

SINOPEC SHANGHAI PETROCHEMICAL CO LTD

Form 6-K

April 20, 2015

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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 April 2015**

**Commission File Number: 1-12158**

**Sinopec Shanghai Petrochemical Company Limited**

**(Translation of registrant's name into English)**

**Jinshanwei, Shanghai**

**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):

Indicate by check mark whether by furnishing the information contained in this Form, the registrant is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes  No

If  Yes is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): 82- Not Applicable

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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: April 20, 2015

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

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**IMPORTANT MESSAGE:**

- (1) The Board of Directors (the Board) and the Supervisory Committee of Sinopec Shanghai Petrochemical Company Limited (the Company or SPC) as well as its Directors, Supervisors and Senior Management warrant the truthfulness, accuracy and completeness of the information contained in this annual report, and warrant that there are no false representations or misleading statements contained in, or material omissions from, the 2014 annual report of the Company, and severally and jointly accept responsibility.
- (2) If any director fails to attend the Board meeting for approving the 2014 annual report of the Company, his name shall be set out separately:

**Name of Director**

<b>not Attending</b>	<b>Position</b>	<b>Reasons for Absence</b>	<b>Name of Proxy</b>
Lei Dianwu	Director	Business engagement	Wang Zhiqing
Shen Liqiang	Independent Non-executive Director	Business engagement	Jin Mingda

- (3) The financial report for the year ended 31 December 2014 (the Reporting Period), prepared under the People's Republic of China (PRC or China) s Accounting Standards (CAS) as well as the International Financial Reporting Standards (IFRS), was audited by PricewaterhouseCoopers Zhong Tian LLP and PricewaterhouseCoopers, respectively, and both firms have issued standard unqualified opinions on the financial report in their auditors reports.

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- (4) Mr. Wang Zhiqing, Chairman, President and the responsible person of the Company; Mr. Ye Guohua, Director and Chief Financial Officer of the Company; and Mr. Hua Xin, Vice Financial Officer and Director of Finance hereby warrant the truthfulness and completeness of the financial statements contained in the annual report.
- (5) Plan for Profit Appropriation or Capital Reserve Capitalisation reviewed by the Board  
In 2014, the net loss attributable to equity shareholders of the Company amounted to RMB716,427,000 under CAS (net loss of RMB692,222,000 under IFRS). The board does not recommend dividend for this year, and would not carry out the capital reserve capitalization.
- (6) Forward-looking statements such as future plans and development strategies in this report do not constitute any substantive commitments of the Company to investors. The Company has alerted investors on the relevant investment risks.
- (7) There was no appropriation of funds by the controlling shareholder of the Company and its connected parties for non-operation purposes.
- (8) The Company did not provide external guarantees in violation of the required decision-making procedures.

**Table of Contents****(1) Definitions**

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

Company	Sinopec Shanghai Petrochemical Company Limited
Board	the Board of Directors of Sinopec Shanghai Petrochemical Company Limited
Supervisory Committee	the Supervisory Committee of Sinopec Shanghai Petrochemical Company Limited
PRC	the People's Republic of China
the Reporting Period	the year ended 31 December 2014
Hong Kong Stock Exchange	The Stock Exchange of Hong Kong Limited
Shanghai Stock Exchange	Shanghai Stock Exchange
Group	the Company and its subsidiaries
Sinopec Group	China Petrochemical Corporation
Sinopec Corp.	China Petroleum & Chemical Corporation
SASAC	State-owned Assets Supervision and Administration Commission of the State Council
The Share Option Incentive Scheme	A Share Option Incentive Scheme of Sinopec Shanghai Petrochemical Company Limited
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
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
PIMS	Process Industry Modeling System
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

**(2) Major Risk Warning**

Potential risks are elaborated in this report. Please refer to Report of the Directors for details of the potential future risks.





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**Company Profile**

Sinopec Shanghai Petrochemical Company Limited is one of the largest petrochemical enterprises in the People's Republic of China based on sales in 2014. It is also one of the largest PRC producers of ethylene. Ethylene is one of the most important intermediate petrochemical products used in the production of synthetic fibres, resins and plastics.

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

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

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

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

**Table of Contents****Financial Highlights***(Prepared under IFRS)*

Expressed in RMB million	2014	2013	2012	2011	2010
Year ended 31 December:					
Net sales	<b>92,725.0</b>	105,503.2	87,217.3	89,509.7	72,095.9
(Loss)/profit before taxation	<b>(889.9)</b>	2,444.7	(2,016.5)	1,296.7	3,529.9
(Loss)/profit after taxation	<b>(675.8)</b>	2,065.5	(1,505.1)	986.5	2,794.4
(Loss)/profit attributable to equity shareholders of the Company	<b>(692.2)</b>	2,055.3	(1,528.4)	956.1	2,769.0
Basic and diluted (loss)/earnings per share	<b>RMB (0.064)</b>	RMB 0.190	RMB (0.212)	RMB 0.133	RMB 0.385
Basic and diluted (loss)/earnings per share (after restatement)*	<b>N/A</b>	N/A	RMB (0.142)	RMB 0.089	RMB 0.256
As at 31 December:					
Total equity attributable to equity shareholders of the Company	<b>16,500.3</b>	17,732.5	16,037.2	17,925.6	17,689.5
Total assets	<b>30,905.6</b>	36,636.8	36,462.5	30,718.9	28,697.5
Total liabilities	<b>14,134.0</b>	18,645.3	20,158.6	12,523.2	10,748.2

\* After the implementation of share capital increase from the capital reserve in December 2013, total shares of the Company increased from 7.2 billion shares to 10.8 billion shares.

**Table of Contents****1. Major Accounting Data***(Prepared under CAS)*

	For the years ended 31 December			
			Increase / decrease compared to the previous year	2012
	<b>2014</b>	2013	(%)	RMB 000
	<b>RMB 000</b>	RMB 000		
Operating income	<b>102,182,861</b>	115,539,829	-11.56	93,072,254
Profit before income tax ( - for loss)	<b>-914,149</b>	2,392,870	-138.20	-2,032,974
Net profit attributable to equity shareholders of the Company ( - for net loss)	<b>-716,427</b>	2,003,545	-135.76	-1,548,466
Net profit attributable to equity shareholders of the Company excluding non-recurring items ( - for net loss)	<b>-806,028</b>	1,650,721	-148.83	-1,719,496
Net cash inflow from operating activities ( - for net outflow)	<b>4,039,919</b>	5,480,669	-26.29	-1,611,521

	As at 31 December			
			Increase / decrease compared to the end of the previous year	2012
	<b>2014</b>	2013	(%)	RMB 000
	<b>RMB 000</b>	RMB 000		
Total equity attributable to equity shareholders of the Company	<b>16,570,623</b>	17,831,617	-7.07	16,190,419
Total assets	<b>31,145,983</b>	36,915,933	-15.63	36,805,799

**Table of Contents****Financial Highlights** (continued)*(Prepared under CAS)***2. Major Financial Indicators**

	For the years ended 31 December				
	2014	2013	Increase/decrease compared to the previous year(%)	2012**	
				before restatement	after restatement
Basic earnings per share ( - for loss) (RMB/Share)	<b>-0.066</b>	0.186	-135.48	0.215	0.143
Diluted earnings per share ( - for loss) (RMB/Share)	<b>-0.066</b>	0.186	-135.48	0.215	0.143
Basic earnings per share excluding non-recurring items ( - for loss) (RMB/Share)	<b>-0.075</b>	0.153	-149.02	0.239	0.159
Return on net assets (weighted average) (%)*	<b>-4.165</b>	11.778	Decreased by 15.943 percentage points		9.028
Return on net assets based on net profit or loss excluding non-recurring items (weighted average) (%)*	<b>-4.686</b>	9.704	Decreased by 14.390 percentage points		10.025
Net cash inflow per share from operating activities ( - for net outflow) (RMB/Share)	<b>0.374</b>	0.507	-26.23	0.224	0.149
	As at 31 December				
	2014	2013	Increase/decrease compared to the end of the previous year(%)	2012**	
				before restatement	after restatement
Net asset value per share attributable to equity shareholders of the Company (RMB/Share)*	<b>1.534</b>	1.651	-7.09	2.249	1.499
Liability-to-asset ratio (%)	<b>45.926</b>	50.995	Decreased by 5.069 percentage points		55.286

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

\*\* After the implementation of share capital increase from the capital reserve in December 2013, total shares of the Company increased from 7.2 billion shares to 10.8 billion shares.



**Table of Contents****3. Non-recurring items**

	<b>2014</b>	2013	2012
	<b>RMB 000</b>	RMB 000	RMB 000
Net (loss)/earnings from disposal of non-current assets	<b>-33,966</b>	417,280	-14,319
Employee reduction expenses	<b>-4,684</b>	-2,463	-7,388
Government grants recorded in profit and loss, except for government grants under the State's unified standards on quota and amount entitlements and closely related to corporate business	<b>182,829</b>	59,658	221,044
Income from external entrusted loans	<b>2,299</b>	2,202	2,093
Other non-operating income and expenses other than those mentioned above	<b>-25,357</b>	-6,227	23,044
Effect attributable to minority interests (after tax)	<b>-1,240</b>	-1,143	-962
Income tax effect	<b>-30,280</b>	-116,483	-52,482
Total	<b>89,601</b>	352,824	171,030

**4. Differences between financial statements prepared under CAS and IFRS****1. Differences between the net profit and total equity attributable to equity shareholders of the Company in the financial report prepared under CAS and IFRS**

	Net profit ( - for net loss)		Total equity attributable to equity shareholders of the Company	
	Corresponding period		At the end of the Reporting Period	At the beginning of the Reporting Period
	The Reporting Period	of the previous year		
	RMB 000	RMB 000	RMB 000	RMB 000
Prepared under CAS	-716,427	2,003,545	16,570,623	17,831,617
Items and values adjusted under IFRS:				
Government Subsidies	28,772	54,130	-70,351	-99,123
Safety Production Fee Adjustment	-4,567	-2,347		
Prepared under IFRS	-692,222	2,055,328	16,500,272	17,732,494

**2. Description of differences between financial statements prepared under CAS and IFRS**

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





**Table of Contents****Principal Products**

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

The following table sets forth the net sales of the Group's major products in 2014 as a percentage of total net sales and their typical uses.

<b>Major products sold by the Group</b>	<b>% of 2014 net sales</b>	<b>Typical use</b>
<b>Manufactured products</b>		
<b>Synthetic fibres</b>		
Polyester staple	<b>0.47</b>	Textiles and apparel
Acrylic staple	<b>2.47</b>	Cotton type fabrics wool type fabrics delre, and acrylic top
Others	<b>0.18</b>	
<b>Subtotal:</b>	<b>3.12</b>	
<b>Resins and plastics</b>		
Polyester chips	<b>2.23</b>	Polyester fibres, films and containers
PE pellets	<b>5.87</b>	Films, ground sheeting, wire and cable compound and other injection moulding products such as housewares and toys
PP pellets	<b>4.78</b>	Extruded films or sheets, injection moulding products such as housewares, toys and household electrical appliances and automobile parts
PVA	<b>0.20</b>	PVA fibres, building coating materials and textile starch
Others	<b>0.39</b>	
<b>Subtotal:</b>	<b>13.47</b>	

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<b>Major products sold by the Group</b>	<b>% of 2014 net sales</b>	<b>Typical use</b>
<b>Intermediate petrochemical products</b>		
Ethylene	0.17	Feedstock for PE, EG, PVC and other intermediate petrochemicals which can be further processed into resins and plastics and synthetic fibre
Ethylene oxide	2.50	Intermediate for chemical and pharmaceutical industry, dyes, detergents and adjuvant
Benzene	2.48	Intermediate petrochemical products, styrene, plastics, explosives, dyes, detergents, epoxies and polyamide fibre
PX	3.88	Intermediate petrochemical, polyester
Butadiene	0.85	Synthetic rubber and plastics
Ethylene glycol	0.82	Fine chemicals
Others	2.66	
<b>Subtotal:</b>	<b>13.36</b>	
<b>Petroleum products</b>		
Gasoline	19.44	Transportation fuels
Diesel	22.01	Transportation and agricultural machinery fuels
Jet oil	3.87	Transportation fuels
Others	7.80	
<b>Subtotal:</b>	<b>53.12</b>	
<b>Trading of petrochemical products</b>	<b>15.95</b>	
<b>Others</b>	<b>0.98</b>	
<b>TOTAL:</b>	<b>100</b>	

**Table of Contents****Change in Share Capital and Shareholders****(1) Change in share capital****1. Change in share capital**

	Before the changes		Increase/decrease (+, -)					After the changes	
	Amount (shares)	Percentage (%)	New shares issued	Shares converted from bonus shares	Shares from reserves	Others (shares)	Subtotal (shares)	Amount (shares)	Percentage (%)
<b>1. Unlisted non-circulating shares</b>	0	0	0	0	0	0	0	0	0
(1) Shares of Promoters	0	0	0	0	0	0	0	0	0
Including:									
Shares held by the state	0	0	0	0	0	0	0	0	0
(2) Collective legal person shares	0	0	0	0	0	0	0	0	0
<b>2. Shares With Trading restrict</b>	5,685,000,000	52.64	0	0	0	-765,000,000	-765,000,000	4,920,000,000	45.56
(1) Shares held by state-owned legal entities	5,460,240,000	50.56	0	0	0	-540,240,000	-540,240,000	4,920,000,000	45.56
(2) Shares held by other domestic investors	224,760,000	2.08	0	0	0	-224,760,000	-224,760,000	0	0
<b>3. Listed circulating shares</b>	5,115,000,000	47.36	0	0	0	+765,000,000	+765,000,000	5,880,000,000	54.44
(1) RMB-denominated ordinary shares	1,620,000,000	15	0	0	0	+765,000,000	+765,000,000	2,385,000,000	22.08
(2) Overseas listed foreign shares	3,495,000,000	32.36	0	0	0	0	0	3,495,000,000	32.36
<b>4. Total share number</b>	10,800,000,000	100	0	0	0	0	0	10,800,000,000	100



**Table of Contents****2. Changes in trading restricted share capital**

Name of Shareholders	Number of trading restricted shares held at the beginning of the year (Share)	Decrease during 2014 (Share)	Increase during 2014 (Share)	Number of trading restricted shares held at the end of the year (Share)	Reason for restriction	Date of unrestricted shares
China Petroleum & Chemical Corporation	5,460,000,000	5,460,000,000	0	4,920,000,000	promise of share reform	20/08/2014
Shanghai Kangli Gong Mao Company and others	225,000,000	225,000,000	0	0	promise of share reform	20/08/2014
<b>Total</b>	<b>5,685,000,000</b>	<b>765,000,000</b>	<b>0</b>	<b>4,920,000,000</b>		

**(2) Issue and listing of shares****1. Issue of shares in the previous three years**

As at the end of the Reporting Period, the Company did not issue new shares or affect any share listings in the previous three years.

