilities		12,219,261	8,942,375
Total equity and liabilities		37,129,586	33,945,610

The notes on pages 53 to 77 form an integral part of this condensed consolidated interim financial information.

Wang Zhiqing

Chairman and President

Zhou Meiyun

Director and Chief Financial Officer

Table of Contents**INTERIM CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

	Note	Unaudited Attributable to owners of the Company					Non-controlling interests RMB 000	Total equity RMB 000
		Share capital RMB 000	Other reserves RMB 000	Retained profits RMB 000	Total RMB 000			
Balance at 1 January 2017		10,800,000	4,237,276	9,684,689	24,721,965	281,270	25,003,235	
Total comprehensive income for the period ended 30 June 2017			(552)	2,598,499	2,597,947	4,674	2,602,621	
Dividends proposed and approved	10			(2,700,000)	(2,700,000)		(2,700,000)	
Employees share option scheme	18(a)		8,102		8,102		8,102	
Dividends paid by subsidiaries to non-controlling interests						(3,633)	(3,633)	
Appropriation of safety production fund	18(b)		22,015	(22,015)				
Balance at 30 June 2017		10,800,000	4,266,841	9,561,173	24,628,014	282,311	24,910,325	

	Note	Unaudited Attributable to owners of the Company					Non-controlling interests RMB 000	Total equity RMB 000
		Share capital RMB 000	Other reserves RMB 000	Retained profits RMB 000	Total RMB 000			
Balance at 1 January 2016		10,800,000	4,201,666	4,795,616	19,797,282	297,038	20,094,320	
Total comprehensive income for the period ended 30 June 2016				3,148,609	3,148,609	5,088	3,153,697	
Dividends proposed and approved				(1,080,000)	(1,080,000)		(1,080,000)	
Employees share option scheme	18(a)		11,350		11,350		11,350	

Dividends paid by subsidiaries to non-controlling interests					(25,508)	(25,508)
Appropriation of safety production fund	18(b)	39,441	(39,441)			
Balance at 30 June 2016		10,800,000	4,252,457	6,824,784	21,877,241	276,618
						22,153,859

The notes on pages 53 to 77 form an integral part of this condensed consolidated interim financial information.

Wang Zhiqing

Chairman and President

Zhou Meiyun

Director and Chief Financial Officer

Table of Contents**INTERIM CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS**

		Unaudited Six-month period ended 30 June	
	Note	2017 RMB 000	2016 RMB 000
Cash flows from operating activities			
Cash generated from operations		3,525,195	5,046,061
Interest paid		(8,553)	(31,576)
Income tax paid		(1,166,415)	(401,037)
Net cash generated from operating activities		2,350,227	4,613,448
Cash flows from investing activities			
Dividends received from joint ventures and associates		459,354	200,595
Cash received from entrusted lending		24,000	42,000
Interest received		83,599	42,435
Cash received from three-month time deposit		500,000	
Net proceeds/(payments) from disposal of property, plant and equipment		791	(1,730)
Cash payment of three-month time deposit		(500,000)	
Purchases of property, plant and equipment and other long-term assets		(444,740)	(265,241)
Cash payment of entrusted lending		(12,000)	(24,000)
Net cash generated from/(used in) investing activities		111,004	(5,941)
Cash flows from financing activities			
Proceeds from borrowings		101,647	1,864,657
Repayments of borrowings		(34,658)	(3,075,000)
Dividends paid by subsidiaries to non-controlling interests		(3,633)	(25,508)
Net cash generated from/(used in) financing activities		63,356	(1,235,851)
Net increase in cash and cash equivalents		2,524,587	3,371,656
Cash and cash equivalents at beginning of the period		5,440,623	1,077,430
Exchange (loss)/gains on cash and cash equivalents		(9,284)	2,220
Cash and cash equivalents at end of the period	14	7,955,926	4,451,306

The notes on pages 53 to 77 form an integral part of this condensed consolidated interim financial information.

Wang Zhiqing

Zhou Meiyun

Chairman and President

Director and Chief Financial Officer

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NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION

1 General information

Sinopec Shanghai Petrochemical Company Limited (the Company), located in Jinshan District of Shanghai, is one of the largest refining-chemical integrated petrochemical companies in China. It is one of the subsidiaries of China Petroleum & Chemical Corporation (Sinopec Corp.). The Company and its subsidiaries (the Group) are principally engaged in processing the crude oil into synthetic fibres resins and plastics intermediate petrochemical and petroleum product.

This condensed consolidated interim financial information is presented in thousands of Renminbi Yuan (RMB), unless otherwise stated. This condensed consolidated interim financial information was approved for issue on 23 August 2017.

This condensed consolidated interim financial information has been reviewed, not audited.

2 Basis of preparation

This condensed consolidated interim financial information for the six-month period ended 30 June 2017 has been prepared in accordance with International Accounting Standard 34 (IAS 34), ‘Interim financial reporting . The condensed consolidated interim financial information should be read in conjunction with the annual financial statements for the year ended 31 December 2016, which have been prepared in accordance with International Financial Reporting Standards (IFRS).

3 Accounting policies

The accounting policies applied are consistent with those of the annual financial statements for the year ended 31 December 2016 as described in those annual financial statements.

(a) New and amended standards adopted by the Group

The following new and amended standards and interpretations are effective for the financial year beginning on 1 January 2017. None of them have a material impact on the Group.

• Amendments to IAS 7, ‘Statement of cash flows

• Amendments to IAS 12, ‘Income taxes

• Amendment to IFRS 12, ‘Disclosure of interest in other entities

There are no other amended standards or interpretations that are effective for the first time for this interim period that could be expected to have a material impact on the Group.

Table of Contents**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION** *(continued)***3 Accounting policies** *(continued)*

(b) New standards and interpretations not yet adopted

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning after 1 January 2017 and have not been applied in preparing this condensed consolidated interim financial information. Those applicable to the Group are listed below.

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

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

As at 30 June 2017, no significant impact was identified and Management is still assessing the effects of applying the new standard on the Group's financial statements. The Group does not intend to adopt the standard before its effective date and will make more detailed assessments of the impact.

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NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION *(continued)*

3 Accounting policies *(continued)*

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

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

The standard will affect primarily the accounting for the Group's operating leases when the Group is as the lessee in those leases. As at the reporting date, the Group has non-cancellable operating lease commitments, as disclosed in Note 20. Most of the commitments are covered by the exception for short-term and low value leases under new IFRS 16 standard. The Group is still evaluating the effects of the new standard on the other lease commitments with the lease term greater than one year. At this stage, the Group does not intend to adopt the standard before its effective date.

4 Estimates

The preparation of interim financial information requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

In preparing these condensed consolidated interim financial information, the significant judgements made by management in applying the Group's accounting policies and the key sources of estimation uncertainty were the same as those that applied to the consolidated financial statements for the year ended 31 December 2016.

5 Financial risk management

(a) Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

The interim condensed consolidated financial information do not include all financial risk management information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements for the year ended 31 December 2016.

There have been no changes in the risk management policies since 31 December 2016.

Table of Contents**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION** *(continued)***5 Financial risk management** *(continued)*

(b) Foreign exchange risk

The Group's major operational activities are carried out in Mainland China and a majority of the transactions are denominated in RMB. The Group is exposed to foreign exchange risk arising from the recognised assets and liabilities (mainly trade receivables, trade payables and cash and cash equivalents), and future transactions denominated in foreign currencies, primarily with respect to USD. The Group's finance department at its headquarter is responsible for monitoring the amount of assets and liabilities, and transactions denominated in foreign currencies to minimise the foreign exchange risk.

As at 30 June 2017, if RMB had strengthened/weakened by 5% against the foreign currencies with all other variables held constant, the Group's net profit for the six-month period ended 30 June 2017 would have been RMB17,101 thousands increased/decreased (31 December 2016: RMB23,139 thousands increased/decreased in net profit) as a result of foreign exchange gains/losses which is mainly resulted from the translation of USD denominated trade receivables and trade payables.

(c) Offsetting financial assets and financial liabilities

(i) Financial assets

	As at 30 June 2017 RMB 000	As at 31 December 2016 RMB 000
Gross amounts of recognised amounts due from related parties	1,333,621	1,403,442
Gross amounts of recognised amounts due to a related party set off in the balance sheet	(53,526)	(112,823)
Net amounts of amounts due from related parties presented in the balance sheet	1,280,095	1,290,619

Table of Contents**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION** *(continued)***5 Financial risk management** *(continued)*(c) Offsetting financial assets and financial liabilities *(continued)*

(ii) Financial liabilities

	As at 30 June 2017 RMB 000	As at 31 December 2016 RMB 000
Gross amounts of recognised amounts due to related parties	5,014,516	3,157,127
Gross amounts of recognised amounts due from a related party set off in the balance sheet	(53,526)	(112,823)
Net amounts of amounts due to related parties presented in the balance sheet	4,960,990	3,044,304

According to the offsetting master arrangement entered into in October 2014 between the Company and its related party, Shanghai Secco Petrochemical Company Limited, the relevant financial assets and liabilities of each operating agreement between the Group and Shanghai Secco Petrochemical Company Limited, are settled on a net basis each month.

Table of Contents**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION** (continued)**6 Segment information**

The basis of segmentation and the basis of measurement of segment profit or losses, and assets and liabilities are consistent with those of the annual financial statements for the year ended 31 December 2016.

	2017		Six-month period ended			
	Total segment revenue RMB 000	Inter segment revenue RMB 000	Revenue from external customers RMB 000	Total segment revenue RMB 000	2016 Inter segment revenue RMB 000	Revenue from external customers RMB 000
Synthetic fibres	1,062,461		1,062,461	999,011		999,011
Resins and plastics	4,842,058	(30,803)	4,811,255	4,787,639	(40,622)	4,747,017
Intermediate petrochemicals	9,593,171	(4,731,777)	4,861,394	8,939,032	(4,693,316)	4,245,716
Petroleum products	22,729,508	(2,759,447)	19,970,061	19,059,944	(1,524,150)	17,535,794
Trading of petrochemical products	12,507,380	(558,281)	11,949,099	9,710,137	(706,127)	9,004,010
All others segments	933,194	(506,084)	427,110	701,252	(264,290)	436,962
Total	51,667,772	(8,586,392)	43,081,380	44,197,015	(7,228,505)	36,968,510

	Six-month period ended 30 June	
	2017 RMB 000	2016 RMB 000
Profit from operations		
Synthetic fibres	(241,435)	(228,822)
Resins and plastics	484,332	712,019
Intermediate petrochemicals	748,810	761,914
Petroleum products	1,622,166	2,457,322
Trading of petrochemical products	34,848	26,765
Others	(35,477)	(15,956)
Total consolidated profit from operations	2,613,244	3,713,242
Net finance income	95,934	6,951
Share of profit of investments accounted for using the equity method	565,068	381,745

Profit before taxation	3,274,246	4,101,938
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Table of Contents**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION** *(continued)***6 Segment information** *(continued)*

	As at 30 June 2017 Total assets RMB 000	As at 31 December 2016 Total assets RMB 000
Allocated assets		
Synthetic fibres	1,167,016	1,405,804
Resins and plastics	2,084,541	1,821,576
Intermediate petrochemicals	4,346,718	4,441,418
Petroleum products	14,197,602	13,426,863
Trading of petrochemical products	2,331,997	1,186,590
Others	2,412,343	2,323,376
Allocated assets	26,540,217	24,605,627
Unallocated assets		
Investments accounted for using the equity method	3,793,956	3,688,794
Cash and cash equivalents	6,561,956	5,440,623
Deferred tax assets	100,543	103,091
Others	132,914	107,475
Unallocated assets	10,589,369	9,339,983
Total assets	37,129,586	33,945,610

Table of Contents**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION** *(continued)***6 Segment information** *(continued)*

	As at 30 June 2017 Total liabilities RMB 000	As at 31 December 2016 Total liabilities RMB 000
Allocated liabilities		
Synthetic fibres	340,076	344,287
Resins and plastics	1,032,747	1,118,166
Intermediate petrochemicals	1,063,304	1,126,031
Petroleum products	4,488,617	4,323,580
Trading of petrochemical products	2,030,650	1,407,484
Others	63,867	76,395
Allocated liabilities	9,019,261	8,395,943
Unallocated liabilities		
Borrowings	500,000	546,432
Others	2,700,000	
	3,200,000	546,432
Total liabilities	12,219,261	8,942,375

Table of Contents**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION** *(continued)***7 Profit before income tax****(a) Finance income - net**

	Six-month period ended 30 June	
	2017	2016
	RMB 000	RMB 000
Interest income	114,935	39,989
Net foreign exchange gain	4,268	1,511
Finance income	119,203	41,500
Interest on bank and other borrowings	(23,269)	(34,549)
Finance expenses	(23,269)	(34,549)
Finance income net	95,934	6,951

(b) Other losses net

	Six-month period ended 30 June	
	2017	2016
	RMB 000	RMB 000
Net losses on disposal of property, plant and equipment	(5,130)	(23,977)
Others	(324)	(1,719)
	(5,454)	(25,696)

Table of Contents**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION** *(continued)***7 Profit before income tax** *(continued)***(c) Operating items**

	Six-month period ended 30 June	
	2017	2016
	RMB 000	RMB 000
Amortisation of lease prepayments	(8,706)	(8,706)
Depreciation	(804,729)	(820,141)
Research and development costs	(11,323)	(47,144)
Write-down of inventories net	(17,243)	(37,944)
Impairment of property, plant and equipment	(18,874)	(112,063)
Net loss on disposal of property, plant and equipment	(5,130)	(23,977)

During the six-month period ended 30 June 2017, as a result of upgrade of environment protection facilities, the Company made impairment provisions of RMB18,874 thousands to reduce the carrying amounts of Smoke Processing Facility to their estimated net realizable values as these items were going to be disposed of in near future (six-month period ended 30 June 2016: RMB112,063 thousands).

8 Income tax expense

	Six-month period ended 30 June	
	2017	2016
	RMB 000	RMB 000
Provision for PRC income tax for the period	(668,525)	(964,869)
Deferred taxation	(2,548)	16,628
	(671,073)	(948,241)

The provision for PRC income tax is calculated at the rate of 25% (six-month period ended 30 June 2016: 25%) on the estimated taxable income of the six-month period ended 30 June 2017 determined in accordance with relevant income tax rules and regulations.

Table of Contents**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION** *(continued)***9 Earnings per share****(a) Basic**

The calculation of basic profit per share is based on the profit attributable to equity shareholders of the Company for the six-month period ended 30 June 2017 of RMB2,598,499 thousands (six-month period ended 30 June 2016: profit of RMB3,148,609 thousands) and 10,800,000,000 shares (six-month period ended 30 June 2016: 10,800,000,000 shares) in issue during the interim period.

(b) Diluted

Diluted earnings per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares.

The Company has dilutive potential ordinary shares from share options. A calculation is done to determine the number of shares that could have been acquired at fair value (determined as the average market share price of the Company's A shares for the six-month period ended 30 June 2017) based on the monetary value of the subscription rights attached to outstanding share options. The number of ordinary shares in issue is compared with the number of shares that would have been issued assuming the exercise of the share options. The calculation of the diluted earnings per share for the six-month period ended 30 June 2017 and the six-month period ended 30 June 2016 was shown as:

	Six-month period ended 30 June	
	2017	2016
	RMB 000	RMB 000
Earnings		
Profit attributable to owners of the Company	2,598,499	3,148,609
Weighted average number of ordinary shares in issue (thousands of shares)	10,800,000	10,800,000
Adjustments for share options granted (thousands of shares)	11,923	6,961
Weighted average number of ordinary shares for diluted earnings per share (thousands of shares)	10,811,923	10,806,961
Diluted earnings per share (RMB per share)	0.240	0.291

Table of Contents**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION** (continued)**10 Dividends**

Pursuant to a resolution passed at the Annual General Meeting held on 15 June 2017, a total dividend of RMB2,700,000 thousands was declared for the year ended 31 December 2016 and subsequently paid in July 2017. The Board of Directors did not propose any dividend in respect of the six-month period ended 30 June 2017.

Pursuant to a resolution passed at the Annual General Meeting held on 15 June 2016, a total dividend of RMB1,080,000 thousands was declared for the year ended 31 December 2015 and subsequently paid in July 2016. The Board of Directors did not propose any dividend in respect of the six-month period ended 30 June 2016.

11 Property, plant and equipment

	Buildings	Plant and machinery	Vehicles and other equipment	Total
	RMB 000	RMB 000	RMB 000	RMB 000
Six-month period ended 30 June 2016				
Opening net book amount	1,318,440	12,710,384	354,495	14,383,319
Additions		57,583	7,589	65,172
Disposals	(311)	(20,818)	(1,118)	(22,247)
Reclassification	(743)	(2,530)	3,273	
Transferred from construction in progress		244,247	5,016	249,263
Charge for the period	(53,759)	(727,702)	(31,902)	(813,363)
Impairment losses		(104,878)	(7,184)	(112,062)
Closing net book amount	1,263,627	12,156,286	330,169	13,750,082
Six-month period ended 30 June 2017				
Opening net book amount	1,259,193	11,863,517	351,577	13,474,287
Additions			45	45
Disposals	(142)	(5,144)	(635)	(5,921)
Reclassification	(23,066)	20,990	2,076	
Transferred from construction in progress		147,024	9,597	156,621
Transferred to investment property	(16,687)			(16,687)
Charge for the period	(44,999)	(719,951)	(33,200)	(798,150)
Impairment losses		(18,874)		(18,874)

Closing net book amount	1,174,299	11,287,562	329,460	12,791,321
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In the six month period ended 30 June 2017, the amount of depreciation expense charged to cost of sales and selling and administrative expense were RMB793,457 thousands and RMB4,693 thousands, respectively (Six month period ended 30 June 2016: RMB808,895 thousands and RMB4,468 thousands, respectively).

Table of Contents**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION** *(continued)***12 Investments accounted for using the equity method**

	Six-months period ended 30 June 2017
	RMB 000
Beginning of the period	3,688,794
Share of profit	565,068
Other comprehensive losses	(552)
Cash dividends distribution	(459,354)
End of the period	3,793,956

13 Trade and other receivables

	As at 30 June 2017	As at 31 December 2016
	RMB 000	RMB 000
Trade receivables	603,828	414,962
Less: allowance for doubtful debts	(28)	(18)
	603,800	414,944
Bills receivable	1,052,398	1,238,620
Amounts due from related parties (Note 19(c))	1,280,095	1,290,619
	2,936,293	2,944,183
Other receivables (i)	213,690	165,798
	3,149,983	3,109,981

Table of Contents**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION** *(continued)***13 Trade and other receivables** *(continued)*

(i) As at 30 June 2017, entrusted lendings of RMB76,000 thousands included in other receivables was made by the Group at interest rates of 1.75% per annum, which will be due within twelve months from 30 June 2017 (31 December 2016: RMB88,000 thousands at interest rates of 1.75% per annum).

As at 30 June 2017, the Group didn't have any trade receivable which was past due but not impaired (31 December 2016: nil).

Amounts due from related parties represent trade-related balances.

The ageing analysis of trade receivables, bills receivable and amounts due from related parties (net of impairment losses for bad and doubtful debts) based on invoice date is as follows:

	As at 30 June 2017 RMB 000	As at 31 December 2016 RMB 000
Within one year	2,936,262	2,944,162
Above one year	31	21
	2,936,293	2,944,183

Bills receivable represent short-term bank acceptance receivables that entitle the Group to receive the full face amount of the receivables from the banks at maturity, which generally range from one to six months from the date of issuance. Historically, the Group had experienced no credit losses on bills receivable.

As at 30 June 2017, no trade receivables or bills receivable was pledged as collateral (31 December 2016: nil).

Sales to third parties are generally on cash basis and letter of credit against payment. Subject to negotiation, credit term is generally only available for major customers with well-established trading records.

14 Cash and cash equivalents

	As at 30 June 2017 RMB 000	As at 31 December 2016 RMB 000
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Cash deposits with a related party (Note 19(c))	42,967	169,261
Cash at bank and in hand	7,912,959	5,271,362
	7,955,926	5,440,623

Table of Contents**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION** (continued)**15 Borrowings**

	As at 30 June 2017 RMB 000	As at 31 December 2016 RMB 000
Short term loans		
- Short term bank loans	613,421	546,432

As at 30 June 2017, no borrowings were secured by property, plant and equipment (31 December 2016: nil).

The Group has the following undrawn facilities:

	As at 30 June 2017 RMB 000	As at 31 December 2016 RMB 000
Expiring within one year	20,323,983	1,704,966
Expiring beyond one year	1,500,000	21,959,224
	21,823,983	23,664,190

These facilities have been arranged to finance the working capitals as well as ongoing investments on long-term assets.

The Company does not have any exposure to collateralised debt obligations. The Company has sufficient headroom to enable it to conform to covenants on its existing borrowings. The Company has sufficient undrawn financing facilities to service its operating activities and ongoing investments.

16 Fair value of financial assets and liabilities measured at amortised cost

Financial assets and financial liabilities not measured at fair value mainly represent cash and cash equivalents, bills receivable, trade receivables and other receivables (except for the prepayments), trade and other payables (except for the staff salaries and welfare payables and other taxes payables) and borrowings. As at 30 June 2017, the carrying amounts of these financial assets and liabilities not measured at fair value is a reasonable approximation of their fair value.

Table of Contents**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION** *(continued)***17 Trade and other payables**

	As at 30 June 2017 RMB 000	As at 31 December 2016 RMB 000
Trade payables	2,276,634	2,123,904
Bills payable	88,000	5,000
Amounts due to related parties (Note 19(c))	4,960,990	3,044,304
	7,325,624	5,173,208
Staff salaries and welfares payable	106,256	37,634
Taxes payable (exclude income tax payable)	1,443,930	1,538,062
Interest payable	1,300	465
Dividends payable	1,355,473	20,473
Construction and maintenance payable	502,723	191,043
Other liabilities	322,716	351,701
	3,732,398	2,139,378
	11,058,022	7,312,586

As at 30 June 2017 and 31 December 2016, all trade and other payables of the Group were non-interest bearing, and their fair value, which are not financial liabilities, approximated their carrying amounts due to their short maturities.

As at 30 June 2017, the amounts due to related parties included the dividend payable due to Sinopec Corp. of RMB1,365,000 thousands (31 December 2016: nil).

As at 30 June 2017 and 31 December 2016, the ageing analysis of the trade payables (including amounts due to related parties of trading in nature) and bills payable based on invoice date were as follows:

	As at 30 June 2017 RMB 000	As at 31 December 2016 RMB 000
Within one year	5,929,970	5,151,868
Between one and two years	18,010	7,373
Over two years	12,644	13,967

5,960,624

5,173,208

Table of Contents**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION** *(continued)***18 Reserves**

(a) Share option reserve

Pursuant to the resolution of the fifth meeting of the eighth session of the Board of Directors of the Company on 6 January 2015, the proposal regarding the list of participants and the number of share options under the share option incentive scheme was approved.

According to the Company's share option incentive scheme, the grant date of share options was 6 January 2015, and there were a total of 38,760 thousand share options granted to 214 participants (0.359% of the total ordinary share capital issued). Each share option has a right to purchase an ordinary A share listed in PRC starting from the exercisable date at the exercise price under vesting conditions. The options were divided into three tranches of 40%, 30% and 30% of the total share options granted, respectively. Each tranche had independent vesting conditions relevant to years 2015, 2016 and 2017, respectively, which were listed as following:

• weighted average rate of return on equity of the Group should be no less than 9% for 2015, 9.5% for 2016 and 10% for 2017 in respect to the three tranche;

• for each year of 2015, 2016 and 2017, the compound annual growth rate in net profit based on the net profit of 2013 should achieve 5%;

• for each year of 2015, 2016 and 2017, proportion of the main business revenue in the total revenue should be no less than 99%;

• for each year of 2015, 2016 and 2017, each of the above three conditions should be no lower than the 75% level of peer companies; and

• achieving the target budget set by the Sinopec Corp. in 2015, 2016 and 2017, respectively.

The participant should serve the Group at the required position from the grant date. Exercisable amount of each tranche depended on the time for which the participant served the Group during each year of 2015, 2016 and 2017. Upon the fulfilment of relevant vesting conditions, the share options of each tranche shall become exercisable at its exercisable date.

The fair value of the employee services received in exchange for the grant of this equity-settled, share-based compensation plan is recognised as an expense on a straight-line basis over the vesting period of each tranche. The total amount to be expensed is determined by reference to the fair value of the options granted excluding the impact of any service and non-market performance vesting conditions. When the options are exercised, the Company issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital and share

premium.

Table of Contents**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION** *(continued)***18 Reserves** *(continued)*(a) Share option reserve *(continued)*

As at the grant date, the exercise price of each option was RMB4.2. During the vesting period, the exercise price would be adjusted according to the declaration of dividends or any changes of total shares. As at 30 June 2017, the outstanding share options of each tranche, their exercisable date and exercise price are as follows. These outstanding share options will expire in twelve months after each first exercisable date.

The share options outstanding as at 30 June 2017, the first exercisable dates and exercise prices:

First exercisable date	Exercise price (per share in RMB)	Outstanding share options
6 January 2017	3.85	15,404,000
6 January 2018	3.85	10,888,000
6 January 2019	3.85	10,888,000

The total fair value of share options at the grant date was RMB65,412 thousands, which has been valued by an external valuation expert using Black-Scholes valuation model.