**2. Changes in the Company's total number of shares, share structure, Company assets and gearing structure**

There were no changes to the Company's total number of shares or share structure as a result of reasons such as bonus issues or share placements during the Reporting Period.

**3. Current employee shares**

The Company had no employee shares during the Reporting Period.

**Table of Contents****Change in Share Capital and Shareholders (continued)****(3) Shareholders and controlling company of the controlling shareholder****1. Total number of shareholders and their shareholdings**

Number of shareholders at the end of the Reporting Period	125,724
Number of shareholders at the end of the 5th working day previous to the annual report announcement date	114,972

**2. Shareholding of the top ten shareholders as at the end of the reporting period**

Name of Shareholders	Increase (+)/ decrease (-) during 2014 (shares)	Number of shares held (shares)	Percentage of total shareholding (%)	Number of trading restricted shares held	Status of pledged/frozen shares Status of shares	Type of shareholders
China Petroleum & Chemical Corporation		5,460,000,000	50.56	4,920,000,000	None	State-owned enterprise legal person
HKSCC (Nominees) Limited	+3,696,000	3,445,362,653	31.90		Unknown	Foreign legal person
NSSF Four Hundred Thirteen Combination	Unknown	34,481,836	0.32		Unknown	Others
Shanghai Kangli Gong Mao Company	-3,785,000	21,470,000	0.20		Unknown	Others
Zhejiang Economic Construction Investment Co., Ltd.		18,000,000	0.17		Unknown	Others
Agricultural Bank of China Limited - Fullgoal CSI State-Owned Enterprises Reform Index Classified Fund	Unknown	12,609,307	0.12		Unknown	Others
Bank of China - Harvest CSI 300 exchange-traded index securities investment fund	+196,788	11,987,438	0.11		Unknown	Others
China Industrial and Commercial Bank Co., Ltd. - Shanghai A shares Penghua Zhongzheng	-8,495,437	10,122,278	0.09		Unknown	Others

Industry Classification

Index Securities

Investment Fund

China Industrial and  
Commercial Bank Co.,  
Ltd. -Huatai-PineBridge

CSI 300ETF	Unknown	9,417,800	0.09	Unknown	Others
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China Scholars Group Co., Ltd	Unknown	9,200,011	0.09	Unknown	Others
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**Table of Contents****(3) Shareholders and controlling company of the controlling shareholder (continued)****2. Shareholding of the top ten shareholders as at the end of the reporting period (continued)**

Top ten shareholders of circulating shares without trading restriction as at 31 December 2014

<b>Name of shareholders</b>	<b>Number of circulating shares held (shares)</b>	<b>Type of Shares</b>
HKSCC (Nominees) Limited	3,445,362,653	Overseas listed foreign shares
China Petroleum & Chemical Corporation	540,000,000	RMB-denominated ordinary shares
NSSF Four Hundred Thirteen Combination	34,481,836	RMB-denominated ordinary shares
Shanghai Kangli Gong Mao Company	21,470,000	RMB-denominated ordinary shares
Zhejiang Economic Construction Investment Co., Ltd.	18,000,000	RMB-denominated ordinary shares
Agricultural Bank of China Limited - Fullgoal CSI State-Owned Enterprises Reform Index Classified Fund	12,609,307	RMB-denominated ordinary shares
Bank of China - Harvest CSI 300 exchange-traded index securities investment fund	11,987,438	RMB-denominated ordinary shares
China Industrial and Commercial Bank Co., Ltd. - Shanghai A shares Penghua Zhongzheng Industry Classification Index Securities Investment Fund	10,122,278	RMB-denominated ordinary shares
China Industrial and Commercial Bank Co., Ltd. -Huatai-PineBridge CSI 300ETF	9,417,800	RMB-denominated ordinary shares
China Scholars Group Co., Ltd	9,200,011	RMB-denominated ordinary shares

Description of any connected relationship or act-in-concert parties relationships among the above shareholders

Among the above-mentioned shareholders, China Petroleum & Chemical Corporation, the state-owned enterprise legal person, does not have any connected relationship with the other shareholders, and is not an act-in-concert party of the other shareholders under the Administrative Measures on Acquisition of Listed Companies. Among the above-mentioned shareholders, HKSCC (Nominees) Limited is a nominee shareholder. Apart from the above, the Company is not aware of any other connected relationships among the other shareholders, or any act-in-concert parties under the Administrative Measures on Acquisition of Listed



Companies.

**Table of Contents****Change in Share Capital and Shareholders (continued)****(3) Shareholders and controlling company of the controlling shareholder (continued)****3. Shareholding and conditions of circulating restricted in top ten shareholders**

<b>Name of shareholders holding trading restricted shares</b>	<b>Number of trading-restricted shares held</b>	<b>Earliest time to be traded</b>	<b>Number of shares which will be added to be traded</b>	<b>Restricted Conditions</b>
China Petroleum & Chemical Corporation	4,920,000,000	20/08/2015	540,000,000	1. Shall not be traded or transferred in the twelve months since the date of implementation of the Share reform proposal;
		20/08/2016	4,380,000,000	2. After the expiration of the first condition, original non-tradable shares sold through the Stock Exchange shall not exceed 5% of the total number of shares of the company, nor shall it exceed 10% within twenty-four months.

**Table of Contents****(3) Shareholders and controlling company of the controlling shareholder (continued)****4. Details of the controlling shareholder and controlling company of the controlling shareholder****(i). Details of the controlling shareholder****a. Legal person**

Name of controlling shareholder:	China Petroleum & Chemical Corporation
Legal representative:	Fu Chengyu
Date of incorporation:	25 February 2000
Certificate of Organization Code:	71092609-4
Registered capital:	RMB116,721,086,804
Major business operations and management activities:	Exploration, exploitation, pipeline transportation and trading of crude oil and natural gas; production, trading, storage and transportation of chemical products such as refined oil, petrochemical products, chemical fibres, fertilisers and others; import and export of techniques and goods such as petroleum, natural gas, petroleum products, petrochemical products, and other chemical products; as well as import and export business agent of the aforementioned goods and techniques; research, exploration and application of techniques and information.
Future development Strategy	With its corporate mission of empowering lives, core values of people, responsibility, integrity, excellence, innovation and win-win, Sinopec Corp. implements strategies for resources, markets, integration, international operations, differentiation and green & low-carbon growth. Through market-oriented operations, specialization, differentiation, integrated management and rigorous governance, Sinopec Corp. strives to transform our growth model and build a world-leading energy and chemical company that addresses the needs of all.
Shareholdings in other domestic and overseas companies during the reporting period	Besides the Company, Sinopec Corp. directly holds shares in other listed companies with the following details:

Company	Number of shares hold	Percentage of shares hold
Sinopec Shandong Taishan Petroleum Co., Ltd.	118,140,120	24.57%

**Table of Contents****Change in Share Capital and Shareholders** (continued)**(3) Shareholders and controlling company of the controlling shareholder** (continued)**4. Details of the controlling shareholder and controlling company of the controlling shareholder** (continued)

## (ii). Controlling company of the controlling shareholder

## a. Legal person

Name of controlling company of the controlling shareholder:	China Petrochemical Corporation
Legal representative:	Fu Chengyu
Date of incorporation:	24 July 1998
Certificate of Organization Code:	10169286-X
Registered capital:	RMB274,866,534,000
Major businesses operation or management activities:	According to the Group's restructuring strategy in 2000, China Petrochemical Corporation injected its chemicals business into Sinopec Corp. Sinopec continue to operate several petrochemical facilities and small-scale refining plants. Its services include: provision of drilling, logging and downhole operation services, production and maintenance of manufacturing equipment; project construction service and water, electricity and other public utilities and social services.
Future development Strategy	Sinopec implements strategies for resources, markets, integration, international operations, differentiation and green & low-carbon growth.
Shareholdings in other domestic and overseas companies during the reporting period	China Petrochemical Corporation directly holds shares in other listed companies with the following details:

Company	Number of shares hold	Percentage of shares hold
---------	-----------------------	---------------------------

China Petroleum & Chemical Corporation*	85,720,671,101	72.47%
Sinopec Engineering (Group) Co., Ltd.	2,907,856,000	65.67%
Sinopec Yizheng Chemical Fibre Company Limited	9,224,327,662	72.01%
Kingdream Public Limited Company	270,270,000	67.5%
China Merchants Energy Shipping Co., Ltd.	911,886,426	19.32%

\* Excludes the 553,150,000 H shares held by Sinopec Century Bright Capital Investment Limited, a wholly-owned overseas subsidiary of China Petrochemical Corporation, through HKSCC (Nominees) Limited.

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**(3) Shareholders and controlling company of the controlling shareholder** *(continued)*

**4. Details of the controlling shareholder and controlling company of the controlling shareholder**  
*(continued)*

(iii). Controlling company of the controlling shareholder

- b. Diagram of the ownership and controlling relationship between the Company and the controlling company of the controlling shareholder

\* Includes 553,150,000 H shares of Sinopec Corp. held by Sinopec Century Bright Capital Investment Limited, a wholly-owned international subsidiary of Sinopec Group, through HKSCC (Nominees) Limited.

**(4) Other legal person shareholders holding more than 10% of the Company's share capital**

As at 31 December 2014, HKSCC (Nominees) Limited held 3,445,362,653 H shares of the Company, representing 31.90% of the total issued share capital of the Company.

**(5) Public Float**

Based on the public information available to the Board, as at 20 March 2015, the Company had a sufficient public float which complied with the minimum requirement under the Hong Kong Listing Rules.

**Table of Contents****Change in Share Capital and Shareholders (continued)****(6) Interests and short positions of the substantial shareholders of the Company and other persons in shares and underlying shares**

As at 31 December 2014, the interests and short positions of the Company's substantial shareholders and other persons who are required to disclose their interests pursuant to Part XV of the Securities and Futures Ordinance of Hong Kong (Chapter 571 of the Laws of Hong Kong) (the "SFO") (including those who are entitled to exercise, or control the exercise of, 5% or more of the voting power at any general meeting of the Company but excluding the Directors, Supervisors and Senior Management) in the shares and underlying shares of equity derivatives of the Company as recorded in the register required to be kept under Section 336 of the SFO were as set out below:

**(1) Interests in ordinary shares of the Company**

Name of shareholders	Number of share interests held or deemed as held (shares)	Percentage of shareholding in the Company's		Capacity
		Percentage of total issued share capital (%)	Percentage of total issued H shares (%)	
China Petroleum & Chemical Corporation	5,460,000,000 Promoter legal person shares(L)	50.56		Beneficial owner
Blackrock, Inc.	201,196,012(L)	1.86(L)	5.76(L)	Beneficial owner; Investment managers; Other (lendable shares)
	25,757,000(S)	0.24(S)	0.74(S)	

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

Save as disclosed above, no interests of substantial shareholders or other persons (excluding the Directors, Supervisors and Senior Management) who are required to disclose their interests pursuant to Part XV of the SFO in the underlying shares of equity derivatives of the Company were recorded in the register required to be kept under Section 336 of the SFO.

**(2) Short positions in shares and underlying shares of the Company**

As at 31 December 2014, no short positions of substantial shareholders or other persons (excluding the Directors, Supervisors and Senior Management) who are required to disclose their interests pursuant to Part XV of the SFO in the shares or underlying shares of equity derivatives of the Company were recorded in the register required to be kept under Section 336 of the SFO.





**Table of Contents****Directors, Supervisors, Senior Management and Employees****Changes in Shareholdings and remuneration****1. Changes in Shareholdings and remuneration of Directors, Supervisors and Senior Management**

Name	Position	Sex	Age	Date of commencement and end of service term	Number of shares held at the beginning of the year			Change	Reason (if any)	Total remuneration received from the Company during the Reporting Period (RMB 000)	Total remuneration received from the Company during the Reporting Period (before taxation) (RMB 000)
					(shares)	(shares)	(shares)			(RMB 000)	(RMB 000)
Wang Zhiqing	Chairman and President	M	52	June 2014 to June 2017	Nil	Nil	Nil		83.1		
Wu Haijun	Vice Chairman	M	52	June 2014 to June 2017	Nil	Nil	Nil				
Gao Jinping	Vice Chairman and Vice President	M	48	June 2014 to June 2017	Nil	Nil	Nil		81.1		
Ye Guohua	Director & Chief Financial Officer	M	46	June 2014 to June 2017	Nil	Nil	Nil		73.1		
Jin Qiang	Director & Vice President	M	49	June 2014 to June 2017	Nil	Nil	Nil		74.4		
Guo Xiaojun	Director & Vice President	M	45	June 2014 to June 2017	Nil	Nil	Nil		61.5		
Lei Dianwu	Director	M	52	June 2014 to June 2017	Nil	Nil	Nil			63.4	
Mo Zhenglin	Director	M	50	June 2014 to June 2017	Nil	Nil	Nil			21.7	
Shen Liqiang	Non-executive Director	M	58	June 2014 to June 2017	Nil	Nil	Nil			0	
Jin Mingda	Independent Non-executive Director	M	64	June 2014 to June 2017	Nil	Nil	Nil		15.0		
Cai Tingji	Independent Non-executive Director	M	60	June 2014 to June 2017	Nil	Nil	Nil		15.0		
Zhang Yimin	Independent Non-executive Director	M	60	June 2014 to June 2017	Nil	Nil	Nil		15.0		
Zhang Jianbo	Chairman of the Supervisory Committee	M	52	June 2014 to June 2017	Nil	Nil	Nil		48.7		
Zuo Qiang	Supervisor	M	52	June 2014 to June 2017	Nil	Nil	Nil		39.8		
Li Xiaoxia	Supervisor	F	45	June 2014 to June 2017	Nil	Nil	Nil		37.3		
Zhai Yalin	Supervisor	M	50	June 2014 to June 2017	Nil	Nil	Nil			57.1	
Wang Liqun	Supervisor	M	57	June 2014 to June 2017	Nil	Nil	Nil			56.9	
Zheng Yunrui	Independent Supervisor	M	49	December 2014 to June 2017	Nil	Nil	Nil				
Tang Weizhong	Company Secretary	M	48	June 2014 to June 2017	Nil	Nil	Nil		15.6		
Li Hong Gen	Former Director and Former Vice President	M	58	June 2011 to June 2014	Nil	Nil	Nil			56.3	

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Zhang Jianping	Former Director and Former Vice President	M	52	June 2011 to June 2014	Nil	Nil	Nil	56.3
Chen Xinyuan	Former Independent Supervisor	M	50	June 2014 to December 2014	Nil	Nil	Nil	
Zhou Yunnong	Former Independent Supervisor	M	72	June 2014 to July 2014	Nil	Nil	Nil	
Zhang Zhiliang	Former Vice President	M	61	June 2011 to June 2014	Nil	Nil	Nil	50.5
Shi Wei	Former Vice President	M	55	June 2011 to April 2014	Nil	Nil	Nil	51.1
Zhang Jingming	Former Company Secretary	M	57	June 2011 to June 2014	Nil	Nil	Nil	28.7
Total							Nil	802.5 199.1

Shares held by the individuals listed above are A shares and represent the individuals' personal interests in their capacity as beneficial owners.