The significant inputs into the model were as follows:

	Granting date
Spot share price	RMB4.51
Exercise price	RMB4.20
Expected volatility	41.20%
Maturity (years)	5.00
Risk-free interest rate	3.39%~3.67%
Dividend yield	1.00%

As at 30 June 2017, no share option had been exercised yet.

Share option expenses of RMB8,102 thousands have been recognised in the interim condensed consolidated income statement for the six-month period ended 30 June 2017 (six-month period ended 30 June 2016: 11,350 thousands).

(b)

For the six-month period ended 30 June 2017, the Group transferred RMB22,015 thousands (six-month period ended 30 June 2016: RMB39,441 thousands) from retained earnings to reserves for the safety production fund determined according to relevant PRC regulations.

- (c) For the six-month period ended 30 June 2017 and six-month period ended 30 June 2016, no transfers were made to the statutory surplus reserve or the discretionary surplus reserve.

Table of Contents**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION** *(continued)***19 Related-party transactions**

The following is a list of the Group's major related parties:

Names of related parties	Relationship with the Company
China Petrochemical Corporation (Sinopec Group)	Ultimate parent company
China Petroleum & Chemical Corporation (Sinopec Corp.)	Immediate parent company
Sinopec Huadong Sales Company Limited	Subsidiary of the immediate parent company
China International United Petroleum and Chemical Company Limited	Subsidiary of the immediate parent company
China Petrochemical International Company Limited	Subsidiary of the immediate parent company
Sinopec Chemical Commercial Holding Company Limited	Subsidiary of the immediate parent company
Sinopec Finance Company Limited (Sinopec Finance)	Subsidiary of the ultimate parent company
Shanghai Secco Petrochemical Co., Ltd. (Shanghai Secco)	Associate of the Group
BOC-SPC Gases Co., Ltd.	Joint venture of the Group

The following is a summary of significant balances and transactions between the Group and its related parties except for the dividends payable as disclosed in Note 10 and Note 17.

- (a) Most of the transactions undertaken by the Group during the six-month period ended 30 June 2017 have been affected on such terms as determined by Sinopec Corp. and relevant PRC authorities.

Sinopec Corp. negotiates and agrees the terms of crude oil supply with suppliers on a group basis, which is then allocated among its subsidiaries, including the Group, on a discretionary basis. Sinopec Corp. also owns a widespread petroleum products sales network and possesses a fairly high market share in domestic petroleum products market, which is subject to extensive regulation by the PRC government.

The Group has entered into a mutual product supply and sales services framework agreement with Sinopec Corp. Pursuant to the agreement, Sinopec Corp. provides the Company with crude oil, other petrochemical raw materials and agent services. On the other hand, the Group provides Sinopec Corp. with petroleum products, petrochemical products and property leasing services.

The pricing policy for these services and products provided under the agreement is as follows:

• if there are applicable State (central and local government) tariffs, the pricing shall follow the State tariffs;

• if there are no State tariffs, but there are applicable State's guidance prices, the pricing shall follow the State's guidance prices; or

• if there are no State tariffs or State s guidance prices, the pricing shall be determined in accordance with the prevailing market prices (including any bidding prices).

Table of Contents**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION** *(continued)***19 Related-party transactions** *(continued)*(a) *(continued)*

Transactions between the Group and Sinopec Corp, its subsidiaries and joint ventures during the six-month period ended 30 June 2017 and the six-month period ended 30 June 2016 were as follows:

	Six-month period ended 30 June	
	2017	2016
	RMB 000	RMB 000
Sales of petroleum products	18,385,259	16,582,384
Sales other than petroleum products	2,789,038	2,548,304
Purchases of crude oil	15,503,972	9,190,466
Purchases other than crude oil	2,695,179	2,012,603
Sales commissions	50,595	46,872
Rental income	13,878	14,217

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NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION (continued)

19 Related-party transactions (continued)

- (b) Other transactions between the Group and Sinopec Group and its subsidiaries, associates and joint ventures of the Group during the six-month period ended 30 June 2017 and the six-month period ended 30 June 2016 were as follows:

	Six-month period ended 30 June	
	2017	2016
	RMB 000	RMB 000
Sales of goods and service fee income		
- Sinopec Group and its subsidiaries	4,741	33,577
- Associates and joint ventures of the Group	1,455,674	860,318
	1,460,415	893,895
Purchases		
- Sinopec Group and its subsidiaries	371,839	74,350
- Associates and joint ventures of the Group	2,020,608	1,732,059
	2,392,447	1,806,409
Insurance premiums		
- Sinopec Group and its subsidiaries	63,387	60,895
Interest income		
- Sinopec Finance	5,025	127
Loans repayment		
- Sinopec Finance		300,000
Interest expenses		
- Sinopec Finance		2,278
Construction and installation cost		
- Sinopec Group and its subsidiaries	53,476	61,316

The directors of the Company are of the opinion that the transactions with Sinopec Corp., its subsidiaries and joint ventures, Sinopec Group and its subsidiaries, associates and joint ventures of the Group as disclosed in Notes 19(a) and 19(b) were conducted in the ordinary course of business, on normal commercial terms and in accordance with the agreements governing such transactions.

Table of Contents**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION** *(continued)***19 Related-party transactions** *(continued)*

- (c) The relevant amounts due from/to Sinopec Corp., its subsidiaries and joint ventures, Sinopec Group and its subsidiaries, associates and joint ventures of the Group, arising from purchases, sales and other transactions as disclosed in Notes 19(a) and 19(b), are summarised as follows:

	As at 30 June 2017 RMB 000	As at 31 December 2016 RMB 000
Amounts due from related parties		
- Sinopec Corp., its subsidiaries and joint ventures	1,190,719	1,226,972
- Sinopec Group and its subsidiaries	452	331
- Associates and joint ventures of the Group	88,924	63,316
	1,280,095	1,290,619
Amounts due to related parties		
- Sinopec Corp., its subsidiaries and joint ventures	4,661,292	2,620,546
- Sinopec Group and its subsidiaries	41,718	387,788
- Associates and joint ventures of the Group	257,980	35,970
	4,960,990	3,044,304
Cash deposits, maturing within three months		
- Sinopec Finance (i)	42,967	169,261

- (i) As at 30 June 2017 and 31 December 2016, cash deposits at Sinopec Finance were charged at an interest rate of 0.35% per annum.

Except for cash deposits at Sinopec Finance from Sinopec Finance, the balances with related parties as above are unsecured, interest-free and repayable on demand.

Table of Contents**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION** *(continued)***19 Related-party transactions** *(continued)*

(d) Key management personnel compensation, post-employment benefit plans and share options
Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including directors and supervisors of the Group. The key personnel compensations are as follows:

	Six-month period ended 30 June	
	2017	2016
	RMB 000	RMB 000
Short-term employee benefits	3,492	3,267
Post-employment benefits	74	73
Share-based payments	460	671
	4,026	4,011

(e) Commitments with related parties

(1) Construction and installation cost

	As at	As at
	30 June 2017	31 December 2016
	RMB 000	RMB 000
Sinopec Group and its subsidiaries	25,864	4,310

(2) Operating lease commitments Group company as lessee

	As at	As at
	30 June 2017	31 December 2016
	RMB 000	RMB 000
Sinopec Group and its subsidiaries		
No later than 1 year	59,160	53,960
Later than 1 year and no later than 2 years	29,580	53,960

88,740

107,920

Except for the above, the Group had no other material commitments with related parties as at 30 June 2017 and 31 December 2016, which are contracted, but not included in the interim financial report.

Table of Contents**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION** *(continued)***19 Related-party transactions** *(continued)*

(f) Investment commitments with related parties

	As at 30 June 2017 RMB 000	As at 31 December 2016 RMB 000
Capital contribution to Shanghai Secco	111,263	111,263

Pursuant to the resolution of the 18th meeting of the 7th term of Board of Directors on 5 December 2013, it was approved to make capital contribution of USD30,017 thousands (RMB182,804 thousands equivalent) to Shanghai Secco, an associate of the Group. The capital to Shanghai Secco will be contributed in RMB by instalments. The capital contribution is mainly to meet the funding needs of the implementation of the 260,000 tons of AN-2 project (AN-2 project), and 90,000 tons of BEU-2 project (BEU-2 project).

On 10 December 2013, the Company contributed the first instalment of RMB60,000 thousands for AN-2 project. As at 5 March 2014, the Company contributed the first instalment of RMB11,541 thousands for BEU-2 project. According to the approval by Shanghai Municipal Commission of Commerce as issued on 19 October 2015, the rest of the capital contribution to Shanghai Secco should be within 50 years starting

from its registration date.

Except for the above, the Group and the Company had no other material commitments with related parties as at 30 June 2017, which are contracted, but not included in the financial statements.

20 Commitments

(a) Capital commitments

	As at 30 June 2017 RMB 000	As at 31 December 2016 RMB 000
Property, plant and equipment		
Contracted but not provided for	305,770	5,300
Authorised but not contracted for	1,124,076	908,036

1,429,846

913,336

Table of Contents**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL INFORMATION** *(continued)***20 Commitments** *(continued)***(b) Operating lease commitments the Group as lessee**

Besides the lease agreement disclosed in the forgoing Note 19 (e), the Group also entered into other various non-cancellable operating lease agreements. The future aggregate minimum lease payments under non-cancellable operating leases are as follows:

	As at 30 June 2017 RMB 000	As at 31 December 2016 RMB 000
No later than 1 year	61,144	60,125
Later than 1 year and no later than 2 years	31,222	54,438
Later than 2 year and no later than 3 years	910	384
Later than 3 years	3,033	3,207
	96,309	118,154

Table of Contents**B. Interim Financial Statements Prepared under China Accounting Standards for Business Enterprises
(unaudited)****CONSOLIDATED AND COMPANY BALANCE SHEETS**

AS AT 30 JUNE 2017

(All amounts in thousands of Renminbi Yuan unless otherwise stated)

	Note	[English Translation for Reference Only]			
		30 JUNE		30 JUNE	
		2017 (UNAUDITED) Consolidated	31 DECEMBER 2016 Consolidated	2017 (UNAUDITED) Company	31 DECEMBER 2016 Company
ASSETS					
Current assets					
Cash at bank and on hand	4(1)	7,955,926	5,440,623	6,561,956	4,421,143
Notes receivable	4(2)	1,082,328	1,267,920	836,997	1,097,011
Accounts receivable	4(4), 13(1)	1,776,299	1,656,580	891,743	1,211,039
Advances to suppliers	4(6)	77,501	29,340	40,651	21,409
Interests receivable	4(3)	42,932	11,596	38,002	11,553
Other receivables	4(5), 13(2)	64,923	56,545	46,692	36,345
Inventories	4(7)	7,016,933	6,159,473	6,240,795	5,374,425
Other current assets	4(8)	245,340	253,804	156,047	157,771
Total current assets		18,262,182	14,875,881	14,812,883	12,330,696
Non-current assets					
Long-term equity investments	4(9), 13(3)	3,938,956	3,838,794	5,090,416	4,972,861
Investment properties	4(10)	390,537	380,429	421,649	413,943
Fixed assets	4(11), 13(4)	12,818,399	13,502,370	12,560,600	13,219,994
Construction in progress	4(12)	959,490	717,672	958,211	717,294
Intangible assets	4(13)	397,410	406,116	329,718	335,877
Long-term prepaid expenses	4(14)	434,147	299,340	423,049	287,578
Deferred tax assets	4(15)	100,543	103,091	93,870	99,057
Total non-current assets		19,039,482	19,247,812	19,877,513	20,046,604
Total assets		37,301,664	34,123,693	34,690,396	32,377,300

Table of Contents**CONSOLIDATED AND COMPANY BALANCE SHEETS** *(continued)*

AS AT 30 JUNE 2017

(All amounts in thousands of Renminbi Yuan unless otherwise stated)

LIABILITIES AND SHAREHOLDERS EQUITY	Note	[English Translation for Reference Only]			
		30 JUNE		30 JUNE	
		2017 (UNAUDITED) Consolidated	31 DECEMBER 2016 Consolidated	2017 (UNAUDITED) Company	31 DECEMBER 2016 Company
Current liabilities					
Short-term borrowings	4(17)	613,421	546,432	614,000	632,000
Notes payable	4(18)	88,000	5,000	55,000	
Accounts payable	4(19)	5,817,181	5,082,470	3,833,950	3,729,702
Advances from customers	4(20)	428,809	476,806	309,728	447,647
Employee benefits payable	4(21)	106,256	37,634	97,542	30,989
Taxes payable	4(22)	1,567,478	2,158,427	1,539,669	2,106,163
Interest payable	4(23)	1,300	465	423	470
Dividends payable	4(24)	2,720,473	20,473	2,720,473	20,473
Other payables	4(25)	876,343	614,668	831,294	608,660
Total current liabilities		12,219,261	8,942,375	10,002,079	7,576,104
Non-current liabilities					
Deferred income	4(26)	145,000	150,000	145,000	150,000
Total liabilities		12,364,261	9,092,375	10,147,079	7,726,104
Shareholders equity					
Share capital	1, 4(27)	10,800,000	10,800,000	10,800,000	10,800,000
Capital surplus	4(28)	542,730	534,628	542,730	534,628
Other comprehensive income	4(29)	17,661	18,213	17,661	18,213
Specific reserve	4(30)	22,361	346	20,726	
Surplus reserve	4(31)	5,100,401	5,100,401	5,100,401	5,100,401
Undistributed profits	4(32)	8,171,939	8,296,460	8,061,799	8,197,954
Total equity attributable to equity shareholders of the Company		24,655,092	24,750,048	24,543,317	24,651,196
Non-controlling interests	4(33)	282,311	281,270		

Total shareholders equity	24,937,403	25,031,318	24,543,317	24,651,196
Total liabilities and shareholders equity	37,301,664	34,123,693	34,690,396	32,377,300

The accompanying notes form an integral part of these financial statements.