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**Table of Contents****Directors, Supervisors, Senior Management and Employees (continued)****Profiles of Directors, Supervisors and Senior Management****Directors**

**Wang Zhiqing**, 52, is Chairman, President and Deputy Secretary of the Communist Party Committee of the Company. Mr. Wang commenced work in 1983 and has held various positions, including Deputy Leader of the preparatory team for the chemical fibre plant of Luoyang Petrochemical Complex, Deputy Chief Engineer of Luoyang Petrochemical Complex cum Officer-in-Charge of the preparatory team for the complex's chemical fibre plant, and then Deputy Chief Engineer of the complex cum Director of the chemical fibre plant. Mr. Wang was Chief Engineer of Luoyang Petrochemical Complex from June 1999 to December 2001, Vice President cum Chief Engineer of Sinopec Luoyang Company from February 2000 to December 2001, President of Sinopec Luoyang Company from December 2001 to October 2006, Leader of the preparatory team for a Sinopec refinery project in Guangxi from July 2005 to May 2007, manager of Sinopec Jiujiang Company from October 2006 to December 2008, President of Sinopec Jiujiang Company from December 2008 to July 2010, President and Deputy Secretary of the Communist Party Committee of the Company in July 2010, and Director of the Company in December 2010. He was appointed Vice Chairman of the Company from December 2010 to June 2013 and Director and Chairman of Shanghai Secco Petrochemical Company Limited in February 2011. Mr. Wang was Chairman of the Company in June 2013. He graduated from the East China Petroleum Institute with a Bachelor of Engineering in 1983, majoring in refinery engineering, and graduated from China University of Petroleum (East China) with a Doctorate in Engineering in 2006, majoring in chemical engineering and technology. In addition, He graduated from The Open University of Hong Kong and China Europe International Business School with a Master of Business Administration in 2001 and 2013, respectively. He is a professor-level senior engineer by professional title.

**Wu Haijun**, 52, is Vice Chairman of the Company, Director and Vice President of Shanghai Secco Petrochemical Company Limited. Mr. Wu joined the Shanghai Petrochemical Complex(the Complex) in 1984 and has held various positions, including Deputy Director and Director of the Company's No.2 Chemical Plant, as well as manager of the Chemical Division. He was Vice President of the Company from May 1999 to March 2006 and Director of the Company from June 2004 to June 2006. Mr. Wu was manager and Secretary of the Communist Party Committee of the Chemical Sales Branch Office of Sinopec Corp. from December 2005 to March 2008. From December 2005 to April 2010, he was Director of the Chemical Business Department of Sinopec Corp. In April 2010, he was appointed as a Director of Shanghai Secco Petrochemical Company Limited. From April 2010 to February 2011, Mr. Wu was President of Shanghai Secco Petrochemical Company Limited. In June 2010, he was appointed Director and Vice Chairman of the Company. In February 2011, he was appointed Vice President of Shanghai Secco Petrochemical Company Limited. Mr. Wu graduated from the East China Institute of Chemical Technology in 1984, majoring in chemical engineering, and obtained a Bachelor of Engineering degree. In 1997, he obtained an Master of Business Administration from the China Europe International Business School. He is a senior engineer by professional title.

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**Gao Jinping**, 48, is Vice Chairman, Secretary of the Communist Party Committee and Vice President of the Company. Mr. Gao joined the Company in 1990 and has held various positions, including Deputy Secretary of the Communist Youth League of the Company, Deputy Secretary of the Communist Party Committee of the Experimental Plant and Chemical Division of the Company, and Director of the Propaganda Department of the Company. Mr. Gao was Deputy Secretary of the Communist Party Committee from May 2003 to March 2013, Chairman of the Labor Union of the Company from May 2003 to November 2013, and was elected Director of the Company from June 2004 to June 2006. Mr. Gao was appointed Secretary of the Communist Party Discipline Supervisory Committee of the Company from April 2006 to March 2013, and was Supervisor and Chairman of the Supervisory Committee of the Company, from June 2006 to March 2013. He has been Secretary of the Communist Party Committee of the Company since March 2013, as well as Vice President of the Company since April 2013. In June 2013, Mr. Gao was appointed as a Director of the Company. In June 2014, Mr. Gao was appointed as a Vice Chairman of the Company. Mr. Gao graduated from the Food Processing Faculty of Shanghai Aquatic Products University with a major in cooling and cold storage technology and obtained a bachelor's degree in engineering in 1990. In 2001, he completed his post-graduate studies in business administration in the aspect of industrial economics at Shanghai Academy of Social Sciences. He has senior professional technical qualifications.

**Ye Guohua**, 46, is Executive Director and Chief Financial Officer of the Company. Mr. Ye joined Shanghai Gaoqiao Petrochemical Corporation in 1991 and has held various positions, including Deputy Chief and Chief of the Cost Accounting Section of the Finance Office, Director of the Finance Office of the Refinery Plant of Shanghai Gaoqiao Petrochemical Corporation and Deputy Chief Accountant and Director of the Finance Department of Sinopec Shanghai Gaoqiao Branch. In October 2009, Mr. Ye was appointed Chief Financial Officer of the Company. In June 2011, Mr. Ye was Director of the Company. Mr. Ye graduated with a major in accounting from the Shanghai University of Finance and Economics in 1991. He is a senior accountant by professional title.

**Jin Qiang**, 49, is Executive Director and Vice President of the Company. Mr. Jin joined Zhenhai General Petrochemical Works in 1986 and has held various positions, including Deputy Director of the Utilities Department Director of the Machinery and Power Division and Director of Sinopec Zhenhai Refining & Chemical Co., Ltd. (ZRCC). Mr. Jin was Deputy Chief Engineer of Sinopec Zhenhai Refining & Chemical Company from March 2007 to October 2011, and was appointed Vice President of the Company in October 2011. In June 2014, Mr. Jin was appointed Director of the Company. Mr. Jin graduated from the East China Institute of Chemical Technology in 1986 specializing in chemical machinery, and graduated from the Graduate School of Central Party School in 2007 specializing in economic management. He is a professor-level senior engineer by profession title.

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**Table of Contents****Directors, Supervisors, Senior Management and Employees (continued)**

**Guo Xiaojun**, 45, is Executive Director and Vice President of the Company. Mr. Guo joined the Company in 1991 and has held various positions, including Director of the Polyolefin Integrated Plant in the Plastics Division, Deputy Chief Engineer in the Plastics Division, Assistant to the Manager, Assistant Manager and Manager cum Deputy Secretary of the Communist Party Committee. He was Deputy Chief Engineer and Director of the Production Department of the Company from March 2011 to April 2013 and Vice President of the Company in April 2013. In June 2014 Mr. Guo was appointed Director of the Company. He graduated with a major in basic organic chemical engineering from the East China University of Science and Technology in 1991 and obtained Bachelor of Engineering, and obtained a master's degree majoring in chemical engineering from the East China University of Science and Technology in 2008. He is a senior engineer by professional title.

**Lei Dianwu**, 52, is Vice President of Sinopec Corp, Assistant to the General Manager and Chief Economist of Sinopec Group. In June 2005, Mr. Lei was elected External Director of the Company. Mr. Lei has held various positions, including Deputy Director of Planning Division of Yangzi Petrochemical Company, Director of the Preparation Office of the Joint Venture of Yangzi Petrochemical Company and Vice President and Manager of the production division of Yangzi BASF Styrene Company Limited. He acted as Deputy Manager and Deputy Director of the Joint Venture Office at Yangzi Petrochemical Company, Director of the Development and Planning Division at China Dong Lian Petrochemical Limited Liabilities Company, Deputy General Manager of Yangzi Petrochemical Limited Liabilities Company and Deputy Director of the Development and Planning Division of Sinopec Corp. From March 2001 to August 2013, he assumed the position of Director of Development and Planning Division of Sinopec Corp. Mr. Lei was appointed Assistant to General Manager of Sinopec in March 2009, was appointed Vice President of Sinopec Corp in May 2009, and was appointed Chief Economist of Sinopec Group in August 2013. Mr. Lei has rich experience in enterprise planning and investment development management. In 1984, Mr. Lei graduated from the East China Petroleum Institute with a major in basic organic chemicals and obtained a bachelor's degree in engineering. He is a senior engineer by professional title.

**Mo Zhenglin**, 50, is Chief Accountant of the Chemical Division of Sinopec Corp. and Director of Shanghai Secco Petrochemical Company Limited. In June 2014 Mr. Mo was elected External Director of the Company. Mr. Mo began his career in August 1986 and has held various positions, including Deputy Director of the Finance Department and Head of the Accounting Department, as well as Chief Accountant and Director of the Finance Department of the Refinery Division of Beijing Yanshan Petrochemical Corporation (now known as Sinopec Beijing Yanshan Company); and Deputy Chief Accountant of Sinopec Beijing Yanshan Company and Chief Accountant of the Refinery Division. He served as Director of Beijing Yanshan Petrochemical Company Limited and Chief Accountant of Sinopec Beijing Yanshan Company from April 2002 to August 2008. Mr. Mo has been Chief Accountant of the Chemical Division of Sinopec Corp. since August 2008, and Director of Shanghai Secco Petrochemical Company since November 2008. Mr. Mo obtained a bachelor's degree in Management from Zhongnan University of Economics in 1986, majoring in Finance and Accounting. He is a senior accountant by professional title.

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**Shen Liqiang**, 58, is President and Secretary of the Communist Party Committee of the Shanghai Branch of the Industrial and Commercial Bank of China ( ICBC ). In June 2011, Mr. Shen was elected Independent Director of the Company. Mr. Shen has been engaged in the financial business since December 1976, and has held various positions, including Deputy Director and Director of the Hangzhou Business Department of ICBC; Deputy Director of the Accounting and Cashier Department, Deputy Director and Director of the Savings Department, Director of the Personnel Department and Assistant to the President cum Director of Personnel Department of the Zhejiang Branch of ICBC; Vice President of the Zhejiang Branch of the ICBC; Vice President cum General Manager and Secretary of the Communist Party Committee of the Banking Department of the Zhejiang Branch of the ICBC. He was Vice President and Deputy Secretary of the Communist Party Committee of the Zhejiang Branch of ICBC from October 2005 to March 2007, and was appointed President and Secretary of the Communist Party Committee of the Hebei Branch of the ICBC from March 2007 to June 2009. He has been President and Secretary of the Communist Party Committee of the Shanghai Branch of ICBC since June 2009. Mr. Shen has long been engaged in the management of the banking business and has both in-depth expertise on finance theory and extensive experience in finance. Mr. Shen holds a Master's Degree in Economics and is a senior accountant by professional title.

**Jin Mingda**, 64, is Chairman of Shanghai Chemical Industry Association. In June 2011, Mr. Jin was elected Independent Director of the Company. Mr. Jin started working in October 1968 and has held various positions, including Deputy Secretary of the Communist Party Committee, Deputy Director, Secretary of the Communist Party Committee and Director of Shanghai Power Station Auxiliary Equipment Works Co., Ltd.; General Manager cum Deputy Secretary of the Communist Party Committee of Shanghai Boiler Works Co., Ltd.; Vice President of Shanghai Electric (Group) Corporation; Vice President of Shanghai Electric Group Co., Ltd.; and General Manager and Secretary of the Communist Party Committee of Shanghai Mechanical & Electrical Industry Co., Ltd. He served as Director, President and Deputy Secretary of the Communist Party Committee of Shanghai Huayi (Group) Company from November 2005 to October 2007 and Chairman and Secretary of the Communist Party Committee of Shanghai Huayi (Group) Company from October 2007 to August 2013. He was appointed Independent Director of Shanghai Electric Power Co., Ltd. in November 2009. Mr. Jin has extensive experience in business decision-making and management of conglomerates. He possesses postgraduate qualifications and is a senior economist by professional title.

**Cai Tingji**, 60, is a Fellow of the Hong Kong Institute of Certified Public Accountants, a member of the Committee of the Chinese People's Political Consultative Conference of Jing'an District, Shanghai, Honorary Vice-Chairman of the Federation of Returned Overseas Chinese of Jing'an District, Shanghai, and has been Independent Director of the Company since June 2011. Mr. Cai graduated from the Department of Accounting, Hong Kong Polytechnic University in 1978. He joined KPMG in the same year and has held various positions, including Deputy Manager and Manager of the audit department of KPMG Hong Kong Office, Managing Partner of KPMG Shanghai Office, Senior Partner of KPMG Huazhen Shanghai Office as well as Senior Partner of KPMG Huazhen in Eastern and Western China. Mr. Cai retired from KPMG Huazhen in April 2010. Mr. Cai was responsible for IPO projects for a number of large Chinese domestic enterprises in China, Hong Kong or overseas, as well as for various projects for listed companies. He possesses a wealth of professional knowledge and experience.

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**Table of Contents****Directors, Supervisors, Senior Management and Employees (continued)**

**Zhang Yimin**, 60, is a Professor of Economics and Finance and head of the Faculty of Accounting and Finance at the China Europe International Business School. He was appointed Executive Director of the Company in October 2013. Mr. Zhang obtained a doctorate degree majoring in finance and political studies at the Business School of the University of British Columbia in Canada, and has held various positions, including a Post-doctoral Fellow at the Business School of the University of British Columbia, Assistant Professor at the Business School of the University of New Brunswick, and Associate Professor of Economics and Finance Department at the City University of Hong Kong. He was appointed as Professor of Economics and Finance at the China Europe International Business School in September 2004. His main area of research interest is in operations, financing and industrial economic studies. He possesses a wealth of professional knowledge and experience.