Chairman and President
Wang Zhiqing

Director and Chief Financial Officer
Zhou Meiyun

Accounting Chief
Zhang Feng

Table of Contents**CONSOLIDATED AND COMPANY INCOME STATEMENTS**

FOR THE SIX MONTHS ENDED 30 JUNE 2017

(All amounts in thousands of Renminbi Yuan unless otherwise stated)

Items	Note	[English Translation for Reference Only]			
		Six Months Ended 30 June		Six Months Ended 30 June	
		2017	2016	2017	2016
		(UNAUDITED)	(UNAUDITED)	(UNAUDITED)	(UNAUDITED)
		Consolidated	Consolidated	Company	Company
Revenue	4(34), 13(5)	43,106,950	36,993,191	30,538,444	27,195,559
Less: Cost of sales	4(34), 13(5)	32,841,971	25,177,628	20,387,572	15,516,828
Taxes and surcharges	4(35)	6,005,273	6,186,162	5,995,639	6,183,034
Selling and distribution expenses	4(36)	222,774	235,672	174,200	184,934
General and administrative expenses	4(37)	1,413,059	1,544,793	1,344,941	1,468,342
Financial expenses - net	4(38)	(88,839)	1,983	(92,022)	5,359
Asset impairment losses	4(41)	36,142	150,004	50,182	139,940
Add: Investment income	4(40), 13(6)	560,068	376,745	539,227	397,411
Including: Share of profit of associates and joint ventures		560,068	376,745	539,227	397,411
Operating profit		3,236,638	4,073,694	3,217,159	4,094,533
Add: Non-operating income	4(42)	35,117	17,364	30,336	15,993
Including: Profits on disposal of non-current assets		2,154	2,548	1,780	1,894
Less: Non-operating expenses	4(43)	20,529	41,054	20,015	40,927
Including: Losses on disposal of non-current assets		7,284	26,525	7,136	26,398
Total profit		3,251,226	4,050,004	3,227,480	4,069,599
Less: Income tax expenses	4(44)	671,073	948,241	663,635	935,490
Net profit		2,580,153	3,101,763	2,563,845	3,134,109
Attributable to shareholders of the Company		2,575,479	3,096,675		
Non-controlling interests		4,674	5,088		
Other comprehensive income		(552)		(552)	

Table of Contents**CONSOLIDATED AND COMPANY INCOME STATEMENTS (continued)**

FOR THE SIX MONTHS ENDED 30 JUNE 2017

(All amounts in thousands of Renminbi Yuan unless otherwise stated)

Items	Note	[English Translation for Reference Only]			
		Six Months Ended 30 June		Six Months Ended 30 June	
		2017 (UNAUDITED) Consolidated	2016 (UNAUDITED) Consolidated	2017 (UNAUDITED) Company	2016 (UNAUDITED) Company
Total comprehensive income		2,579,601	3,101,763	2,563,293	3,134,109
Attributable to shareholders of the Company		2,574,927	3,096,675		
Non-controlling interests		4,674	5,088		
Earnings per share					
Basic earnings per share (RMB)	4(45)	0.238	0.287		
Diluted earnings per share (RMB)	4(45)	0.238	0.287		

The accompanying notes form an integral part of these financial statements.

Chairman and President

Wang Zhiqing

Director and Chief Financial Officer

Zhou Meiyun

Accounting Chief

Zhang Feng

Table of Contents**CONSOLIDATED AND COMPANY CASH FLOW STATEMENTS**

FOR THE SIX MONTHS ENDED 30 JUNE 2017

(All amounts in thousands of Renminbi Yuan unless otherwise stated)

Items	Note	[English Translation for Reference Only]			
		Six Months Ended 30 June		Six Months Ended 30 June	
		2017 (UNAUDITED) Consolidated	2016 (UNAUDITED) Consolidated	2017 (UNAUDITED) Company	2016 (UNAUDITED) Company
Cash flows from operating activities					
Cash received from sale of goods or rendering of services		48,049,792	40,959,820	35,114,634	30,642,588
Refund of taxes and surcharges		30,724	19,829		
Cash received relating to other operating activities	4(46)	27,963	9,662	23,555	9,099
Sub-total of cash inflows		48,108,479	40,989,311	35,138,189	30,651,687
Cash paid for goods and services		(35,324,087)	(26,427,676)	(22,687,660)	(16,365,281)
Cash paid to and on behalf of employees		(1,139,673)	(1,191,300)	(1,057,237)	(1,108,144)
Payments of taxes and surcharges		(9,066,272)	(8,467,073)	(9,020,705)	(8,415,782)
Cash paid relating to other operating activities	4(46)	(219,667)	(258,238)	(280,974)	(562,958)
Sub-total of cash outflows		(45,749,699)	(36,344,287)	(33,046,576)	(26,452,165)
Net cash flows generated from operating activities	4(47), 13(7)	2,358,780	4,645,024	2,091,613	4,199,522
Cash flows from investing activities					
Cash received from entrusted lendings		24,000	42,000		
Cash received from returns on investments		459,354	200,595	421,120	178,200
Net cash received from disposal of fixed assets		791		381	
Cash received relating to other investing activities	4(46)	583,599	42,435	575,011	27,952
Sub-total of cash inflows		1,067,744	285,030	996,512	206,152
		(444,740)	(265,241)	(421,500)	(264,844)

Cash paid to acquire fixed assets and
other long-term assets

Net cash paid in disposal of fixed assets		(1,730)		(2,407)
Investment in an associate	(12,000)	(24,000)		
Cash paid relating to other investing activities	(500,000)		(500,000)	
Sub-total of cash outflows	(956,740)	(290,971)	(921,500)	(267,251)
Net cash flows used in/(generated from) investing activities	111,004	(5,941)	75,012	(61,099)

Table of Contents**CONSOLIDATED AND COMPANY CASH FLOW STATEMENTS (continued)**

FOR THE SIX MONTHS ENDED 30 JUNE 2017

(All amounts in thousands of Renminbi Yuan unless otherwise stated)

[English Translation for Reference Only]

Items	Note	Six Months Ended 30 June		Six Months Ended 30 June	
		2017 (UNAUDITED) Consolidated	2016 (UNAUDITED) Consolidated	2017 (UNAUDITED) Company	2016 (UNAUDITED) Company
Cash flows from financing activities					
Cash received from borrowings		101,647	1,864,657	18,000	2,276,000
Sub-total of cash inflows		101,647	1,864,657	18,000	2,276,000
Cash repayments of borrowings		(34,658)	(3,075,000)	(36,000)	(3,443,000)
Cash paid for distribution of dividends or profits and interest expenses		(12,186)	(57,084)	(7,812)	(31,806)
Including: Cash payments for dividends or profit to non-controlling shareholders of subsidiaries		(3,633)	(25,508)		
Sub-total of cash outflows		(46,844)	(3,132,084)	(43,812)	(3,474,806)
Net cash flows used in/(generated from) financing activities		54,803	(1,267,427)	(25,812)	(1,198,806)
Effect of foreign exchange rate changes on cash and cash equivalents		(9,284)	2,220		
Net increase in cash and cash equivalents		2,515,303	3,373,876	2,140,813	2,939,617
Add: Cash and cash equivalents at the beginning of the period	4(1)	5,440,623	1,077,430	4,421,143	942,264
Cash and cash equivalents at the end of the period	4(1)	7,955,926	4,451,306	6,561,956	3,881,881

The accompanying notes form an integral part of these financial statements.

Chairman and President

Wang Zhiqing

Director and Chief Financial Officer

Zhou Meiyun

Accounting Chief

Zhang Feng

Table of Contents**CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY***FOR THE SIX MONTHS ENDED 30 JUNE 2017*

(All amounts in thousands of Renminbi Yuan unless otherwise stated)

[English Translation for Reference Only]

Attributable to equity shareholders of the Company

Items	Note	Share capital	Attributable to equity shareholders of the Company			Surplus reserve	Undistributed profits	Non-controlling interests	Total shareholders equity
			Capital surplus	Other comprehensive income	Specific reserve				
Balance at 1 January 2016		10,800,000	516,624		953	4,493,260	4,028,025	297,038	20,135,900
Movements for the six months ended 30 June 2016 (unaudited)									
Total comprehensive income									
Net profit for the period							3,096,675	5,088	3,101,763
Employees share option scheme			11,350						11,350
Appropriation of profits									
Distribution to the shareholders	4(32)						(1,080,000)	(25,508)	(1,105,508)
Specific reserve									
Accrued	4(30)				53,343				53,343
Utilised	4(30)				(13,902)				(13,902)
Balance at 30 June 2016 (unaudited)		10,800,000	527,974		40,394	4,493,260	6,044,700	276,618	22,182,946
Balance at 1 January 2017		10,800,000	534,628	18,213	346	5,100,401	8,296,460	281,270	25,031,318

**Movements
for the six
months ended
30 June 2017
(unaudited)**

Total comprehensive income									
Net profit for the period						2,575,479	4,674	2,580,153	
Other comprehensive loss	4(29)		(552)					(552)	
Employees share option scheme	4(28)		8,102					8,102	
Appropriation of profits									
Distribution to the shareholders	4(32)					(2,700,000)	(3,633)	(2,703,633)	
Specific reserve									
Accrued	4(30)					46,320		46,320	
Utilised	4(30)					(24,305)		(24,305)	
Balance at 30 June 2017 (unaudited)		10,800,000	542,730	17,661	22,361	5,100,401	8,171,939	282,311	24,937,403

The accompanying notes form an integral part of these financial statements.

Chairman and President
Wang Zhiqing

Director and Chief Financial Officer
Zhou Meiyun

Accounting Chief
Zhang Feng

Table of Contents**STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY***FOR THE SIX MONTHS ENDED 30 JUNE 2017*

(All amounts in thousands of Renminbi Yuan unless otherwise stated)

[English Translation for Reference Only]

Items	Share capital	Capital surplus	Other comprehensive income	Specific reserve	Surplus reserve	Undistributed profits	Total shareholders equity
Balance at 1 January 2016	10,800,000	516,624			4,493,260	3,813,684	19,623,568
Movements for the six months ended 30 June 2016 (unaudited)							
Total comprehensive income							
Net profit for the period						3,134,109	3,134,109
Employees share option scheme		11,350					11,350
Appropriation of profits							
Distribution to the shareholders						(1,080,000)	(1,080,000)
Specific reserve							
Accrued				50,340			50,340
Utilised				(12,974)			(12,974)
Balance at 30 June 2016 (unaudited)	10,800,000	527,974		37,366	4,493,260	5,867,793	21,726,393
Balance at 1 January 2017	10,800,000	534,628	18,213		5,100,401	8,197,954	24,651,196
Movements for the six months ended 30 June 2017 (unaudited)							
Total comprehensive income							
Net profit for the period						2,563,845	2,563,845
Other comprehensive loss			(552)				(552)
Employees share option		8,102					8,102

scheme							
Appropriation of profits							
Distribution to the shareholders						(2,700,000)	(2,700,000)
Specific reserve							
Accrued				44,220			44,220
Utilised				(23,494)			(23,494)
Balance at 30 June 2017 (unaudited)	10,800,000	542,730	17,661	20,726	5,100,401	8,061,799	24,543,317

The accompanying notes form an integral part of these financial statements.

Chairman and President
Wang Zhiqing

Director and Chief Financial Officer
Zhou Meiyun

Accounting Chief
Zhang Feng

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NOTES TO THE FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2017

(All amounts in thousands of Renminbi Yuan unless otherwise stated)

[English Translation for Reference Only]

1 General information

Sinopec Shanghai Petrochemical Company Limited (the Company), formerly Shanghai Petrochemical Company Limited, was established in the People's Republic of China (the PRC) on 29 June 1993 with registered capital of RMB4,000,000,000, invested by its holding company-China National Petrochemical Corporation; these shares were converted from assets of former Shanghai Petrochemical Complex.

H shares were listed on the Hong Kong Stock Exchange on 26 July 1993, and listed on the New York Stock Exchange in the form of American Depositary Shares at the same time; the A shares were listed on the Shanghai Stock Exchange on 8 November 1993.

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

The Company changed its name to Sinopec Shanghai Petrochemical Company Limited on 12 October 2000.

As at 30 June 2017, total Share capital of the Company were 10,800,000,000 thousands, 1 Yuan per share.

The Company and its subsidiaries (the Group) is a highly integrated entity which processes crude oil into synthetic fibres, resins and plastics, intermediate petrochemicals and petroleum products.

Details of the Company's principal subsidiaries are set out in Note 5.

These financial statements were authorised for issue by the Board of Directors on 23 August 2017.

2 Summary of significant accounting policies and accounting estimates

The Group determines the accounting policies and accounting estimates based on its production and management features, mainly reflecting in provision for decline in the value of inventories (Note 2(11)), depreciation of fixed assets (Note 2(14)), impairment of long-term assets (Note 2(19)), share-based payments (Note 2(23)), revenue recognition (Note 2(25)) and income tax (Note 2(27)) etc.

The key assumptions adopted by the Group in evaluating significant accounting policies and accounting estimates are listed in Note 2(31).

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NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE SIX MONTHS ENDED 30 JUNE 2017

(All amounts in thousands of Renminbi Yuan unless otherwise stated)

[English Translation for Reference Only]

2 Summary of significant accounting policies and accounting estimates *(continued)*

(1) Basis of preparation

The financial statements have been prepared in accordance with the Basic Standard and each specific standards of the Accounting Standards for Business Enterprises issued by the Ministry of Finance on 15 February 2006 and subsequent period, and relevant regulations issued thereafter (hereafter referred to as the Accounting Standard for Business Enterprises or CAS) and disclosure requirements in the Preparation Convention of Information Disclosure by Companies Offering Securities to the Public No.15 General Provisions on Financial Reporting issued by the China Securities Regulatory Commission.

The financial statements are prepared on a going concern basis.

(2) Statement of compliance with the Accounting Standards for Business Enterprises

The financial statements of the Company for the six months ended 30 June 2017 are in compliance with the Accounting Standards for Business Enterprises, and truly and completely present the financial position as of 30 June 2017 and the operating results, cash flows and other information for the period then ended of the Group and the Company.

(3) Accounting period

The Company's accounting year starts on 1 January and ends on 31 December. The financial statements cover period from 1 January 2017 to 30 June 2017.

(4) Recording currency

The recording currency is Renminbi (RMB).

(5) Business combinations

- (a) Business combinations involving enterprises under common control

The consideration paid and net assets obtained by the absorbing party in a business combination are measured at the carrying amount. The difference between the carrying amount of the net assets obtained from the combination and the carrying amount of the consideration paid for the combination is treated as an adjustment to capital surplus (share premium). If the capital surplus (share premium) is not sufficient to absorb the difference, the remaining balance is adjusted against retained earnings. Costs directly attributable to the combination are included in profit or loss in the period in which they are incurred. Transaction costs associated with the issue of equity or debt securities for the business combination are included in the initially recognised amounts of the equity or debt securities.

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NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE SIX MONTHS ENDED 30 JUNE 2017

(All amounts in thousands of Renminbi Yuan unless otherwise stated)

[English Translation for Reference Only]

2 Summary of significant accounting policies and accounting estimates *(continued)*

(5) Business combinations *(continued)*

(b) Business combinations involving enterprises not under common control

The cost of combination and identifiable net assets obtained by the acquirer in a business combination are measured at fair value at the acquisition date. Where the cost of the combination exceeds the acquirer's interest in the fair value of the acquiree's identifiable net assets, the difference is recognised as goodwill; where the cost of combination is lower than the acquirer's interest in the fair value of the acquiree's identifiable net assets, the difference is recognised in profit or loss for the current period. Costs directly attributable to the combination are included in profit or loss in the period in which they are incurred. Transaction costs associated with the issue of equity or debt securities for the business combination are included in the initially recognised amounts of the equity or debt securities.

(6) Preparation of consolidated financial statements

The consolidated financial statements comprise the financial statements of the Company and all of its subsidiaries.

Subsidiaries are consolidated from the date on which the Group obtains control and are de-consolidated from the date that such control ceases. For a subsidiary that is acquired in a business combination involving enterprises under common control, it is included in the consolidated financial statements from the date when it, together with the Company, comes under common control of the ultimate controlling party. The portion of the net profits realised before the combination date is presented separately in the consolidated income statement.

In preparing the consolidated financial statements, where the accounting policies and the accounting periods of the Company and subsidiaries are inconsistent, the financial statements of the subsidiaries are adjusted in accordance with the accounting policies and the accounting period of the Company. For subsidiaries acquired from business combinations involving enterprises not under common control, the individual financial statements of the subsidiaries are adjusted based on the fair value of the identifiable net assets at the acquisition date.

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NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE SIX MONTHS ENDED 30 JUNE 2017

(All amounts in thousands of Renminbi Yuan unless otherwise stated)

[English Translation for Reference Only]

2 Summary of significant accounting policies and accounting estimates *(continued)*

(6) Preparation of consolidated financial statements *(continued)*

All significant intra-group balances, transactions and unrealised profits are eliminated in the consolidated financial statements. The portion of subsidiaries' equity and the portion of a subsidiaries' net profits and losses and comprehensive incomes for the period not attributable to Company are recognised as non-controlling interests, net profit attributed to non-controlling interests and incomes attributed to non-controlling interests and presented separately in the consolidated financial statements under equity, net profits and total comprehensive income respectively. Unrealised profits and losses resulting from the sale of assets by the Company to its subsidiaries are fully eliminated against net profit attributable to owners of the parent. Unrealised profits and losses resulting from the sale of assets by a subsidiary to the Company are eliminated and allocated between net profit attributable to owners of the parent and non-controlling interests in accordance with the allocation proportion of the parent in the subsidiary. Unrealised profits and losses resulting from the sale of assets by one subsidiary to another are eliminated and allocated between net profit attributable to owners of the parent and non-controlling interests in accordance with the allocation proportion of the parent in the subsidiary. Unrealised profits and losses resulting from the sale of assets by one subsidiary to another are eliminated and allocated between net profit attributable to owners of the parent and non-controlling interests in accordance with the allocation proportion of the parent in the subsidiary.

If the accounting treatment of a transaction which considers the Group as an accounting entity is different from that considers the Company or its subsidiaries as an accounting entity, it is adjusted from the perspective of the Group.

(7) Cash and cash equivalents

Cash and cash equivalents comprise cash on hand, deposits that can be readily drawn on demand, and short-term and highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

(8) Foreign currency translation

Foreign currency transactions

Foreign currency transactions are translated into RMB using the exchange rates prevailing at the dates of the transactions.

At the balance sheet date, monetary items denominated in foreign currencies are translated into RMB using the spot exchange rates on the balance sheet date. Exchange differences arising from these translations are recognised in profit or loss for the current period, except for those attributable to foreign currency borrowings that have been taken out specifically for the acquisition or construction of qualifying assets, which are capitalised as part of the cost of those assets. Non-monetary items denominated in foreign currencies that are measured at historical costs are translated into RMB at the balance sheet date using the spot exchange rates at the date of the transactions. The effect of exchange rate changes on cash is presented separately in the cash flow statement.

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NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE SIX MONTHS ENDED 30 JUNE 2017

(All amounts in thousands of Renminbi Yuan unless otherwise stated)

[English Translation for Reference Only]

2 Summary of significant accounting policies and accounting estimates *(continued)*

(9) Financial instrument

(a) Financial assets

(i) Financial assets classification

Financial assets are classified into the following categories at initial recognition: financial assets at fair value through profit or loss, receivables, available-for-sale financial assets and held-to-maturity investments. The classification of financial assets depends on the Group's intention and ability to hold the financial assets.

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for the purpose of selling in the short term.

Receivables

Receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are either designated in this category or not classified in any of the other categories at initial recognition. Available-for-sale financial assets are included in other current assets on the balance sheet if management intends to dispose of them within 12 months after the balance sheet date.

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed maturity and fixed or determinable payments that management has the positive intention and ability to hold to maturity. Held-to-maturity investments with maturities over 12 months when the investments were made but are due within 12 months at the balance sheet date are included in the current portion of non-current assets; held-to maturity investments with maturities no more than 12 months when the investments were made are included in other current assets.

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NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE SIX MONTHS ENDED 30 JUNE 2017

(All amounts in thousands of Renminbi Yuan unless otherwise stated)

[English Translation for Reference Only]

2 Summary of significant accounting policies and accounting estimates *(continued)*

(9) Financial instrument *(continued)*

(a) Financial assets *(continued)*

(ii) Recognition and measurement

Financial assets are recognised at fair value on the balance sheet when the Group becomes a party to the contractual provisions of the financial instrument. In the case of financial assets at fair value through profit or loss, the related transaction costs incurred at the time of acquisition are recognised in profit or loss for the current period. For other financial assets, transaction costs that are attributable to the acquisition of the financial assets are included in their initially recognised amounts.

Financial assets at fair value through profit or loss and available-for-sale financial assets are subsequently measured at fair value. Investments in equity instruments are measured at cost when they do not have a quoted market price in an active market and whose fair value cannot be reliably measured. Receivables and held-to-maturity investments are measured at amortised cost using the effective interest method.

Gains or losses arising from change in the fair value of financial assets at fair value through profit or loss are recognised in profit or loss. Interests and cash dividends received during the period in which such financial assets are held, as well as the gains or losses arising from disposal of these assets are recognised in profit or loss for the current period.

Gains or losses arising from change in fair value of available-for-sale financial assets are recognised directly in equity, except for impairment losses and foreign exchange gains and losses arising from translation of monetary financial assets. When such financial assets are derecognised, the cumulative gains or losses previously recognised directly into equity are recycled into profit or loss for the current period. Interests on available-for-sale investments in debt instruments calculated using the effective interest method during the period in which such investments are held and cash dividends declared by the investee on available-for-sale investments in equity instruments are recognised as investment income, which is recognised in profit or loss for the period.

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NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE SIX MONTHS ENDED 30 JUNE 2017

(All amounts in thousands of Renminbi Yuan unless otherwise stated)

[English Translation for Reference Only]

2 Summary of significant accounting policies and accounting estimates *(continued)*

(9) Financial instrument *(continued)*

(a) Financial assets *(continued)*

(iii) Impairment of financial assets

The Group assesses the carrying amounts of financial assets other than those at fair value through profit or loss at each balance sheet date. If there is objective evidence that a financial asset is impaired, an impairment loss is provided for.

Objective evidence indicating impairment of financial assets refers to the matter that actually occurs after the initial recognition of financial assets, it will affect estimated future cash flows of financial assets, and its impact can be reliably measured.

The objective evidence that indicate the impairment of available-for-sale investment in equity instruments includes a significant or prolonged decline in the fair value of available-for-sale investment in equity instruments. The Group assesses all kinds of available-for-sale investments in equity instruments individually at balance sheet date. Impairment loss should be recognised if the fair value of investments in equity instruments is less than 50% (50% inclusive) of its initial investment cost or in the case that the fair value has been less than the initial investment cost for more than one year (one year inclusive). The Group will consider other relevant factors, such as the price volatility, to determine whether an impairment loss should be recognised for the equity instrument if the decline in the fair value of an equity instrument is more than 20% (20% inclusive) but less than 50% of its initial investment cost.

When an impairment loss on a financial asset carried at amortised cost has occurred, the amount of loss is provided for at the difference between the asset's carrying amount and the present value of its estimated future cash flows (excluding future credit losses that have not been incurred). If there is objective evidence that the value of the financial asset recovered and the recovery is related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed and the amount of reversal is recognised in profit or loss.

In the case of impairment of available-for-sale financial assets measured at fair value, the cumulative loss arising from the decline in fair value that had been recognised directly in equity is removed from equity and recognised in impairment loss. For an investment in debt instrument classified as available-for-sale on which impairment losses have been recognised, if, in a subsequent period, its fair value increases and the increase can be objectively related to an event occurring after the impairment loss was recognised in profit or loss, the previously recognised impairment loss is reversed and recognised in profit or loss for the current year. For an investment in an equity instrument

classified as available-for-sale on which impairment losses have been recognised, the increase in its fair value in a subsequent period is recognised in equity directly.

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NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE SIX MONTHS ENDED 30 JUNE 2017

(All amounts in thousands of Renminbi Yuan unless otherwise stated)

[English Translation for Reference Only]

2 Summary of significant accounting policies and accounting estimates *(continued)*

(9) Financial instrument *(continued)*

(a) Financial assets *(continued)*

(iii) Impairment of financial assets *(continued)*

If an impairment loss on an available-for-sale financial asset measured at cost incurs, the amount of loss is measured at the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. The previously recognised impairment loss will not be reversed in subsequent periods.