**Supervisors**

**Zhang Jianbo**, 52, is Chairman of the Supervisory Committee, Deputy Secretary of the Communist Party Committee, Secretary of the Communist Party Discipline Supervisory Committee and Chairman of the Labor Union of the Company. Mr. Zhang started his career in 1985. He has served as Deputy Director of Senior Corporate Management section of the Education Office of Sinopec Group, was appointed Deputy Director of Evaluation and Appointment Management section of Human Resources Office of Sinopec Corp. and was appointed Director of the Supervisory section of the Human Resources Office of Sinopec Group and Sinopec Corp. Mr. Zhang was appointed Deputy Secretary of the Communist Party Committee and Secretary of the Communist Party Discipline Supervisory Committee in August 2013, and was appointed Chairman of the Supervisory Committee and Chairman of the Labor Union of the Company in November 2013. Mr. Zhang graduated from the Oil Extraction Engineering Faculty of Jiangnan Petroleum Institute School and obtained a bachelor's degree in engineering in 1985. He has senior professional technical qualifications.

**Zuo Qiang**, 52, is Supervisor, Deputy Secretary of Discipline Inspection Commission, Director of the Supervisory Office and Director of Supervisory Committee Office. Mr. Zuo joined the Complex in 1981 and has held various positions, including archivist of the Command Division for the construction of Phase II of No. 1 Chemical Plant, Head of Archives at the ethylene plant, Secretary of the Youth League Committee of the ethylene plant, Secretary of the Youth League Committee of the Refining and Chemical Division of the Complex, Secretary of the Youth League Committee of the Refining and Chemical Division, Secretary of the General Branch of the Communist Party Committee of Ethylene Plant No. 1 of the Refining and Chemical Division of the Company, and Deputy Director of the Supervisory Office of the Company. He was appointed Secretary of the Corporate Discipline Supervisory Committee of the Company. In April 2011, he was appointed Director of the Supervisory Office in April 2011, and has been serving as Supervisor, Director of Supervisory Committee Office since June 2011, and Deputy Secretary of the Discipline Inspection Commission of the Company since October 2011. Mr. Zuo graduated from the Correspondence College of the Communist Party Committee School of the Central Committee in 1993 with a major in Party & Administrative management. He has senior professional technical qualifications.



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**Li Xiaoxia**, 45, is Supervisor and Vice Chairman of the Labor Union of the Company. Ms. Li joined the Complex in 1991 and has held various positions, including Controller of the operation zone of the marine terminal of the Company, Assistant to the Workshop Director, Deputy Workshop Director and Deputy Section Chief of Storage and Transportation Area No. 2 of the Refining and Chemical Division, Deputy Secretary of the Youth League Committee of the Company, Secretary of Party General Branch for Staff Exchange and Relocation Centre, Secretary of the Communist Party Committee and Deputy Manager of the Refining Division of the Company. She was appointed as Supervisor of the Company in June 2011 and Vice Chairman of the Labor Union of the Company in December 2011. Ms. Li graduated from Liaoning University of Petroleum and Chemical Technology in 1991 with a major in petroleum and natural gas transportation. She has senior professional technical qualifications.

**Zhai Yalin**, 50, is Deputy Director of the Auditing Bureau of Sinopec Group and Deputy Director of Auditing Department of Sinopec Corp., and has been External Supervisor of the Company since June 2008. Mr. Zhai began his career in 1986 and successively served as Deputy Head of the Head Office and Director of the Auditing Department of Qianguo Refinery, Deputy Director of the General Office of Sinopec Huaxia Auditing Company, Deputy Director of the General Administrative Office of the Auditing Bureau of China Petrochemical Corporation, Director of the General Administrative Office of the Auditing Bureau of Sinopec Group, and Director of the General Administrative Office of the Auditing Bureau of Sinopec Group (Auditing Department of Sinopec Corp.). Since December 2001, Mr. Zhai has concurrently held the posts of Deputy Director of the Auditing Bureau of Sinopec Group and Deputy Director of Auditing Department of Sinopec Corp. Mr. Zhai graduated from Jilin Siping Normal College in 1986 and is a senior economist by professional title.

**Wang Liqun**, 57, is Deputy Chief of the Supervisory Bureau of Sinopec Group and Deputy Director of the Supervisory Department of Sinopec Corp., and has been External Supervisor of the Company since June 2011. Mr. Wang started working in 1976 and has held various positions, including Deputy Director of the Manager's Office of Beijing Yanshan Petrochemical Corporation, Director of the Personnel Department, Deputy Head and Head of the Department for Cadres of Beijing Yanshan Petrochemical Co., Ltd. He served as a member of the Standing Committee of the Communist Party Committee and Chairman of the Labor Union of Beijing Yanshan Petrochemical Co., Ltd. from August 2008 to April 2010. He has been serving as Deputy Chief of the Supervisory Bureau of Sinopec Group and Deputy Director of the Supervisory Department of Sinopec Corp. from April 2010. Mr. Wang graduated from Beijing Federation of Labor Unions University for Workers and Staff in 1984 with a major in environmental protection (Diploma), and graduated from Beijing University of Technology in 1997 with a major in business management (Bachelor). He is a senior economist by professional title.

**Zheng Yunrui**, 49, is a professor in civil and commercial law at the Faculty of Law of East China University of Political Science and Law in the PRC. Mr. Zheng graduated from Shangrao Normal University in Jiangxi Province, majoring in English Language. Mr. Zheng obtained a master's degree in Law and a doctoral degree in Law from the Faculty of Law of Peking University in July 1993 and July 1998, respectively. Mr. Zheng previously worked at the Education Bureau of Shangrao County, Jiangxi Province, Hainan Airport Limited, China Township Enterprise Investment and Development Company Limited and the Legal Affairs Office of the Shanghai Municipal People's Government. He has been teaching at East China University of Political Science and Law since August 2001. He was a visiting scholar at the Faculty of Law of National University of Singapore between July 2002 and December 2002. Mr. Zheng has been engaged in trials, teaching and research relating to civil law, property law, contract law, insurance law, social insurance law and government procurement law. He is experienced in the legal affairs on corporate governance and has great academic achievements. He is also a procurement assessment expert of the Shanghai Municipal People's Government and an arbitrator at the Shenzhen Arbitration Commission.



**Table of Contents****Directors, Supervisors, Senior Management and Employees** (continued)**Senior Management**

**Tang Weizhong**, 48, is Secretary to the Board, Director of the Board Secretariat of the Company and Director of the Foreign Affairs Division of the Company. Mr. Tang joined the Complex in 1989. He has held various positions, including the Supervisor of the Board Secretariat of the Company and the Assistant Director of the Board Secretariat of the Company. He was the Deputy Director of the Board Secretariat of the Company from August 2003 to June 2011. He was the Securities Affairs Representative of the Company from June 2002 to June 2014. He has been the Director of the Board Secretariat of the Company since June 2011, and the Director of the Foreign Affairs Division of the Company since January 2014. In June 2014, he was appointed secretary to the Board. Mr. Tang graduated from Beijing Institute of Chemical Fibre Engineering with a major in organic chemistry in 1989, and obtained a master's degree in business administration with a major in marketing from Zhejiang University in 1996. He holds the professional qualification of senior economist.

**Management Positions held at the Company's Shareholders**

<b>Name</b>	<b>Shareholder's name</b>	<b>Position held</b>	<b>Commencement of service term</b>	<b>End of service term</b>
Lei Dianwu	Sinopec Corp.	Vice President	May 2012	May 2015
Mo Zhenglin	Sinopec Corp.	Chief Accountant of Chemical Division	May 2012	May 2015
Zhai Yalin	Sinopec Corp.	Deputy Director of Audit Department	May 2012	May 2015
Wang Liqun	Sinopec Corp.	Deputy Director of Supervisory Department	May 2012	May 2015

**Management Positions held at other companies**

<b>Name</b>	<b>Other company's name</b>	<b>Position held</b>	<b>Commencement of service term</b>	<b>End of service term</b>
Wu Haijun	Shanghai Secco Petrochemical Company Limited	Director and Deputy General Manager	February 2011	February 2015

Aside from the information set out in the tables above and in Profile of Directors, Supervisors and Senior Management, no Director, Supervisor or Senior Management of the Company holds any position at any other company.

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**Remuneration of Directors, Supervisors and Senior Management**

1. Procedures for determining the remuneration of Directors, Supervisors and Senior Management  
Allowances for Independent Directors are determined by the Board, and the resolution of the same are submitted to the general meeting for consideration and approval. Remunerations of other Directors, Supervisors and Senior Management are determined according to the Remuneration System for Directors, Supervisors and Senior Management which was passed at the 2002 annual general meeting of the Company.

For details of the remuneration of the Directors and Supervisors of the Company, please refer to Note 10 to the financial statements prepared under IFRS.

2. Basis for determining the remuneration of Directors, Supervisors and Senior Management  
The remuneration of Directors, Supervisors and Senior Management of the Company is determined by the principles of efficiency, motivation and fairness and approved in accordance with the Remuneration System for Directors, Supervisors and Senior Management.

3. Remuneration payable of Directors, Supervisors and Senior Management  
Please refer to section Changes in Shareholdings and remuneration of Directors, Supervisors and Senior Management .

4. The total actual remuneration of Directors, Supervisors and Senior Management paid by the Company in the Reporting Period: RMB8.025 million.

5. The five highest paid individuals  
Please refer to Notes 10 to the financial statements prepared under IFRS. The five individuals are the Directors, Supervisors and Senior Management of the Company.

6. Pension scheme  
Please refer to Notes 2.24 and 27(e) to the financial statements prepared under IFRS.

**Table of Contents****Directors, Supervisors, Senior Management and Employees (continued)****Change of Directors, Supervisors and Senior Management**

<b>Name</b>	<b>Position held</b>	<b>Change</b>	<b>Reason</b>
Jin Qiang	Director and Vice President	Selected	Change of work allocation
Guo Xiaojun	Director and Vice President	Selected	Change of work allocation
Mo Zhenglin	Director	Selected	Change of work allocation
Zheng Yunrui	Independent Supervisor	Selected	Change of work allocation
Tang Weizhong	Board Secretary	Appointed	Change of work allocation
Xiang Hanyin	Former Director	Resigned	Retirement by rotation
Chen Xinyuan	Former Independent Supervisor	Resigned	Resignation
Zhou Yunnong	Former Independent Supervisor	Resigned	Resignation
Zhang Zhiliang	Former Vice President	Resigned	Retirement
Shi Wei	Former Vice President	Resigned	Change of work allocation
Zhang Jingming	Former Board Secretary	Resigned	Retirement by rotation

**Interests and short positions of Directors, Supervisors and Senior Management in shares, underlying shares and debentures of the Company**

In addition to the disclosure in section **Changes in Shareholdings and remuneration of Directors, Supervisors and Senior Management**, as at 31 December 2014, none of the Directors, Supervisors or Senior Management of the Company had any interests or short positions in any shares, underlying shares of equity derivatives or debentures of the Company or its associated corporations (within the meaning ascribed to it in Part XV of the SFO) in the register 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.

As at 31 December 2014, none of the Company's Directors, Supervisors or Senior Management or their respective spouses and children under 18 years had been granted by the Company or had exercised any rights to subscribe for shares or debentures of the Company or any of its associated corporations.

**Table of Contents****Directors and Supervisors Interests in Contract**

None of the Directors or Supervisors of the Company had any material interests, either directly or indirectly, in any contracts of significance entered into or subsisting during or at the end of the year with the Company or any of its associated corporations.

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

**Model Code for Securities Transactions**

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

**Employees**

Number of employees of the Company	13,202
Number of employees of the subsidiaries	111
Total number of employees of the Group	13,313
Number of retired workers who require the Group to bear the costs of retirement	15,891
<b>Professionals structure and level of education of the Company's employees</b>	
Category of Professionals	Number of employees
Production personnel	7,789
Sales staff	71
Technical staff	3,744
Financial officers	58
Administrative staff	1,540
Others	13,202
<b>Level of education</b>	
Educational Attainment	Number of employees
College graduate or below	10,588
Undergraduate	2,437
Post-graduate and above	177
Total	13,202

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**Directors, Supervisors, Senior Management and Employees** (continued)

**Staff remuneration**

Remuneration packages for the Company's staff include salary, bonus and allowances, together with medical insurance coverage, pension and other benefits. In accordance with the relevant regulations of PRC, the Company also participates in the social security scheme implemented by the relevant authorities. Pursuant to the scheme, the Company contributes to the scheme by a proportion of the monthly salary of its staff.

**Training programs**

According to the human resources main line "streamlining the structure and enhancing the quality" with an aim of "strengthening the team construction and facilitating the employee development", the Company improves the educational training management and talent growth, enhance the focus area and the effectiveness of the training, so as to build nationally leading and world class petrochemical enterprise.

**Professional structure chart**

**The level of education chart**

**Outsourcing Service**

The total remuneration for outsourcing services: RMB1,733,823

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**Corporate Governance**

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

**1. Corporate governance**

In 2014, the Company strictly complied with the Company Law and Securities Law and the Corporate Governance Principles for Listed Companies issued by the CSRC, as well as the relevant provisions and requirements of the Shanghai Stock Exchange, the Hong Kong Stock Exchange and the New York Stock Exchange. It continued to improve its corporate governance structure, develop its corporate system, streamline operations and enhance its overall corporate image.

Improving governance policies: During the Reporting Period, in accordance with the requirements of the relevant laws and regulations of the places where the Company's shares are listed, the Company amended and improved the Company's Internal Control Manual (2014 edition).

Accomplished specific corporate governance activities for listed companies in an earnest manner: During the Reporting Period, the Company was committed to ensuring the compliance of relevant regulatory rules regarding corporate governance and continued to consolidate its achievements in specific areas of corporate governance. The Company and its Directors, Supervisors, Senior Management, shareholders and the controlling company of its controlling shareholder has not been investigated by the CSRC; nor punished or publicly criticized by the CSRC, The Hong Kong Securities and Futures Commission or the U.S. Securities and Exchange Commission, nor publicly censured by the Shanghai Stock Exchange, the Hong Kong Stock Exchange or the New York Stock Exchange.