(iv) Derecognition of financial assets

A financial asset is derecognised when it meets one of the following conditions:

• If the Group's contractual rights to the cash flows from the financial asset expire.

• Or if the Group transfers substantially all the risks and rewards of ownership of the financial asset to another party.

• Or if the Group has neither transferred nor retained substantially all of the risks and rewards of the asset, but the Group has ceased the control over the financial asset.

On derecognition of a financial asset, the difference between the carrying amount and the aggregate consideration received and the accumulative amount of the changes of fair value originally recorded in the shareholders' equity is recognised in profit or loss.

(b) Financial liabilities

Financial liabilities are classified into two categories at initial recognition: financial liabilities at fair value through profit or loss and other financial liabilities. The financial liabilities of the Group mainly comprise other financial liabilities, including payables, borrowings.

Payables comprise accounts payables, notes payable and other payables and are recognised at fair value at initial recognition. Payables are measured at amortised cost using the effective interest method.

Borrowings and debentures payable are recognised initially at fair value, net of transaction costs incurred, and subsequently measured at amortised cost using the effective interest method.

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NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE SIX MONTHS ENDED 30 JUNE 2017

(All amounts in thousands of Renminbi Yuan unless otherwise stated)

[English Translation for Reference Only]

2 Summary of significant accounting policies and accounting estimates *(continued)*

(9) Financial instrument *(continued)*

(b) Financial liabilities *(continued)*

Other financial liabilities with maturities no more than one year are classified as current liabilities. Other financial liabilities with maturities over one year but are due within one year at the balance sheet date are classified as the current portion of non-current liabilities. Others are classified as non-current liabilities.

A financial liability is derecognised or partly derecognised when the current obligation is discharged or partly discharged. The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished and the consideration paid, shall be recognised in profit or loss.

(c) Determination of fair value of financial instruments

The fair value of a financial instrument that is traded in an active market is determined at the quoted price in the active market. The fair value of a financial instrument that is not traded in an active market is determined by using a valuation technique which is applicable in the current situation and support with enough available data and other information. Valuation techniques mainly include market approach and income approach.

When a valuation technique is used to establish the fair value of a financial instrument, it chooses the inputs which are consistent with the asset or liability's characteristics considered by market participants in the transaction of the relevant asset or liability and makes the maximum use of relevant observable inputs. Unobservable inputs are used when it is unavailable or impracticable to obtain relevant observable inputs.

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NOTES TO THE FINANCIAL STATEMENTS *(continued)*

FOR THE SIX MONTHS ENDED 30 JUNE 2017

(All amounts in thousands of Renminbi Yuan unless otherwise stated)

[English Translation for Reference Only]

2 Summary of significant accounting policies and accounting estimates *(continued)*

(10) Receivables

Receivables comprise accounts receivable and other receivables. Accounts receivable arising from sale of goods or rendering of services are initially recognised at fair value of the contractual payments from the buyers or service recipients.

(a) Receivables that are individually significant and subject to separate provision

Receivables with amounts that are individually significant are subject to separate assessment for impairment. If there exists objective evidence that the Group will not be able to collect the amount under the original terms, a provision for impairment of that receivable is made.

Judgement basis or criteria for receivables that are individually significant is over RMB10,000 thousands.

The method of providing for bad debts for those individually significant amounts is as follows: the amount of the present value of the future cash flows expected to be derived from the receivable below its carrying amount.

(b) Receivables that are combined into certain groups and subject to provision by groups

Receivables with amounts that are not individually significant and those receivables that have been individually assessed for impairment and have not been found impaired are classified into certain groupings based on their credit risk characteristics. The provision for bad debts is determined based on the historical loss experience for the groupings of receivables with similar credit risk characteristics, taking into consideration of the current circumstances.

Basis for determination of groups is as follows:

Group Name	Criteria
Group 1	Groups of receivables with similar credit risk characteristics
Group 2	Receivables for related parties except for the accounts receivables that are individually significant and subject to separate provision

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Methods of determining provision for bad debts by groupings are as follows:

Group Name	Method for provision
Group 1	Ageing analysis method
Group 2	Percentage of bad debt provision is 0%

Ratios of provision for bad debts used in the ageing analysis method for groups are as follows:

	Provisions as a percentage of accounts receivable	Provisions as a percentage of other receivables
Within one year		
Over one year but within two years	30%	30%
Over two years but within three years	60%	60%
Over three years	100%	100%

(c) Receivables that are individually insignificant but subject to separate provision

The reason for making separate assessment for provision for bad debts is that there exists objective evidence that the Group will not be able to collect the amount under the original terms of the receivable.

The provision for bad debts is determined based on the amount of the present value of the future cash flows expected to be derived from the receivable below its carrying amount.

- (d) When the Group transfers the accounts receivable to the financial institutions without recourse, the difference between the proceeds received from the transaction and their carrying amounts and the related taxes is recognised in profit or loss for the current period.

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2 Summary of significant accounting policies and accounting estimates *(continued)*

(11) Inventories

(a) Categories of inventories

Inventories include raw materials, work in progress, finished goods, spare parts and consumables, and are measured at the lower of cost and net realisable value.

(b) Measurement of cost of inventories

Cost is determined using the weighted average method. The cost of finished goods and work in progress comprise raw materials, direct labour and systematically allocated production overhead based on the normal production capacity.

(c) Basis for determining net realisable value of inventories and method of provision for impairment of inventories

Provision for decline in the value of inventories is determined at the excess amount of the carrying amounts of the inventories over their net realisable value. Net realisable value is determined based on the estimated selling price in the ordinary course of business, less the estimated costs to completion and estimated costs necessary to make the sale and related taxes.

(d) The Group adopts the perpetual inventory system.

(e) Amortisation methods for low-value consumables

Low-value consumables are expensed upon issuance.

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NOTES TO THE FINANCIAL STATEMENTS *(continued)*

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2 Summary of significant accounting policies and accounting estimates *(continued)*

(12) Long-term equity investments

Long-term equity investments comprise the Company's long-term equity investments in its subsidiaries, the Group's long-term equity investments in its joint ventures and associates

Subsidiaries are the investees over which the Company is able to exercise control. A joint venture is a joint arrangement which is structured through a separate vehicle over which the Group has joint control together with other parties and only has rights to the net assets of the arrangement based on legal forms, contractual terms and other facts and circumstances. An associate is the investee over which the Group has significant influence by participating in the financial and operating policy decisions.

Investments in subsidiaries are presented in the Company's financial statements using the cost method, and are adjusted to the equity method when preparing the consolidated financial statements. Investments in joint ventures and associates are accounted for using the equity method.

(a) Initial recognition

For long-term equity investments acquired through a business combination: The initial investment cost of a long-term equity investment obtained through a business combination involving enterprises under common control is the Company's share of the carrying amount of the subsidiary's equity at the combination date. For a long-term equity investment obtained through a business combination not involving enterprises under common control, the initial investment cost is the combined cost issued by the Company, in exchange for control of the acquire.

For long-term equity investment acquired other than through a business combination, the initial investment cost is recognised at the actual consideration paid if the Group acquires the investment by cash, or at the fair value of the equity securities issued if an investment is acquired by issuing equity securities.

(b) Subsequent measurement

Under the cost method of accounting, long-term equity investments are measured at initial investment cost, investment income is recognised in profit or loss for the cash dividends or profit distribution declared by the investee.

For long-term equity investments accounted for using the equity method, where the initial investment cost exceeds the fair value of the Group's share of the investee's identifiable net assets at the time of acquisition, the investment is

initially measured at cost; Where the initial investment cost is less than the fair value of the Group's share of the investee's identifiable net assets at the time of acquisition, the difference is included in profit or loss for the current period and the cost of the long-term equity investment is adjusted upwards accordingly.

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2 Summary of significant accounting policies and accounting estimates *(continued)*

(12) Long-term equity investments *(continued)*

(b) Subsequent measurement *(continued)*

Under the equity method of accounting, the Group recognises the investment income according to its share of net profit or loss of the investee. The Group discontinues recognising its share of net losses of an investee after the carrying amount of the long-term equity investment together with any long-term interests that, in substance, form part of the investor's net investment in the investee are reduced to zero. However, if the Group has obligations for additional losses and the criteria with respect to recognition of provisions under the accounting standards on contingencies are satisfied, the Group continues recognising the investment losses and the provisions. For changes in shareholders' equity of the investee other than those arising from its net profit or loss, the Group records its proportionate share directly into capital surplus, provided that the Group's proportion of shareholding in the investee remains unchanged. The carrying amount of the investment is reduced by the Group's share of the profit distribution or cash dividends declared by an investee. The unrealised profits or losses arising from the intra-group transactions amongst the Group and its investees are eliminated in proportion to the Group's equity interest in the investees, and then based on which the investment gain or losses are recognised. For the loss on the intra-group transaction amongst the Group and its investees attributable to asset impairment, and the related unrealised loss is not eliminated.

(c) Definition of control, joint control or significant influence over the investees

Control refers to the power to govern the financial and operating policies of an investee, so as to obtain benefits from their operating activities. In determining whether the Company is able to exercise control over the investee, the effect of potential voting rights of the investee shall be considered, such as convertible debts and warrants currently exercisable.

Joint control is the contractually agreed sharing of control over an economic activity, and exists only when the strategic financial and operating decisions relating to the activity require the unanimous consent of the parties sharing control.

Significant influence refers to the power to participate in making decisions on the financial and operating policies of an enterprise, but not the power to control, or jointly control, the formulation of such policies with other parties.

(d) Impairment of long-term equity investments

The carrying amounts of long-term equity investments in subsidiaries, joint ventures and associates are reduced to the recoverable amounts when the recoverable amounts are below their carrying amounts (Note 2(19)).

Table of Contents**NOTES TO THE FINANCIAL STATEMENTS** *(continued)**FOR THE SIX MONTHS ENDED 30 JUNE 2017**(All amounts in thousands of Renminbi Yuan unless otherwise stated)**[English Translation for Reference Only]***2 Summary of significant accounting policies and accounting estimates** *(continued)***(13) Investment properties**

Investment properties, including land use rights that have already been leased out, buildings that are held for the purpose of leasing and buildings that is being constructed or developed for future use for leasing, are measured initially at cost. Subsequent expenditures incurred in relation to an investment property are included in the cost of the investment property when it is probable that the associated economic benefits will flow to the Group and their costs can be reliably measured; otherwise, the expenditures are recognised in profit or loss in the period in which they are incurred.

The Group adopts the cost model for subsequent measurement of investment properties. Buildings and land use rights are depreciated or amortised to their estimated net residual values over their estimated useful lives. The estimated useful lives, the estimated net residual values that are expressed as a percentage of cost and the annual depreciation rates of investment properties are as follows:

	Estimated useful lives	Estimated net residual values	Annual depreciation rates
Buildings	30-40 years	3%	2.43%-3.23%

When an investment property is transferred to owner-occupied properties, it is reclassified as fixed asset or intangible asset at the date of the transfer. When an owner-occupied property is transferred out for earning rentals or for capital appreciation, the fixed asset or intangible asset is reclassified as investment properties at its carrying amount at the date of the transfer. The carrying amount before is deemed as the entry value after at the time of the transfer.

The investment property's estimated useful life, net residual value and depreciation method applied are reviewed and adjusted as appropriate at each year-end.

An investment property is derecognised on disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposal. The net amount of proceeds from sale, transfer, retirement or damage of an investment property after its carrying amount and related taxes and expenses is recognised in profit or loss for the current period.

When the recoverable amount of investment properties is less than its carrying amount, a provision for impairment and an impairment loss are recognised for the amount by which the asset's carrying amount exceeds its recoverable amount (Note 2(19)).

Table of Contents**NOTES TO THE FINANCIAL STATEMENTS** *(continued)**FOR THE SIX MONTHS ENDED 30 JUNE 2017**(All amounts in thousands of Renminbi Yuan unless otherwise stated)**[English Translation for Reference Only]***2 Summary of significant accounting policies and accounting estimates** *(continued)***(14) Fixed assets****(a) Recognition and initial measurement of fixed assets**

Fixed assets comprise buildings, plant and machinery, vehicles and other equipment, etc.

Fixed asset is recognized when it is probable that the associated economic benefits will flow to the Group and the related cost can be reliably measured. Fixed assets purchased or constructed by the Group are initially measured at cost at the time of acquisition. The fixed assets injected by the state-owned shareholder during the restructuring were initially recorded at the valuated amount approved by the relevant authorities managing state-owned assets.

Subsequent expenditures incurred for a fixed asset are included in the cost of the fixed asset when it is probable that the associated economic benefits will flow to the Group and the related cost can be reliably measured. The carrying amount of the replaced part is derecognised. All the other subsequent expenditures are recognised in profit or loss in the period in which they are incurred.

(b) Depreciation methods of fixed assets

Fixed assets are depreciated using the straight-line method to allocate the cost of the assets to their estimated residual values over their estimated useful lives. For the fixed assets that have been provided for impairment loss, the related depreciation charge is prospectively determined based upon the adjusted carrying amounts over their remaining useful lives.

The estimated useful lives, the estimated residual values expressed as a percentage of cost and the annual depreciation rates of fixed assets are as follows:

	Estimated useful lives	Estimated net residual values	Annual depreciation rates
Buildings	12-40 years	0%-5%	2.4%-8.3%
Plant and machinery	12-20 years	0%-5%	4.8%-8.3%
Vehicles and other equipment	4-20 years	0%-5%	4.8%-25.0%

The estimated useful life, the estimated net residual value of a fixed asset and the depreciation method applied to the asset are reviewed, and adjusted as appropriate at each year-end.

- (c) When the recoverable amount of fixed assets is less than its carrying amount, a provision for impairment and an impairment loss are recognised for the amount by which the asset's carrying amount exceeds its recoverable amount (Note 2(19)).

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2 Summary of significant accounting policies and accounting estimates *(continued)*

(14) Fixed assets *(continued)*

(d) Disposal of fixed assets

A fixed asset is derecognised on disposal or when no future economic benefits are expected from its use or disposal. The amount of proceeds from disposals on sale, transfer, retirement or damage of a fixed asset net of its carrying amount and related taxes and expenses is recognised in profit or loss for the current period.

(15) Construction in progress

Construction in progress is measured at actual cost. Actual cost comprises construction costs, installation costs, borrowing costs that are eligible for capitalisation and other costs necessary to bring the fixed assets ready for their intended use. Construction in progress is transferred to fixed assets when the assets are ready for their intended use, and depreciation begins from the following month. When the recoverable amount of construction in progress is less than its carrying amount, a provision for impairment and an impairment loss are recognised for the amount by which the asset's carrying amount exceeds its recoverable amount (Note 2(19)).

(16) Borrowing costs

The borrowing costs that are directly attributable to the acquisition and construction of a fixed asset that needs a substantially long period of time for its intended use commence to be capitalised and recorded as part of the cost of the asset when expenditures for the asset and borrowing costs have been incurred, and the activities relating to the acquisition and construction that are necessary to prepare the asset for its intended use have commenced. The capitalisation of borrowing costs ceases when the asset under acquisition or construction becomes ready for its intended use and the borrowing costs incurred thereafter are recognised in profit or loss for the current period. Capitalisation of borrowing costs is suspended during periods in which the acquisition or construction of a fixed asset is interrupted abnormally and the interruption lasts for more than 3 months, until the acquisition or construction is resumed.

For the specific borrowings obtained for the acquisition or construction of a fixed asset qualifying for capitalisation, the amount of borrowing costs eligible for capitalisation is determined by deducting any interest income earned from depositing the unused specific borrowings in the banks or any investment income arising on the temporary investment of those borrowings during the capitalisation period.

For the general borrowings obtained for the acquisition or construction of a fixed asset qualifying for capitalisation, the amount of borrowing costs eligible for capitalisation is determined by applying the weighted average effective interest rate of general borrowings, to the weighted average of the excess amount of cumulative expenditures on the asset over the amount of specific borrowings. The effective interest rate is the rate at which the estimated future cash flows during the period of expected duration of the borrowings or applicable shorter period are discounted to the initial amount of the borrowings.

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2 Summary of significant accounting policies and accounting estimates *(continued)*

(17) Intangible assets

Intangible assets include land use rights and patents, and are measured at cost. The intangible assets injected by the state-owned shareholder during the restructuring were initially recorded at the valuated amount approved by the relevant authorities managing state-owned assets.

(a) Land use rights

Land use rights are amortised on the straight-line basis over their approved use period of 30-50 years. If the acquisition costs of the land use rights and the buildings located thereon cannot be reasonably allocated between the land use rights and the buildings, all of the acquisition costs are recognised as fixed assets.

(b) Patents

Patents are amortised on a straight-line basis over the patent protection period of 10-28 years as stipulated by the laws.

(c) Periodical review of useful life and amortisation method

For an intangible asset with a finite useful life, review of its useful life and amortisation method is performed at each year-end, with adjustment made as appropriate.

(d) Research and development

The expenditure on an internal research and development project is classified into expenditure on the research phase and expenditure on the development phase based on its nature and whether there is material uncertainty that the research and development activities can form an intangible asset at end of the project.

Expenditure on the research phase is recognised in profit or loss in the period in which it is incurred. Expenditure on the development phase is capitalised only if all of the following conditions are satisfied:

• it is technically feasible to complete the research and development project so that it will be available for use or sale;

• management intends to complete the research and development project, and use or sell it;

• it can be demonstrated how the research and development project will generate economic benefits;

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2 Summary of significant accounting policies and accounting estimates *(continued)*

(17) Intangible assets *(continued)*

(d) Research and development *(continued)*

• there are adequate technical, financial and other resources to complete the development and the ability to use or sell the research and development project; and

• the expenditure attributable to the research and development project during its development phase can be reliably measured.

Other development expenditures that do not meet the conditions above are recognised in profit or loss in the period in which they are incurred. Development costs previously recognised as expenses are not recognised as an asset in a subsequent period. Capitalised expenditure on the development phase is presented as development costs in the balance sheet and transferred to intangible assets at the date that the asset is ready for its intended use.

(e) Impairment of intangible assets

When the recoverable amount of an intangible asset is less than its carrying amount, a provision for impairment and an impairment loss are recognised for the amount by which the asset's carrying amount exceeds its recoverable amount (Note 2(19)).

(18) Long-term prepaid expenses

Long-term prepaid expenses mainly include the catalyst expenditures, leasehold improvements and other expenditures that have been incurred but should be recognised as expenses over more than one year in the current and subsequent periods. Long-term prepaid expenses with the book value net of estimated residual value are amortised on the straight-line basis over the expected beneficial periods and are presented at actual expenditure net of accumulated amortisation.

Catalyst expenditures are amortised on a straight-line method within 2 to 5 years.

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NOTES TO THE FINANCIAL STATEMENTS *(continued)*

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[English Translation for Reference Only]

2 Summary of significant accounting policies and accounting estimates *(continued)*

(19) Impairment of long-term assets

Fixed assets, construction in progress, intangible assets with finite useful lives, long-term prepaid expenses, investment properties measured using the cost model and long-term equity investments in subsidiaries, joint ventures and associates are tested for impairment if there is any indication that the assets may be impaired at the balance sheet date; intangible assets which are not ready for their intended use should be tested for impairment at least on an annual basis, irrespective of whether there is any indication that it may be impaired. If the result of the impairment test indicates that the recoverable amount of an asset is less than its carrying amount, a provision for impairment and an impairment loss are recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and the present value of the future cash flows expected to be derived from the asset. Provision for asset impairment is determined and recognised on the individual asset basis. If it is not possible to estimate the recoverable amount of an individual asset, the recoverable amount of a group of assets to which the asset belongs is determined. A group of assets is the smallest group of assets that is able to generate independent cash inflows.

Once the above asset impairment loss is recognised, it will not be reversed for the value recovered in the subsequent periods.

(20) Safety production costs

According to the decision of the State Council on Further Strengthening the work of production safety (Guofa No.2 2004), Shanghai Municipal Government to implement the State Council on Further Strengthening corporate safety work notice (Hufufa No.35 2010) and Safe production costs extraction and use of management practices (Caiqi No.16 2012) issued by the Ministry of Finance and the national production safety supervision administration on 2 February 2012, The Group extracted safety production costs in a certain percentage of sales revenue from the dangerous goods in previous year, which is used for safety costs.

The safety production costs, accrued in accordance with the above regulations, shall be charged in relevant costs or profit and loss, and in the specific reserve. Safety production costs, which belong to expenses, directly offset the special reserves. If the costs formed into fixed assets, the special reserves shall be offset according to the cost forming into fixed assets, and recognize the same amount of accumulated depreciation. This fixed asset shall no longer accrue depreciation in the following period.

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NOTES TO THE FINANCIAL STATEMENTS *(continued)*

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2 Summary of significant accounting policies and accounting estimates *(continued)*

(21) Employee benefits

Employee benefits include short-term employee benefits, post-employment benefit and termination benefits provided in various forms of consideration in exchange for service rendered by employees or compensations for the termination of employment relationship.

(a) Short-term employee benefits

Short-term employee benefits include employee wages or salaries, bonus, allowances and subsidies, staff welfare, premiums or contributions on medical insurance, work injury insurance and maternity insurance, housing funds, union running costs and employee education costs, short-term paid absences. The employee benefit liabilities are recognised in the accounting period in which the service is rendered by the employees, with a corresponding charge to the profit or loss for the current period or the cost of relevant assets. Employee benefits which are non-monetary benefits are measured at fair value.

(b) Post-employment benefits

The Group classifies post-employment benefit plans as either defined contribution plans or defined benefit plans. Defined contribution plans are post-employment benefit plans under which the Group pays fixed contributions into a separate fund and will have no obligation to pay further contributions; and Defined benefit plans are post-employment benefit plans other than defined contribution plans. During the reporting period, the Group's post-employment benefits mainly include basic pensions, unemployment insurance and supplemental basic pensions, all of which belong to the defined contribution plans.

Basic pensions

Employees of the Group participate in the defined basic pension insurance plan set up and administered by local labour and social protection authorities. Monthly payments of premiums on the basic pensions are calculated according to prescribed bases and percentage by the relevant local authorities. When employees retire, the relevant local authorities are obliged to pay the basic pensions to them. The amounts based on the above calculations are recognised as liabilities in the accounting period in which the service has been rendered by the employees, with a corresponding charge to the profit or loss for the current period or the cost of relevant assets.

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2 Summary of significant accounting policies and accounting estimates *(continued)*

(21) Employee benefits *(continued)*

(c) Termination benefits

When the Group terminates the employment relationship with employees before the employment contracts expire, or provides compensation as an offer to encourage employees to accept voluntary redundancy, a provision for the termination benefits provided is recognised in profit or loss when both of the following conditions are satisfied:

• The Group has a formal plan for the termination of employment or has made an offer to employees for voluntary redundancy, which will be implemented shortly.

• The Group is not allowed to withdraw from termination plan or redundancy offer unilaterally.

Termination benefits expected to be paid in one year are listed as current liabilities.

(22) Profit distribution

Proposed profit distribution is recognised as a liability in the period in which it is approved by the Shareholders meeting.

(23) Share-based payments

(a) Types of Share-based payment

The term *share-based payment* refers to a transaction in which an enterprise grants equity instruments or undertakes equity-instrument-based liabilities in return for services from employee or other parties. Equity instruments include equity instruments of the Company itself or its subsidiaries.

Equity-settled share-based payment transactions

The Group's share option incentive plans are equity-settled share-based payments and are measured at fair value of equity instruments granted to employees on the date of the grant. If the right cannot be exercised until the vesting period comes to an end and until the prescribed performance conditions are met, then within the vesting period, the services obtained in the current period shall, based on the best estimate of the number of vested equity instruments, be included in the relevant costs or expenses and the capital reserves shall be increased accordingly at the fair value of the equity instruments on the date of the grant. If the subsequent information indicates that the number of vested equity instruments is different from the previous estimate, an adjustment shall be made and on the vesting date, and the estimate shall be adjusted to equal the number of the actually vested equity instruments. On the vesting date, an enterprise shall, based on the number of the equity instruments of which the right is actually exercised, confirm share capital and share premium, and carry forward the capital surplus recognised within the vesting period.

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2 Summary of significant accounting policies and accounting estimates *(continued)*

(23) Share-based payments *(continued)*

(b) Method for determining the fair value of share options

The Group uses Black-Scholes valuation model to determine the fair value of the share options.

(c) Estimate basis of the the number of options

At the end of each reporting period, the Group revises its estimates of the number of options that are expected to vest based on the non-marketing performance and service conditions. It recognises the impact of the revision to original estimates, if any, in the income statement, with a corresponding adjustment to equity. As at the vesting date, the estimates of the number of options should be same with the actual exercised number.

(d) Accounting treatment for share-based payments exercise

When the options are exercised at the vesting date, the Company issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital (and share premium).

(24) Provisions

Provisions for contingent liabilities etc. are recognised when the Group has a present obligation, it is probable that an outflow of economic benefits will be required to settle the obligation, and the amount of the obligation can be measured reliably.

A provision is initially measured at the best estimate of the expenditure required to settle the related present obligation. Factors surrounding a contingency, such as the risks, uncertainties and the time value of money, are taken into account as a whole in reaching the best estimate of a provision. Where the effect of the time value of money is material, the best estimate is determined by discounting the related future cash outflows. The increase in the discounted amount of the provision arising from passage of time is recognised as interest expense.

The carrying amount of provisions is reviewed at each balance sheet date and adjusted to reflect the current best estimate.