To further improve the governance structure of the Company, long-term incentive and binding for the core staff including the senior management, core business, technical and management position of the Company was executed. On 15 August 2014, the The Second meeting of the Eighth Session of the Board of Directors considered and passed resolution on the A Share Option Incentive Scheme of Sinopec Shanghai Petrochemical Company Limited (Draft) and its administrative measures. The abovementioned proposal was considered and passed at First Extraordinary General Meeting for 2014, First A Shareholders Class Meeting for 2014 and First H Shareholders Class Meeting for 2014 on 23 December 2014.

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



**Table of Contents****Corporate Governance** (continued)**2. Registration and management of persons with access to inside information**

In order to govern the registration and management of persons with access to the Company's inside information, strengthen the confidentiality of inside information and safeguard the fairness of information disclosure, the Company achieved these aims by following the System for the Registration and Management of Inside Information with a view to prevent exceptional movements in share prices due to the leakage of inside information, and legal risks arising therefrom for further regulating the operation of the Company.

**(2) The brief introduction of Annual General Meeting**

<b>Session of the meeting</b>	<b>Convening Date</b>	<b>Name of the motion</b>	<b>Resolutions</b>	<b>Websites for Publication of Resolutions</b>	<b>Date of Publication of Resolutions</b>
2013 Annual General Meeting	18 June 2014	1. 2013 Work Report of the Board of the Company	Endorsed	Websites of the Shanghai Stock Exchange, the Hong Kong Stock Exchange and the Company	19 June 2014
		2. 2013 Work Report of the Supervisory Committee of the Company			
		3. 2013 Audited Financial Statements of the Company			
		4. 2013 Profit Distribution Plan of the Company			
		5. 2014 Financial Budget Report of the Company			
		6. The re-appointment of the Company's domestic and international auditors			

		7. The election of members of the 8th Session of the Board of the Company		
		8. The election of non-employee Supervisors of the 8th Session of the Supervisory Committee of the Company		
First Extraordinary General Meeting in 2014	23 December 2014	1. About the Proposal regarding A Share Option Incentive Scheme of Sinopec Shanghai Petrochemical Company Limited (Draft)	Endorsed	Websites of the Shanghai Stock Exchange, the Hong Kong Stock Exchange and the Company
		2. About the Proposal regarding Administrative Measures on A Share Option Incentive Scheme of Sinopec Shanghai Petrochemical Company Limited (Draft)		24 December 2014
		3. About the Proposal regarding Administrative Measures for Appraisal under the A Share Option Incentive Scheme of Sinopec Shanghai Petrochemical Company Limited		
		4. About the Proposal regarding Proposing the General Meeting		

and the Class Meetings of Sinopec Shanghai Petrochemical Company Limited to Authorize the Board of Directors to Deal with the Matters Relating to the Share Option Incentive Scheme

5. About the Proposal regarding selecting Mr. Zheng Yunrui as the Independent Supervisor of the Eighth Session of the Board of Directors of the Company

First Class Meeting of Holders of A-shares in 2014	23 December 2014	1. About the Proposal regarding A Share Option Incentive Scheme of Sinopec Shanghai Petrochemical Company Limited (Draft)	Endorsed	Websites of the Shanghai Stock Exchange, the Hong Kong Stock Exchange and the Company	24 December 2014
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2. About the Proposal regarding Proposing the General Meeting and the Class Meetings of Sinopec Shanghai Petrochemical Company Limited to Authorize the Board of Directors to Deal with the Matters Relating to the Share Option Incentive Scheme

First Class Meeting of Holders of H-shares in	23 December 2014	1. About the Proposal regarding A Share Option Incentive Scheme	Endorsed	Websites of the Shanghai Stock Exchange, the Hong Kong Stock Exchange and the	24 December 2014
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2014

of Sinopec  
Shanghai  
Petrochemical  
Company Limited  
(Draft)

Company

2. About the  
Proposal regarding  
Proposing the  
General Meeting  
and the Class  
Meetings of  
Sinopec Shanghai  
Petrochemical  
Company Limited  
to Authorize the  
Board of Directors  
to Deal with the  
Matters Relating to  
the Share Option  
Incentive Scheme

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**Table of Contents****(3) Performance of Duties by the Directors****1. Directors attendance at the Board meetings and General Meetings**

Name of Director	Circumstances on participating in the Board Meeting							Circumstances on participating in General Meetings Attendance	
	Whether attending as Independent Director	Attendance at the Board Meeting		Attendance by correspondence		Absence consecutive times	Whether not attending in person for two consecutive times	at the General Meetings (no. of times)	
		no. of times	no. of times	no. of times	no. of times				
		no. of times	no. of times	no. of times	no. of times				
Wang Zhiqing	No	6	6	3	0	0	No	4	
Wu Haijun	No	6	5	3	1	0	No	4	
Gao Jinping	No	6	5	3	1	0	No	4	
Ye Guohua	No	6	6	3	0	0	No	4	
Jin Qiang	No	4	3	2	1	0	No	3	
Guo Xiaojun	No	4	4	2	0	0	No	0	
Lei Dianwu	No	6	3	3	3	0	No	0	
Mo Zhenglin	No	4	3	2	1	0	No	0	
Shen Liqiang	Yes	6	5	3	1	0	No	0	
Jin Mingda	Yes	6	5	3	1	0	No	4	
Cai Tingji	Yes	6	6	3	0	0	No	4	
Zhang Yimin	Yes	6	5	3	1	0	No	4	
Li Honggen	No	2	2	1	0	0	No	0	
Zhang Jianping	No	2	2	1	0	0	No	0	
Xiang Hanyin	No	2	2	1	0	0	No	0	

The Board meetings held during the year (no. of times)	6
including: meetings held on site (no. of times)	3
meetings held by correspondence (no. of times)	3
meetings held by correspondence on site and by correspondence (no. of times)	0

**2. Disagreement from Independent Directors on relevant issues of the Company**

During the Reporting Period, none of the Independent Directors of the Company had any disagreements on any Board resolutions or other issues.

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**Corporate Governance (continued)**

**(4) Major comments and recommendations put forward by the special committees under the Board while these committees discharged their duties during the Reporting Period**

On 19 March 2015, the Board's Audit Committee reviewed with the management the accounting principles and standards adopted by the Company and studied audit, internal control and financial reporting matters, including the review of the financial statements for the year ended 31 December 2014.

On 19 March 2015, the Board's Remuneration and Appraisal Committee reviewed the remuneration of Directors, Supervisors and Senior Management in the Company's annual report for the year ended 31 December 2014.

**(5) Explanation by the Supervisory Committee on the identification of risks in the Company**

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

**(6) Explanation by the Company on the failure to guarantee independence or maintain autonomous operational ability with its controlling shareholder in various areas including business, personnel, assets, offices and finances**

The Company is independent in various areas, including business, personnel, assets, offices and finances from the controlling shareholder. The Company's business is independent in its entirety with autonomous operational ability.

**(7) Evaluation mechanism for Senior Management as well as the establishment and implementation of incentive mechanism during the Reporting Period**

The Remuneration System for the Senior Management was considered and approved at the 2002 Annual General Meeting of the Company on 18 June 2003. In 2014, the Company continued to adopt this system as the basis of appraising and rewarding the Company's Senior Management.

During the Reporting period, the A Share Option Incentive Scheme of the Company and its administrative measures was considered and approved at the General Meeting. According to the scheme, Mr. Wang Zhiqing, Mr. Gao Jinping, Mr. Ye Guohua, Mr. Jinqiang, Mr. Guo Xiaojun and the Company Secretary Mr. Tang Weizhong are the qualified incentive targets. If the related indicators required by the scheme are completed, the abovementioned will be assigned A share stock option of the Company.

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**Internal Control**

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

**1. Statement of responsibility for internal control**

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

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

The Board has evaluated the internal controls pertinent to financial reporting in accordance with the requirements under the Basic Standards for Enterprise Internal Control, and is of the view that such internal control was effective in the year 2014.

**2. Establishment of the internal control system**

**Overall plan of internal control establishment**

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

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

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**Internal Control** (continued)

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

The Internal Control Manual (2014 Edition) comprises 51 operation procedures in 22 categories and sets out 1,450 control points and 354 authorization control indicators. The scope of control covers the major areas of the Company's production, operations and development, as well as the key procedures of relevant business such as financial management, accounting and auditing, procurement of raw materials, product sales, capital expenditures, human resources and information management. The scope of control also includes reviewing the sufficiency of the Company's resources of accounting, financial management and reporting functions as well as employee qualifications and experience and the adequacy of the training courses attended by the employees and the relevant budget.

In 2014, the Company conscientiously enforced the Internal Control Manual approved by the Board, and conducted self-review, walk-through test on procedures and integrated inspection on internal control in accordance with the relevant rules and regulations. The external auditors of the Company also reviewed the status of the Company's internal control system. The management of the Company considers that the internal control of the Company was effective during the Reporting Period.

**Establishment of the department inspecting and supervising internal control**

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

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

The Company has established an internal control supervisor working network consisting of 45 members. These internal control supervisors, on behalf of their respective departments or administrative heads of second-tier units, conduct internal control work and activities within their respective supervisory scope and functionally report to the internal control office of the Company.



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### **The Board's work arrangements for internal control**

Through the Audit Committee set up under the Board, the Board reviews reports on the establishment of the internal controls of the Company and the results of the implementation and inspection of the internal controls on a regular basis. It also considers and publishes its self-assessment report on the internal controls of the Company on an annual basis, and considers and approves the revised Internal Control Manual of the Company.

PricewaterhouseCoopers Zhong Tian LLP, the Company's external auditor, issued an auditor's report on internal control over financial reporting according to the Sarbanes-Oxley Act. PricewaterhouseCoopers Zhong Tian LLP, the Company's external auditor, issued an auditor's report on internal control over financial reporting according to Audit Guidelines for Enterprise Internal Control in 2014.

### **Improvements to the internal control system in relation to financial audit**

According to the stringent requirement of the Company as well as facilitation and operation of the integrated management system, 13 systems including outsourcing, accounts receivable, bidding management and carbon emission trading are added. It further standardized the business management including outsourcing, bidding management, accounts receivable and carbon emission trading, improving the contract management system and effectively avoiding the legal risk.

### **Defects present in internal control and relevant rectification**

The Company has conducted an assessment on its internal control work in 2014. The results of the assessment are: no material deficiencies were detected in the design or implementation of the internal control of the Company from 1 January 2014 to 31 December 2014.

## **(2) The Company's Disclosure of the Assessment Report on the Internal Control**

1. The Company has disclosed an assessment report of the Board on internal control.
2. The Company has engaged PricewaterhouseCoopers Zhong Tian LLP to conduct an audit on the effectiveness of the internal control over financial reporting of the Company as at 31 December 2014 pursuant to the requirements of Audit Guidelines for Enterprise Internal Control. An auditor's Report on Internal Control over Financial Reporting according to Audit Guidelines for Enterprises Internal Control has been issued.

## **(3) The Company's Establishment of an Accountability System for Major Errors in the Disclosure of Information in Annual Report**

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



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### **Corporate Governance Report**

#### **(Prepared in Accordance with the Hong Kong Listing Rules)**

The Company is committed to operating in compliance with standards by implementing stringent corporate governance measures and enhancing accountability and transparency, to deliver higher returns to shareholders. It is the Company's belief that adopting a good corporate governance system and a world-class governance model are essential to the development of the Company into a competitive international petrochemical enterprise.

### **Corporate Governance Practices**

During the Reporting Period, the Company applied and complied with all principles and code provisions set out in the Corporate Governance Code (the "Code") contained in Appendix 14 to the Rules Governing the Listing of Securities on the Hong Kong Stock Exchange except for certain exceptions from Code Provision A.2.1 as listed below.

Code provisions A.2.1: The roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and chief executive officer should be clearly established and set out in writing.

Deviation: Mr. Wang Zhiqing appointed as Chairman and President of the Company.

Reasons: Mr. Wang Zhiqing has extensive experience in the management of petrochemical production. Mr. Wong is the most suitable candidate to serve the positions of Chairman and President of the Company. For the time being, the Company has been unable to identify another person who possesses better or similar abilities and talent as Mr. Wang to serve any of the positions listed above.

Set out below are the corresponding practices of the Company in relation to the principles under the Corporate Governance Code for the reference of the shareholders.

## **A. Directors**

### **A.1 The Board**

The Board meets at least once per quarter. In 2014, six Board meetings were held. The Seventh Session of the Board of Directors held two meetings, while the Eighth Session of the Board of Directors held four meetings. Most of the directors entitled to attend the meetings had actively attended the six meetings held this year in person or by means of communication. Before each Board meeting, the Secretary to the Board would consult each Director on matters to be tabled at the relevant Board meeting. Any matters so raised by the Directors would be included on the agenda of the relevant regular Board meeting. During the year, all notices and draft agenda of all Board meetings were sent to all Directors no later than 14 days before the date of the meeting.

All Directors maintain communication with the Secretary to the Board of the Company, who is responsible for ensuring that the operations of the Board comply with the relevant procedures and advising the Board on matters concerning corporate governance and regulatory compliance. The Secretary to the Board is responsible for preparing and maintaining minutes of Board meetings and those of Board committees, and the delivery of the same to the

Directors within a reasonable period of time from the conclusion of the respective meetings. Such minutes are also open to inspection by any Director or member of the Board committees. The Directors are entitled to seek independent professional advice at the Company's expense.

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If any substantial shareholder or Director has a conflict of interest in a material matter for which a Board meeting shall be held, the Director(s) concerned shall abstain from voting and shall not be counted towards the quorum present at the Board meeting.

The Company has purchased liability insurance against any possible legal action against its Directors.

### **A.2 Chairman and President**

Mr. Wang Zhiqing serves as the Chairman and President of the Company. The Chairman of the Company was elected by a simple majority vote of the Board. The President is appointed by the Board. The duties and responsibilities of the Chairman and the President are clearly separated and the scope of their respective duties and responsibilities is set forth in the Articles of Association.

The Chairman of the Company is responsible for providing to all Directors all information concerning the performance of Board duties. The Chairman of the Company is also committed to improving the quality of the information and timeliness of the delivery of information to the Directors. The Chairman of the Company plays an important role in promoting good corporate governance within the Company. One of the other important roles of the Chairman of the Company is to lead the Board, encourage the Directors to carry out their duties in good faith with mutual support and close cooperation, and make an active contribution to the production, operations, reform and development of the Company. The Chairman should also be responsible for determining and approving the agenda for each Board meeting.

In 2014, the Chairman of the Board and Non-executive Directors (including Independent Non-executive Directors) held a meeting without the attendance of Executive Directors, for exchanges and discussions on the Board's annual work plans and the implementation of such plans as well as the state of the Company's production and operations and its development prospects.

The Chairman is the person with the greatest responsibility for the Company's investor relations work, including presiding over and participating in major investor relations activities (including shareholder meetings, results presentations, press conferences, significant events and roadshows, important domestic and overseas capital market conferences and major financial media interviews, etc.) and maintaining contact with shareholders to ensure that the views of the shareholders can be conveyed to the entire Board.

### **A.3 Board composition**

The Company discloses the composition of its Board by position (including Chairman, Executive Directors, Independent Non-executive Directors and Non-executive Directors) in all of its correspondence. The Company has four Independent Non-executive Directors, representing one-third of its total number of Directors. To enable the shareholders to have a better understanding of our Directors and the composition of our Board, the profiles of each Board member and their respective roles and responsibilities are available on the websites of the Hong Kong Stock Exchange and the Company.

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**Corporate Governance Report**

**(Prepared in Accordance with the Hong Kong Listing Rules)** (continued)

**A.4 Appointments, re-election and removal**

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

The Resolution of the General Election of the Board of Directors had been approved at the 2013 Annual General Meeting held on 18th June 2014. Directors including Mr. Wang Zhiqing, Mr. Wu Haijun, Mr. Gao Jinping, Mr. Ye Guohua and Mr. Lei Dianwu were re-elected; while Independent Non-executive Directors, including Mr. Shen Liqiang, Mr. Jin Mingda, Mr. Cai Tingji and Mr. Zhang Yimin were re-elected. Directors including Mr. Jin Qiang, Mr Guo Xiaojun and Mr. Mo Zhenlin were appointed for the first time.

**A.5 Nomination Committee**

The Company has established a nomination committee which is chaired by the Chairman of the Board and comprises two other members who are Independent Non-executive Directors.

The appointments of Executive Directors Mr. Wang Zhiqing and Independent Non-executive Directors Mr. Shen Liqiang and Mr. Jin Mingda as members of the Nomination Committee of the eighth session of the Board, among whom Mr. Wang Zhiqing is Director of the Nomination Committee, were approved.

The Nomination Committee is a special committee under the Board of the Company that is accountable to the Board, and is mainly responsible for making recommendations to the Board on the procedures and criteria for the selection and appointment of the Company's Directors and Senior Management, as well as on their qualifications to hold office.

The Rules of Procedure for the Nomination Committee is published on the websites of the Hong Kong Stock Exchange, the Shanghai Stock Exchange and the Company. It contains a clear statement on the terms of reference of the Nomination Committee.

The Company provides adequate resources to the Nomination Committee for the performance of its duties. If it needs to seek independent professional advice during the performance of its duties, it may do so at the Company's expense.

To enhance the Company's corporate governance practices and comply with the amendments about the diversity on the Company's board of directors of the code of corporate governance, the Nomination Committee adopted the Board Diversity Policy on 27th August 2013.

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**A.6 Responsibilities of Directors**

To ensure the Directors adequately understand the operations and businesses of the Company, every newly-appointed Director receives a comprehensive set of introductory materials after his/her appointment which includes an introduction to the Group's business, the duties and responsibilities of a Director and other legal requirements. Relevant on-going professional training sessions are also organized for newly-appointed Directors to help them fully understand the duties that a Director should fulfill as stipulated in the relevant requirements of the laws and regulations, including the Hong Kong Listing Rules, and to enable them to have a timely and comprehensive understanding of the operations of the Company. In addition, all Non-executive Directors would receive updated information from the management regularly, including strategic plans, business reports and analyses on economic activities and so forth. As such, the Non-executive Directors are able to perform their duties effectively. The functions of the Non-executive Directors include the following: participating in Board meetings to provide independent opinions; taking a lead at Board meetings where potential conflicts of interest arise; serving as members of the Board committees when invited; and scrutinizing the Company's performance.

The Secretary to the Board of the Company is responsible for ensuring that all Directors receive updates on the requirements of Hong Kong Listing Rules and other legal requirements.

While the Directors give opinions on matters such as external guarantees, financing and connected transactions, the Company appoints relevant independent professionals such as auditors, sponsors and lawyers to provide independent opinions to help the Directors discharge their duties.

**(1) Training of Directors**

All Directors participated in continuing professional development to upgrade their expertise and skills to ensure that they perform their duties better in contributing to the Board. Each of the Directors has provided to the Company records of their participation in the relevant training in 2014. The Company has also committed to organizing training programs for its Directors.

**(2) Changes in part-time jobs disclosed by Directors to the Company**

During the review period, there was no change in part-time jobs disclosed by Directors to the Company.

For details of the Directors' participation in Board meetings and attendance at shareholder meetings, please refer to (3) Performance of Duties by the Directors under the Section Corporate Governance of this annual report.

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### **Corporate Governance Report**

**(Prepared in Accordance with the Hong Kong Listing Rules)** (continued)

#### A.7 Supply of and access to information

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

### **B. Remuneration of Directors and Senior Management**

#### B.1 The level and make-up of remuneration and disclosure

The Company established the Remuneration and Appraisal Committee in 2001, with two-thirds of its members being Independent Non-executive Directors. The terms of reference are set out in the Rules of Procedures for the Remuneration and Appraisal Committee of Sinopec Shanghai Petrochemical Company Limited and are posted on the websites of the Hong Kong Stock Exchange, the Shanghai Stock Exchange and the Company. In March 2003, the Remuneration and Appraisal Committee submitted to the Board proposals on the remuneration of the Directors, Supervisors and Senior Management of the Company. The proposals were implemented following approval by the shareholders at the Shareholders' General Meeting. The Committee may seek advice from independent professionals if required in accordance with the applicable procedures, and may do so at the expense of the Company.

### **C. Accountability and Audit**

#### C.1 Financial reporting

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

During the Reporting Period, the management provided to members of the Board on monthly basis information on the Company's production and financial analysis, as well as Xinjinshan Post, a newspaper published by the Company that covers recent developments in the Company's production and operations. In addition, external Directors were also able to promptly learn about the latest updates on the Company's business and information disclosure on the Company's website.





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**C.2 Internal control**

The Company has established and continues to enhance its internal control system. The management conducts self-assessments and reviews of the effectiveness of its internal control every year. A self-assessment report is prepared and submitted to the Board for approval. For details of the internal control of the Company for the Reporting Period, please refer to *The Establishment of the Internal Control System* in Section *Internal Control* of this annual report.

The Board ensures that the internal control system of the Company is sound and proper to safeguard its shareholders investments and its assets through two reviews conducted annually by the Audit Committee of the Company's internal control system. The Audit Committee conducted these reviews of the Company's internal control for 2013 and the first half of 2014 in March and August 2014, respectively. The reviews were reported to the Board, and the recommendations provided by the Board further enhanced the Company's internal control system, thereby enhancing the effectiveness and efficiency of internal control.

**C.3 Audit Committee**

The Company established the Audit Committee in June 1999. The establishment of the Audit Committee reflects the Company's determination to improve the transparency of its financial reporting system and its financial arrangements. The Company pays close attention to the preparation of minutes by the Audit Committee. The draft of the minutes is prepared by the secretary of the meeting and dispatched to the members of the Committee within a reasonable period after the meeting. The composition and terms of reference of the Audit Committee are set out in the Rules of Procedures for the Audit Committee of Sinopec Shanghai Petrochemical Company Limited and are posted on the websites of the Hong Kong Stock Exchange, the Shanghai Stock Exchange and the Company. The Committee may seek advice from independent professionals in accordance with the applicable procedures, and may do so at the expense of the Company.

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**Corporate Governance Report**

**(Prepared in Accordance with the Hong Kong Listing Rules)** (continued)

**D. Delegation of Powers by the Board**

D.1 Management functions

The Board and the management of the Company are subject to clearly defined terms of reference separately set out in the Articles of Association. The Rules of Procedure for the Board, an annex to the Articles of Association, contains detailed provisions on the terms of reference, authorization, meeting policies and rules of discussion of the Board. The Company has also developed the Work Rules for the President which contains detailed provisions on the duties and responsibilities as well as the rules of procedure for the management.

D.2 Board Committees

As at the end of the Reporting Period, the Board has three committees, namely the Audit Committee, the Remuneration and Appraisal Committee and the Nomination Committee, for which terms of reference have been prescribed. The Board committees submit minutes and resolutions and report to the Board after every meeting in respect of the progress of their work and results of discussion.

D.3 Corporate Governance functions

The terms of reference of the Board and its three special committees are set out in the Articles of Association and include the following items:

- (a) formulate and review the Company's corporate governance policies and practices and make recommendations to the Board;
- (b) review and monitor the training and continuing professional development of Directors and Senior Management;
- (c) review and monitor the policies and practices of the Company in the compliance with the relevant legal and regulatory requirements;
- (d) review the compliance with the Corporate Governance Code of the Company and the disclosures in the Corporate Governance Report.

The Board and its special committees have performed the corporate governance duties listed above in 2014.



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**E. Communication with Shareholders**

**E.1 Effective Communication**

The Board is committed to maintaining smooth communications with the Company's shareholders. The Company developed the Work System of Investor Relations and Information Disclosure Management System, which have been approved by the Board of Directors. The Chairman of the Board and a number of the Company's Directors attended the 2013 Annual General Meeting and 2014 Extraordinary General Meeting so as to be able to communicate directly with the Company's shareholders. Domestic auditors and international auditors also attended the 2013 Annual General Meeting.

The notice on convening the 2013 Annual General Meeting was dispatched to shareholders at least 45 days before the meeting.

**E.2 Voting by poll**

The Company regularly informs its shareholders on the procedures of voting by way of a poll. The procedures for demanding a poll are contained in the notice of general meeting and the enclosed circular. Explanation of the relevant procedures is also provided at the general meeting. An external auditor is retained as the scrutinizer at each general meeting.

During the 2013 Annual General Meeting and 2014 Extraordinary General Meeting, the Chairman of the meeting explained the detailed procedures of voting by way of a poll at the meeting and answered all questions from the shareholders regarding voting by way of a poll.

**F. Company Secretary**

The Company Secretary plays a major role in supporting the Board by ensuring that there is good communication and healthy exchanges between the members of the Board and that the Board complies with the rules of procedure. The Company Secretary is responsible for providing advice to the Board through the Chairman of the Board and the President on governance matters and organizing the relevant training and professional development for Directors.

The Company Secretary is an employee of the Company and is familiar with the day-to-day affairs of the Company. The selection, appointment or dismissal of the Company Secretary should be considered and approved at a Board meeting held on-site. The Company Secretary reports to the Chairman of the Board and the President and provides professional advice and services to all Directors to ensure that the Board procedures are in compliance with all applicable laws, regulations and policies.

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### **Corporate Governance Report**

**(Prepared in Accordance with the Hong Kong Listing Rules)** (continued)

#### **Directors Securities Transactions**

For details, please refer to the Model Code for Securities Transactions under the Directors, Supervisors, Senior Management and Employees section of this annual report. The Company is not aware of any information that would reasonably indicate that the Directors and Supervisors were not in compliance with the requirements of the Model Code for Securities Transactions during the Reporting Period.

#### **Board of Directors**

##### **1. Composition of the Board**

The Board consists of 12 Directors, including six Executive Directors, two Non-executive Directors and four Independent Non-executive Directors, among whom there is one Chairman and two Vice-Chairman. The personal particulars and terms of office of the Directors are set out in the Directors, Supervisors and Senior Management and Employees section of this annual report.

##### **2. Functions of the Board**

The Board is primarily responsible for formulating and supervising the strategic development of the Company; determining the objectives, strategies, policies and business plans of the Company; reviewing and monitoring the Company's operations and financial performance; as well as formulation of the appropriate risk management policies, thereby ensuring the achievement of the Company's strategic objectives.

Subject to the Articles of Association, the Board shall convene at least four regular meetings every year. The Chairman serves as the convener of the Board meetings and is responsible for determining the topics to be considered. In practice, the Board convenes a minimum of four meetings each year. Six Board meetings were held in 2014.

The particulars for Directors' attendance at the Board meetings and Annual General Meeting have been included in the Corporate Governance section of this annual report.

##### **3. Qualifications and Independence of the Independent Directors**

The four Independent Non-executive Directors of the Company possess extensive experience as well as academic and professional qualifications in various areas that include management, accounting and finance, respectively, thereby ensuring the Board's ability to protect the interests of the Company's shareholders as a whole. During the Reporting Period, the Independent Directors contributed significantly in improving the Company's corporate governance structure and protecting the interests of the Company's minority shareholders. For example, Independent Non-executive Director Mr. Cai Tingji is a fellow of the Hong Kong Institute of Certified Public Accountants. He is highly familiar with financial reporting and accounting given his years of experience in auditing. The Company

confirms that it has received from each Independent Non-executive Director confirmation of his independence pursuant to Rule 3.13 of the Hong Kong Listing Rules, confirming to the Company his independence on an annual basis. The Company considers all of its Directors to be independent.

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### **Board Committees**

As at the end of the Reporting Period, three committees were set up under the Board, namely the Audit Committee, the Remuneration and Appraisal Committee and the Nomination Committee. Specific rules of procedure for each committee stipulating their terms of reference have been set out. The meetings of these committees are conducted with reference to the procedures of the Board meetings (including requirements on the issue of meeting notices, minutes and records).

#### **1. The Remuneration and Appraisal Committee**

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

The principal duty of the Remuneration and Appraisal Committee is to formulate and review the remuneration policies and proposals for the Directors and Senior Management, set performance appraisal standards and conduct performance appraisals of the Directors and Senior Management of the Company.

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

The Remuneration and Appraisal Committee of the Eighth Session of the Board comprises three Directors, two of whom are Independent Non-executive Directors and one who is Executive Director.

Chairman: Jin Mingda, Independent Non-executive Director

Members: Jin Mingda, Independent Non-executive Director, Shen Liqiang, Independent Non-executive Director and Ye Guohua, Executive Director

Note: The appointment of the Eighth Session of the Remuneration and Appraisal Committee was approved on the first meeting of the Eighth Session of the Board of Directors on 18 June 2014. The members of the Seventh Session of the Remuneration and Appraisal Committee were Jin Mingda, the Chairman, Shen Liqiang, member, and Ye Guohua, member.