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2 Summary of significant accounting policies and accounting estimates *(continued)*

(25) Revenue recognition

The amount of revenue is determined in accordance with the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the Group's activities. Revenue is shown net of discounts and returns.

Revenue is recognised when the economic benefits associated with the transaction will flow to the Group, the related revenue can be reliably measured, and the specific revenue recognition criteria have been met for each type of the Group's activities as described below:

(a) Sale of goods

Revenue from sale is recognised when all of the general conditions stated above and the following conditions are satisfied: the significant risks and rewards of ownership of goods have been transferred to the buyer, as well as the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold. The Group recognises revenue when goods are sent to designated place and confirmed receipt by customers according to the terms of contract.

(b) Rendering of services

The Group provides service to external parties. The related revenue is recognised using the percentage of completion method, with the stage of completion being determined based on proportion of costs incurred to date to the estimated total costs.

(c) Transfer of asset use rights

Interest income is determined by using the effective interest method, based on the length of time for which the Group's cash is used by others.

Income from an operating lease is recognised on a straight-line basis over the period of the lease.

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2 Summary of significant accounting policies and accounting estimates *(continued)*

(26) Government grants

Government grants are transfers of monetary or non-monetary assets from the government to the Group at nil consideration, including refund of taxes and financial subsidies, etc.

A government grant is recognised when the conditions attached to it can be complied with and the government grant can be received. For a government grant in the form of transfer of monetary assets, the grant is measured at the amount received or receivable. For a government grant in the form of transfer of non-monetary assets, it is measured at fair value; if the fair value is not reliably determinable, the grant is measured at nominal amount.

A government grant related to an asset means grant that used for acquisition, construction or otherwise to form long-term assets. A government grant related to income is grant in addition to government grant related to an asset.

A government grant related to an asset is recognised initially as deferred income and amortised to profit or loss on a straight-line basis over the useful life of the asset. A grant measured at nominal amount is recognised in profit or loss for the period immediately.

A government grant related to income that compensates the Group for expenses to be incurred in the subsequent periods is recognised initially as deferred income and recognised in profit or loss in the same periods in which the expenses are recognised. A grant that compensates the Group for expenses incurred is recognised in profit or loss immediately.

(27) Deferred tax assets and deferred tax liabilities

Deferred tax assets and deferred tax liabilities are calculated and recognised based on the differences arising between the tax bases of assets and liabilities and their carrying amounts (temporary differences). Deferred tax asset is recognised for the deductible losses that can be carried forward to subsequent years for deduction of the taxable profit in accordance with the tax laws. No deferred tax liability is recognised for a temporary difference arising from the initial recognition of goodwill. No deferred tax asset or deferred tax liability is recognised for the temporary differences resulting from the initial recognition of assets or liabilities due to a transaction other than a business combination, which affects neither accounting profit nor taxable profit (or deductible loss). At the balance sheet date, deferred tax assets and deferred tax liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled.

Deferred tax assets are only recognised for deductible temporary differences, deductible losses and tax credits to the extent that it is probable that taxable profit will be available in the future against which the deductible temporary differences, deductible losses and tax credits can be utilised.

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2 Summary of significant accounting policies and accounting estimates *(continued)*

(27) Deferred tax assets and deferred tax liabilities *(continued)*

Deferred tax liabilities are recognised for temporary differences arising from investments in subsidiaries, associates and joint ventures, except where the Group is able to control the timing of reversal of the temporary difference, and it is probable that the temporary difference will not reverse in the foreseeable future. When it is probable that the temporary differences arising from investments in subsidiaries, associates and joint ventures will be reversed in the foreseeable future and that the taxable profit will be available in the future against which the temporary differences can be utilised, the corresponding deferred tax assets are recognised.

Deferred tax assets and liabilities are offset when:

• the deferred taxes are related to the same tax payer within the Group and the same taxation authority; and,

• that tax payer within the Group has a legally enforceable right to offset current tax assets against current tax liabilities.

(28) Leases

A lease that in substance transfers substantially all the risks and rewards incidental to ownership of an asset is a finance lease. An operating lease is a lease other than a finance lease. Lease payments under an operating lease are recognised on a straight-line basis over the period of the lease, and are either capitalised as part of the cost of related assets, or charged as an expense for the current period.

(29) Related parties

If a party has the power to control, jointly control or exercise significant influence over another party, or vice versa, or where two or more parties are subject to common control or joint control from another party, they are considered to be related parties. Related parties may be individuals or enterprises. Enterprises with which the Company is under

common control only from the State and that have no other related party relationships are not regarded as related parties of the Group. Related parties of the Group and the Company include, but are not limited to:

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NOTES TO THE FINANCIAL STATEMENTS *(continued)*

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2 Summary of significant accounting policies and accounting estimates *(continued)*

(29) Related parties *(continued)*

- a. the Company's parent;
- b. the Company's subsidiaries;
- c. enterprises that are controlled by the Company's parent;
- d. investors that have joint control or exercise significant influence over the Group;
- e. enterprises or individuals if a party has control or joint control over both the enterprises or individuals and the Group;
- f. joint ventures of the Group, including subsidiaries of joint ventures;
- g. associates of the Group, including subsidiaries of associates;
- h. principal individual investors of the Group and close family members of such individuals;
- i. key management personnel of the Group and close family members of such individuals;
- j. key management personnel of the Company's parent company;
- k. close family members of key management personnel of the Company's parents; and

- l. other enterprises that are controlled or jointly controlled by principal individual investors, key management personnel of the Group, or close family members of such individuals.

In addition to the related parties stated above determined in accordance with the requirements of CAS, the following enterprises and individuals (but not limited to) are considered as related parties based on the disclosure requirements of Administrative Procedures on the Information Disclosures of Listed Companies issued by the CSRC:

- m. enterprises or individuals that act a concert, that hold 5% or more of the Company's shares;
- n. individuals who directly or indirectly hold more than 5% of the Company's shares and their close family members, supervisors of the listed companies and their close family members;
- o. enterprises that satisfied any of the aforesaid conditions in (a), (c) or (m) during the past 12 months or will satisfy them within the next 12 months pursuant to a relevant agreement;
- p. individuals who satisfied any of the aforesaid conditions in (i), (j) or (n) during the past 12 months or will satisfy them within the next 12 months pursuant to a relevant agreement; and
- q. enterprises, other than the Company and the subsidiaries controlled by the Company, which are controlled directly or indirectly by an individual defined in (i), (j), (n) or (p), or in which such an individual assumes the position of a director or senior executive.

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NOTES TO THE FINANCIAL STATEMENTS *(continued)*

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(All amounts in thousands of Renminbi Yuan unless otherwise stated)

[English Translation for Reference Only]

2 Summary of significant accounting policies and accounting estimates *(continued)*

(30) Segment information

The Group identifies operating segments based on the internal organisation structure, management requirements and internal reporting system, and discloses segment information of reportable segments which is determined on the basis of operating segments.

An operating segment is a component of the Group that satisfies all of the following conditions: (1) the component is able to earn revenue and incur expenses from its ordinary activities; (2) whose operating results are regularly reviewed by the Group's management to make decisions about resources to be allocated to the segment and to assess its performance, and (3) for which the information on financial position, operating results and cash flows is available to the Group. If two or more operating segments have similar economic characteristics and satisfy certain conditions, they are aggregated into one single operating segment.

(31) Significant accounting policies and accounting estimates

The Group continually evaluates the critical accounting estimates and key judgments applied based on historical experience and other factors, including expectations of future events that are believed to be reasonable.

The critical accounting estimates and key assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next accounting year are outlined below:

(i) Estimated useful life and residual value of fixed assets

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

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

(ii) Impairment of long-term assets

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

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NOTES TO THE FINANCIAL STATEMENTS *(continued)*

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(All amounts in thousands of Renminbi Yuan unless otherwise stated)

[English Translation for Reference Only]

2 Summary of significant accounting policies and accounting estimates *(continued)*

(31) Significant accounting policies and accounting estimates *(continued)*

(ii) Impairment of long-term assets *(continued)*

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

(iii) Inventory provision

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

(iv) Income taxes

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

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

deferred tax assets will need to be adjusted in future, which has significant impact on profit.

In making the assessment of whether it is probable the Group will realise or utilise the deferred tax assets, management primarily relies on the generation of future taxable income to support the recognition of deferred tax assets. In order to fully utilise the deferred tax assets recognised at 30 June 2016, the Group would need to generate future taxable income of at least RMB351 million (unaudited). Based on estimated forecast and historical experience, management believes that it is probable that the Group will generate sufficient taxable income.

Table of Contents**NOTES TO THE FINANCIAL STATEMENTS** *(continued)**FOR THE SIX MONTHS ENDED 30 JUNE 2017**(All amounts in thousands of Renminbi Yuan unless otherwise stated)**[English Translation for Reference Only]***3 Taxation****(1) The main categories and rates of taxes applicable to the Group are set out below:**

Category	Tax base	Tax rate
Enterprise income tax	Taxable income	25%
Value-added tax (VAT) (a)	Taxable value-added amount (Tax payable is calculated using the taxable sales amount multiplied by the applicable tax rate less deductible VAT input of the current period)	6%, 11%, 13% and 17%
Business tax (a)	Taxable turnover amount	5%
Consumption tax	Taxable sales amount	Gasoline: RMB2,110 per ton; diesel oil: RMB1,411 per ton
City maintenance and construction tax	Consumption tax payable, business tax payable and VAT payable	1% and 7%

- (a) Revenue from transportation industry, modern service industry, tangible asset leasing, port service and warehousing service are subject to VAT, the applicable tax rate of revenue from tangible assets leasing is 17%, and revenue from modern service, port service and warehousing service income is 6%.

4 Notes to the consolidated financial statements**(1) Cash at bank and on hand**

	30 June 2017 (unaudited)	31 December 2016
Cash on hand	11	5
Cash at bank	7,955,904	5,440,410
Other monetary funds	11	208
	7,955,926	5,440,623

Table of Contents**NOTES TO THE FINANCIAL STATEMENTS** *(continued)**FOR THE SIX MONTHS ENDED 30 JUNE 2017**(All amounts in thousands of Renminbi Yuan unless otherwise stated)**[English Translation for Reference Only]***4 Notes to the consolidated financial statements** *(continued)***(2) Notes receivable**

	30 June 2017 (unaudited)	31 December 2016
Bank acceptance notes	1,082,328	1,267,920

All of the above notes held are short-term acceptance notes due within six months. No notes receivables, included in the above, were transferred to accounts receivable due to non-performance of the issuers for the six months ended 30 June 2017 (unaudited).

- (a) As at 30 June 2017, the Group has no notes receivable which are pledged for the issuance of letters of credit (unaudited) (31 December 2016: Nil).
- (b) As at 30 June 2017, the Group's endorsed or discounted notes receivable which are still undue are as follows (unaudited):

	Derecognised	Not derecognised
Bank acceptance notes	337,978	

(3) Interest receivable

	30 June 2017 (unaudited)	31 December 2016
Interest on bank deposits	42,895	11,553
Interest on entrusted loans	37	43
	42,932	11,596

Table of Contents**NOTES TO THE FINANCIAL STATEMENTS** *(continued)**FOR THE SIX MONTHS ENDED 30 JUNE 2017**(All amounts in thousands of Renminbi Yuan unless otherwise stated)**[English Translation for Reference Only]***4 Notes to the consolidated financial statements** *(continued)***(4) Accounts receivable**

	30 June 2017 (unaudited)	31 December 2016
Amounts due from related parties (Note 7(6))	1,172,499	1,241,636
Amounts due from third parties	603,828	414,962
	1,776,327	1,656,598
Less: Provision for bad debts	(28)	(18)
	1,776,299	1,656,580

(a) The ageing of accounts receivable is analysed as follows:

	30 June 2017 (unaudited)	31 December 2016
Within one year	1,776,268	1,656,559
Over one year but within two years	32	24
Over two years but within three years	22	10
Over three years	5	5
	1,776,327	1,656,598
Less: Provision for bad debts	(28)	(18)
	1,776,299	1,656,580

As at 30 June 2017, the Group has no any significant overdue accounts receivable (unaudited) (31 December 2016: Nil).

Table of Contents**NOTES TO THE FINANCIAL STATEMENTS** *(continued)**FOR THE SIX MONTHS ENDED 30 JUNE 2017**(All amounts in thousands of Renminbi Yuan unless otherwise stated)**[English Translation for Reference Only]***4 Notes to the consolidated financial statements** *(continued)***(4) Accounts receivable** *(continued)*

(b) Accounts receivable by categories are analysed as follows:

	30 June 2017 (unaudited)				31 December 2016			
	Gross carrying amount		Provision for bad debts		Gross carrying amount		Provision for bad debts	
	Percentage		Percentage		Percentage		Percentage	
	Amount	(%)	Amount	(%)	Amount	(%)	Amount	(%)
Individually significant and subject to separate provision								