**Table of Contents****Corporate Governance Report****(Prepared in Accordance with the Hong Kong Listing Rules)** (continued)

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

The Remuneration and Appraisal Committee convenes at least one meeting each year. In 2014, the Remuneration and Appraisal Committee convened two meeting with a record of attendance as follows:

<b>Members of Remuneration and Appraisal Committee</b>	<b>Attendance</b>		
	<b>in Person</b>	<b>by Proxy</b>	<b>% of Attendance</b>
Jin Mingda	2	0	100%
Ye Guohua	1	1	100%
Shen Liqiang	2	0	100%

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

Allowances for Independent Directors are determined by the Board and the resolution of the same to be submitted to the general meeting for consideration and approval. Remuneration for other Directors, Supervisors and Senior Management are determined according to the Remuneration System for Directors, Supervisors and Senior Management which were passed at the 2002 Annual General Meeting.

The Remuneration and Appraisal Committee reviews the implementation of the remuneration evaluation every year. It also appraises the annual performance of the Company's Directors and Senior Management, and determines their remuneration according to the results of the appraisal.

## (v) Work Report of the Remuneration and Appraisal Committee for the Reporting Period

During the Reporting Period, the Remuneration and Appraisal Committee reviewed the remuneration policy of the Directors and conducted annual appraisals with the Directors and the Senior Management. The committee also reviewed the remuneration situation of the Directors, Supervisors and Senior Management. For the Stock Option Incentive Plan, the Committee reviewed the relevant management measures.

**Table of Contents****2. The Audit Committee****(i) Role and Functions of the Audit Committee**

The Audit Committee is principally responsible for advising the Board on the appointment and dismissal, remuneration and terms of engagement of external auditors; supervising the Company's internal audit system and its implementation; reviewing the financial information of the Company and its disclosure, including verifying the completeness of financial statements, annual reports and interim reports of the Company; reviewing the major opinions stated in the financial reports of the Company's statements and reports; reviewing the financial control, internal control and risk management systems of the Company; and examining material connected transactions of the Company.

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

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

Chairman: Cai Tingji, Independent Non-executive Director (accounting expert)

Members: Cai Tingji, Independent Non-executive Director, Shen Liqiang, Independent Non-executive Director, and Jin Mingda, Independent Non-executive Director

Note: The appointment of the Eighth Session of the Audit Committee was approved on the first meeting of the Eighth Session of the Board of Directors on 18 June 2014. The members of the Seventh Session of the Audit Committee were Cai Tingji, the Chairman, Shen Liqiang, member, and Jin Mingda, member.

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

The Audit Committee convenes at least two meetings each year. In 2014, the Audit Committee convened two meetings with a record of attendance as follows:

<b>Members of Audit Committee</b>	<b>Attendance in Person (no. of times)</b>	<b>Attendance by Proxy (no. of times)</b>	<b>% of Attendance</b>
Cai Tingji	2	0	100%
Shen Liqiang	2	0	100%
Jin Mingda	1	1	100%

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**Corporate Governance Report**

**(Prepared in Accordance with the Hong Kong Listing Rules)** (continued)

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

During the Reporting Period, the Audit Committee reviewed with the management the accounting principles and standards adopted by the Company and discussed matters regarding auditing, internal control and financial reporting, including reviews of the annual report for the 12 months ended 31 December 2013, and the interim report for the period ended 30 June 2014.

**3. The Nomination Committee**

(i) The role and functions of the Nomination Committee

The Nomination Committee is a special committee under the Board of the Company that is accountable to the Board, and is mainly responsible for making recommendations to the Board on the procedures and criteria for the selection and appointment of Directors and Senior Management of the Company and on their qualifications to hold office.

(ii) Members of the Nomination Committee

The Nomination Committee of the Eighth Session of the Board comprises three Directors, including one Executive Director and two Independent Non-executive Directors.

Chairman: Wang Zhiqing, Executive Director

Members: Wang Zhiqing, Executive Director, Jin Mingda, Independent Non-executive Director and Shen Liqiang, Independent Non-executive Director

Note: The appointment of the Eighth Session of the Nomination Committee was approved at the first meeting of the Eighth Session of the Board of Directors on 18 June 2014. The members of the Seventh Session of the Committee were Wang Zhiqing, the Chairman, Shen Liqiang, member, and Jin Mingda, member.

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## (iii) Meetings of the Nomination Committee

The Nomination Committee convenes at least one meeting each year. In 2014, the Nomination Committee convened one meeting with a record of attendance as follows:

<b>Name of Committee member</b>	<b>Position</b>	<b>Number of meetings held during the Reporting Period</b>	<b>Number of attendance in person</b>
Wang Zhiqing	1	0	100%
Jin Mingda	1	0	100%
Shen Liqiang	1	0	100%

## (iv) The work of the Nomination Committee in the Reporting Period

During the Reporting Period, the Nomination Committee of the Board of Directors reviewed the structure of the Seventh Session of the Board of Directors, number of members and formation of the Board of Directors. It also reviewed the independence of the Independent Non-executive Director and considered Independent Non-executive Director and Executive Director candidates, based on objective criteria whilst, having due regard to the benefits of board diversity (including but not limited to gender, age, culture and educational background, professional experience, skill, knowledge and length of service) and commitment shown towards board responsibilities. Recommendations and nominations were made to the Board of Directors.

**Supervisory Committee**

The Company's Eighth Session of the Supervisory Committee comprises six members, including three Staff Supervisors, two External Supervisors and one Independent Supervisors, one of whom serves as Chairperson of the Committee. The particulars and terms of office of each Supervisor are set out in the Directors, Supervisors, Senior Management and Employees section of this annual report. The appointment of the four non-staff supervisors of the Eighth Session of the Supervisory Committee was approved on the 2014 Annual General Meeting on 18 June 2014. The Company's Seventh Session of the Supervisory Committee comprises seven members, including three Staff Supervisors, two External Supervisors and two Independent Supervisors

In addition, Mr. Zhou Yunnong, the Independent Supervisor, applied to the Supervisory Board to resign from his position as supervisor on 10 July 2014, while Mr. Chen Xinyuan, the Independent Supervisor, applied to the Supervisory Board to resign from his position as supervisor on 9 December 2014. Pursuant to the Articles of Association of the Company, the resignations of Mr. Zhou Yunnong and Mr Chen Xinyuan came into effect on 10 July 2014 and 9 December 2014 respectively when their resignation reports were delivered to the Supervisory Committee of the Company. The appointment of Mr. Zheng Yunrui as an independent supervisor of the eighth session of the Supervisory Committee of the Company had been approved at the First Extraordinary General Meeting for 2014.

**Table of Contents****Corporate Governance Report****(Prepared in Accordance with the Hong Kong Listing Rules)** (continued)

In 2014, the Supervisory Committee of the Company convened seven meetings with a record of attendance as follows:

Name of Supervisor	Position	Attendance			Remarks
		in Person	by Proxy	% of attendance	
Zhang Jianbo	Staff Supervisor and Chairperson	7	0	100%	
Zuo Qiang	Staff Supervisor	7	0	100%	
Li Xiaoxia	Staff Supervisor	7	0	100%	
Zhai Yalin	External Supervisor	5	2	100%	
Wang Liquan	External Supervisor	6	1	100%	
Chen Xinyuan	Independent Supervisor (January - December)	7	0	100%	
Zhou Yunnong	Independent Supervisor (January - July)	3		100%	Three Meetings of the Supervisory Committee were held during his term of service
Zheng Yunduan	Independent Supervisor (December)				Meetings of the Supervisory Committee have not been held during his term of service

During the Reporting Period, the Company's Supervisory Committee established and refined the check-and-balance system of the Company and promoted and regulated the corporate governance structure in accordance with the relevant laws and regulations, including the Company Law and the Code of Corporate Governance for Listed Companies. The Supervisory Committee discharged its supervisory duties and exercised supervision over the management's compliance with the relevant laws and regulations, including the Company Law and the Code of Corporate Governance for Listed Companies. It also supervised the enforcement of the resolutions passed at Shareholders' General Meetings and Board meetings, compliance with decision-making procedures and the implementation of the internal control system, in addition to examining the financial system and the financial situation of the Company in a conscientious manner, thereby ensuring the normal operations of the Company and safeguarding shareholders' legitimate interests.

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**Directors Responsibilities in relation to the Financial Statements**

The following statement, which should be read in conjunction with the domestic and international auditors' reports on pages 195 to 196 and pages 102 to 103, respectively, sets out the responsibilities of the Directors in relation to the Company's financial statements.

**Annual reports and accounts**

The Directors acknowledge their responsibilities in preparing the financial statements which give a true and fair view of the state of affairs of the Company for each financial year.

**Accounting policies**

During the preparation of the financial statements of the Company, the Directors shall adopt appropriate accounting policies, namely the CAS issued by the Ministry of Finance of the PRC, and the IFRS and IAS. The Directors shall also ensure that the financial statements are in line with all applicable accounting standards.

**Accounting records**

The Directors are responsible for ensuring that the Company keeps accounting records which reflect with reasonable accuracy the financial positions of the Company and which enable the preparation of financial statements in accordance with the Companies Ordinance of Hong Kong and the applicable accounting standards.

**Going concern**

The Directors, having made the appropriate enquiries, consider that the Company has adequate resources to continue in operational existence for the foreseeable future and that, for this reason, it is appropriate to adopt the going concern basis in preparing its financial statements.

**Company Secretary**

The Company Secretary is elected by the Board, and his/her responsibilities are set out in the Articles of Association. The appointment of Mr. Tang Weizhong to be the Company Secretary was approved at the first meeting of the Eighth Session of the Board of Directors on 18 June 2014. Mr. Tang Weizhong, a member of the Hong Kong Institute of Chartered Secretaries, received professional training for a total of 31.5 class hours organized by the institute in 2014. At the same time, Mr. Zhang Jingming finished his term of service and stepped down from the position. He received professional training for a total of 16 class hours organized by the Hong Kong Institute of Chartered Secretaries before June 2014.

**Table of Contents****Corporate Governance Report****(Prepared in Accordance with the Hong Kong Listing Rules)** (continued)**Auditors Remuneration**

At the 2013 Annual General Meeting of the Company, approval was given for the international and domestic auditors of the Company for the year of 2014 to be PricewaterhouseCoopers and PricewaterhouseCoopers Zhong Tian LLP, respectively. It was also authorized that the audit fees would be determined by the Board.

<b>Item</b>	<b>Amount</b>	<b>Auditor</b>
Audit Fees for the year of 2014	RMB3 million	PricewaterhouseCoopers
Audit Fees for the year of 2014	RMB4.8 million	PricewaterhouseCoopers ZhongTian LLP

**Shareholders Rights**

The Company maintains normal communications with its shareholders. The Company's major communications channels include Shareholders' General Meetings, the Company's website, email account and fax and telephone numbers of the Secretary Office of the Board. Through the use of the communication channels listed above, the shareholders may adequately express their opinions or exercise their rights. Shareholders' question and answer session were arranged at all general meetings held in 2014, allowing direct communications between the shareholders, the Directors and the management.

For details of the procedures and voting and proxy arrangements of the Shareholders' General Meetings of the Company, please refer to the Articles of Association published on the websites of the Hong Kong Stock Exchange, the Shanghai Stock Exchange and the Company.

The rights of shareholders of the Company holding ordinary shares are also set out in the Articles of Association. Once these shareholders provide the Company written documents on the class and numbers of shares of the Company held by them, and after their shareholder identities are verified by the Company, they are entitled to access relevant information as permitted by law, administrative regulations and the Articles of Association.

According to the Articles of Association, the Board shall convene an extraordinary general meeting within two months of the following circumstances:

- (i) the number of directors does not meet the number required by the Company Law or less than two-thirds as required by the Articles of Association;
- (ii) the uncovered losses of the Company's capital reach one-third of the Company's paid-up share capital;

- (iii) upon written requisition by the shareholders individually or jointly holding ten percent, (10%) or more of the issued and outstanding voting shares of the Company;
- (iv) when deemed necessary by the Board or proposed by the Supervisors;
- (v) in other circumstances as required by the law, administrative regulations, departmental rules or the Articles of Association.



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**Investor Relations**

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

In principle, the Company convenes results briefings every six months after the release of its annual and interim results. In 2014, the Company held two large-scale results briefings and press conferences in Hong Kong, while several one-to-one meetings were held within and outside China. The Company has also welcomed hundreds of domestic and foreign investors to its headquarters, and conscientiously replied to telephone queries and letters from investors, intermediaries and fund managers. In addition, the Company also actively attended capital market meetings organized by securities research companies and investment banks and so forth.

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

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**Report of the Directors**

**Management's Discussion and Analysis**

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

**1. General - Review of the Company's operations during the Year Ended 31 December 2014 (the Reporting Period )**

The world economy experienced a slower-than-expected recovery in 2014. The US economy delivered strong performance, while the Eurozone and Japan were basically sluggish and the growth of emerging economies further slowed down. The Chinese economy entered into a three periods pile-up situation, which is a gears shifting period of growth pace, a throes period of structural adjustment and digestion period of stimulus at the early stage, and the Chinese economy operating generally presented a trend of continuously slowing down. The Chinese government adopted a series of macro control measures and reforms, and was able to keep its economy stable on the whole, with annual GDP growth of 7.4%. The economic growth rate, however, further slowed down. Affected by factors such as greater downward pressure of the domestic economy, slower growth of demand, over capacity and constantly low prices, the petroleum and petrochemical industry remained in a weak position, and earnings of companies fell.

The Group came under great market pressure in 2014. With a focus on economic returns, it stepped up its effort in environmental protection and intensified its system optimization to cost reduction and increase efficiency. It also actively promoted structural adjustment and development and was able to maintain stable production and operations as a whole.

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**Table of Contents****(i) Production and operation remained safe and stable**

In 2014, the Group further strengthened assessment of its safety and environmental responsibility system for all staff, enhanced its on-site operation procedure management, as a result, achieved the goal of "Seven Zero" which stand for no staff dead from or serious injured in industrial accidents, no big fire and explosion, no major environmental pollution accident, no major occupational hazard accident, no major traffic accident in working area, no major accident of negligence. Overall production and operation remained stable. Of the 102 major technical and economic indicators covered in the assessment, 55 exceeded those last year and 31 reached advanced-industry level, representing 53.92% progressive rate year-on-year and 30.39% industry advance rate, respectively.

In 2014, the Group's physical production volume plunged as a result of sluggish domestic petroleum and petrochemical industry and of the Company's planned turnaround. The total volume of goods amounted to 13,570,600 tons, down 13.03% over the previous year. During the year, the Group processed 14,170,200 tons of crude oil (including 1,274,800 tons of crude oil processed on a sub-contract basis), representing a decrease of 9.56% as compared with the previous year. Total production output of refined oil products such as gasoline, diesel and jet fuel amounted to 8,424,300 tons, down 7.15%, with the Group producing 2,870,500 tons of gasoline, at par with the previous year, and 4,065,300 tons of diesel, down 17.56%. The Group also produced 1,488,500 tons of jet fuel, up 17.21%. The Group produced 804,400 tons of ethylene, 510,200 tons of propylene and 105,600 tons of butadiene, down 15.62%, 16.61% and 18.46%, respectively. The Group produced 347,500 tons of benzene and 680,600 tons of paraxylene, down 18.16% and 27.53%, respectively. The Group also produced 1,042,300 tons of synthetic resins and copolymers (excluding polyesters and polyvinyl alcohol), down 7.75%; 705,900 tons of synthetic fibre monomers, down 19.52%; 417,000 tons of synthetic fibre polymers, down 20.34%; and 232,400 tons of synthetic fibres, down 8.07%.

In 2014, the Group's turnover reached RMB102.126 billion, down 11.57% over the previous year. Its output-to-sales ratio and receivable recovery ratio were 100.06% and 100.00%, respectively. The Group continued to maintain a premium level of quality in its products.

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

With the Chinese economy under greater downward pressure in 2014, the domestic petroleum and petrochemical market performed poorly overall. In domestic market, over capacity of refinery intensified. The growth rate of refined oil consumption slowed down, of which diesel consumption recorded negative growth rate. The continued expansion of production capacity of bulk petrochemicals led to a constantly low level of market demand, resulted in the prices of petrochemical products underwent continuous decline. As at 31 December 2014, the weighted average prices (VAT excluded) of the Group's synthetic fibres, resins and plastics, intermediate petrochemical products, and petroleum products fell by 1.54%, 0.19%, 13.10% and 4.20%, respectively, over the previous year.

**Table of Contents****Report of the Directors (continued)****(iii) International crude oil prices experienced continuous fall, volume of crude oil processed decreased**

In 2014, the world economy continued to grow at a slow pace and the demand for crude oil was generally weak. The shale gas renovation in the US significantly boosted supply of oil. The quantitative easing monetary policy came to an end in the US with the USD starting to appreciate. OPEC countries maintained their production volume of crude oil to fight for market share, all these factors as well as geographical factors resulted in the great fluctuation of international crude oil prices. During the first half of the year, international crude oil prices fluctuated at high levels. After June, the prices fell consistently and sharply. The average WTI crude oil price on the New York Mercantile Exchange in 2014 was US\$93.14/barrel, representing a 4.90% decrease from the average of US\$97.94/barrel in 2013. The average price of Brent crude oil on the London Intercontinental Exchange was US\$98.95/ barrel, a decrease of 8.92% from US\$108.64/barrel in 2013. The average price of crude oil in Dubai was US\$96.66/barrel, down by 8.34%, compared with US\$105.45/ barrel in 2013.

For the year ended 31 December 2014, the Group processed a total of 14,170,200 tons of crude oil (including 1,274,800 tons processed on a subcontract basis), down 1,497,600 tons, or 9.56%, over the previous year. In 2014, the average unit cost of crude oil processed (for its own account) was RMB4,618.68 per ton (2013: RMB4,819.11 per ton), down 4.16% over the previous year. The Group's total cost of processing crude oil in 2014 was RMB59.56 billion, down 16.81% compared with RMB71.593 billion for the previous year, representing 64.11% of the total cost of sales.

**(iv) Making efforts to further improve system optimization, enhancing cost reduction and profit enhancement movement**

In 2014, the Group leveraged its competitive edge in the integration of its refinery and petrochemical segments, and increased the refining volume of high-sulfur crude oil by taking full advantage of the high degree of adaptability of its refinery plants. The Group applied the PIMS system to estimate the cost-to-performance ratio for crude oil and further centralized crude oil procurement. Procurement volume for major sources of oil with a relatively higher cost-to-performance ratio accounted for 96.6% of the total procurement for the year.

To maximize its overall economic return, the Group carried out a series of optimization adjustments, such as optimization of ethylene feedstock, optimization of natural gas and fuel gas structure, optimization of hydrogen system, minimizing the flare gas emission, and maximizing the output of gasoline and jet fuel, as well as optimizing the processing flow of naphtha, residual oil and wax oil. The Group provided high-octane gasoline blending components to increase its gasoline production by reducing its paraxylene production. Through adopting measures such as transformation from diesel hydrogenation to jet fuel hydrogenation and quality upgrade of 3.30 million tons of diesel hydrogenation, the structure of refined oil was further enhanced with an annual diesel-to-gasoline proportion of 1.42:1. The Group reinforced the marginal contribution tracking on its plants and upheld rolling estimations on the effectiveness of each product on a daily basis, to keep track of changes in the effectiveness and make adjustments to the load of plants and the respective commencement/suspension plan in a timely manner. Priority for production was given to products with effectiveness and marketability.

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The Group made continuous efforts to broaden and innovate its methods for fund raising and financing, and achieved success in the implementation of offshore financing, including overseas agency payments and risk participation. During the year, only two medium-to-long-term USD and RMB borrowings were obtained from banks, saving interest expenses of almost RMB20 million. By adopting measures such as key contracting and monthly appraisal, the Group tightened its expense control. The Company strived to reduce its use of capital and recorded a reduction in total capital reserves of over RMB60 million for the year as compared with the previous year.

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

In 2014, the Group continued to carry out various measures in energy conservation, emissions and discharge reduction, in accordance with the relevant requirements in China. During the year, the Group achieved all related targets set by the government. In 2014, the Company's overall level of energy consumption per RMB10,000 of product value was 0.851 ton of standard coal. As compared with the previous year, the total volume of COD declined by 26.07%, the discharge volume of sulfur dioxide declined by 25.11%, nitrogen oxides declined by 23.51%, solid wastes declined by 67%, and that of flare gas emission declined by approximately 80%, while the standard meeting ratio of waste water, waste solid and waste gas reached 100%, the average heat efficiency of heaters improved by 0.18 percentage points to 92.42% over the previous year. The Group proactively commenced carbon emission statistics examination and carbon emission trading works, and completed the sales of carbon quota for 2013, which signaled the normalization of its carbon emission transactions.

**(vi) Steady implementation of construction and development, R&D and IT projects**

In 2014, the Group developed its medium-to-long-term development plan and preliminary integrated refinery plan through further planning and research on development. The Group proactively participated in the strategic planning of industrial development at the north coast of Hangzhou Bay, which laid a solid foundation for the Company to minimize its development costs and risks, while providing more area and space for its expansion. In terms of project construction, the Group mainly focused on the commencement of upgrade of diesel quality at No.3 diesel hydrogenation plant project and the 100,000 ton/year EVA plant project, and invested RMB1,089 million during the year.

At the same time, the Group also strived to make progress in major R&D projects. Along with the passing of inspection of the High Technology Commercialization Model Project with Annual Production of 3,000 tons of PAN Based raw filament yarn for carbon fiber, a specialized project for high technology industrialization governed by the National Development and Reform Commission, Phase I of the reform of the Technology Development and Industrial Application Project for Production of High Quality Needle Coke from Low Quality Slurry Oil concluded successfully.

During the year, the Group produced 306,400 tons of new products, as well as 748,200 tons of new synthetic resins products and specialized polyolefin materials with a differentiation rate of 64.51%. The Group also submitted 53 patent applications, with four authorizations granted. In terms of IT construction, the Group completed the online launch of the analysis and monitoring system for production and operations, office platform for general affairs and mobile office system.

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**Report of the Directors (continued)**

**(vii) Enhancing efforts in corporate management and reform**

In 2014, the Group continued to upgrade its application of the integrated management system by gradual enlarging the scope of the Group's system certification. With its laboratory proficiency passing onsite assessment, the Group commenced to add energy management system to the integrated system. Additionally, it continued to optimize its organizational structure and adjusted the functions and responsibilities of certain department. The Group also vigorously fostered the centralized management for the electrical speciality and commenced pilot programs on procedural management. In addition to strengthening the management of contractors, it tightened the policies on construction risk deposits as well. In seeking to leverage the innovative financing platform in the Shanghai Free Trade Pilot Zone and the preferential policies, the Group set up Shanghai Jinshan Trading Corporation ( ) at the Zone. The Group explored the use of innovative incentive schemes, adopting the A Share Option Incentive Scheme for senior management and core employees.

As at 31 December 2014, the Group reduced its headcount by 814 people, including voluntary redundancies and staff retirements. This accounted for 5.76% of the total workforce of 14,127 on the payroll as at the start of the year.

**(viii) Brief analysis of main factors leading to loss in operating results for the year**

The main reasons for the loss in the Group's operating results during the Reporting Period were:

- a. Demand in the petroleum and petrochemical markets remained sluggish, which weakened the market prices of products and led to the loss in the aromatics and polyester business during the year. In the second half of 2014, the plunge in crude oil prices was accompanied by a continuous drop in prices of refined oil products. Due to the longer procurement cycle for imported crude oil and the relatively higher cost of the Group's crude oil in transit and in storage, the refining sector recorded a loss subsequent to the third quarter.
- b. The total volumes of major products, including refined oil and petrochemical products, saw varying levels of decline, which dragged down profitability. These declines were due to the fall in crude oil processing volume as compared with 2013, the change of catalysts and unstable operations of certain production plants.
- c. The Group recorded a sharp decrease in profit for external investments. This is mainly due to the significant loss recorded by the Group's associates Shanghai Secco Petrochemical Company Limited, resulting in a decrease of RMB73 million in profits on investment.
- d. In the second half of 2014, crude oil prices plunged in the international market and depressed the prices of the Group's oil products and petrochemical products. Provision for decline in the value of inventories amounted RMB295 million, up by RMB194 million.

- e. The Group's net finance costs were RMB360 million in 2014, up RMB482 million compared with the net finance income of RMB122 million in 2013. The reversal was mainly due to the increase in net exchange losses during the Reporting Period resulting from the depreciation of the RMB against the US Dollar.

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### **2. Accounting judgments and estimates**

The Group's financial condition and the results of its operations are sensitive to accounting methods, assumptions and estimates that underlie the preparation of the financial statements. The management of the Group bases the assumptions and estimates on historical experience and on various other assumptions that it believes to be reasonable and which form the basis for making judgments about matters that are not readily apparent from other sources. On an on-going basis, the management evaluates its estimates. Actual results may differ from those estimates as facts, circumstances and conditions change.

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

#### **(i) Impairments for long-lived assets**

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

#### **(ii) Depreciation**

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

#### **(iii) Impairment for bad and doubtful debts**

Management estimates impairment losses for bad and doubtful debts resulting from the inability of the customers to make the required payments. Management bases the estimates on the ageing of the accounts receivable balance, customer credit-worthiness and historical write-off experience. If the financial condition of the customers were to deteriorate, actual impairment losses would be higher than the estimate.



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**Report of the Directors (continued)**

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

If the costs of inventories exceed their net realizable values, an allowance for diminution in value of inventories is recognized. Net realizable value represents the estimated 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 operating costs. If the actual selling prices were to be lower or the costs of completion were to be higher than estimated, the actual allowance for diminution in value of inventories could be higher than the estimate.

**(v) Income Tax**

In June 2007, the State Administrative of Taxation issued a tax circular (Circular No.664) to the local tax authorities requesting that the relevant local tax authorities rectify the applicable enterprise income tax ( EIT ) for nine companies listed in Hong Kong, which included the Company. After the notice was issued, the Company was required by the relevant tax authority to settle the EIT for 2007 at a rate of 33%. To date, the Company has not been requested by the tax authorities to pay additional EIT in respect of any years prior to 2007. There were no further developments on this matter during the year ended 31 December 2014. No provisions were made in the financial statements as at 31 December 2014 for this uncertainty because the management believes it is not probable for the Group to be required to pay additional EIT for years prior to 2007.

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

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

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

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In making the assessment of whether it is probable the Group will realize or utilize the deferred tax assets, management primarily relies on the generation of future taxable income to support the recognition of deferred tax assets. In order to fully utilize the deferred tax assets recognized at 31 December 2014, the Group would need to generate future taxable income of at least RMB 3,660 million, of which RMB 2,371 million is required to be generated by the Company by 2017, prior to the expiration of the unused tax losses generated 2012. In addition, further taxable income of RMB 833 million is required to be generated by the company by 2019, prior to the expiration of the unused tax losses generated in 2014. Based on the estimated forecast and historical experience, management believes that it is probable that the Group will generate sufficient taxable income before the unused tax losses expire.

**3. Comparison and Analysis of Results of the Company's Operations (Prepared under IFRS)****3.1 Summary**

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

	For the Years ended 31 December								
	2014			2013			2012		
	Sales Volume ( '000 tons)	Net Sales (Million RMB)	% of Total	Sales Volume ( '000 tons)	Net Sales (Million RMB )	% of Total	Sales Volume ( '000 tons)	Net Sales (Million RMB )	% of Total
Synthetic fibres	228.7	2,891.5	3.1	250.8	3,220.5	3.1	253.3	3,313.3	3.8
Resins and plastics	1,321.4	12,489.4	13.5	1,506.7	14,268.4	13.5	1,582.8	14,706.3	16.9
Intermediate petrochemicals	1,968.9	12,391.0	13.4	2,545.0	18,430.8	17.5	2,209.2	17,993.5	20.6
Petroleum products	9,305.3	49,259.5	53.1	10,391.5	57,419.8	54.4	6,921.0	38,301.4	43.9
Trading of petrochemical products		14,791.0	15.9		11,157.6	10.6		12,020.7	13.8
Others		902.6	1.0		1,006.1	0.9		882.1	1.0
<b>Total</b>	<b>12,824.3</b>	<b>92,725.0</b>	<b>100.0</b>	<b>14,694.0</b>	<b>105,503.2</b>	<b>100.0</b>	<b>10,966.3</b>	<b>87,217.3</b>	<b>100.0</b>

**Table of Contents****Report of the Directors** (continued)

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

	For the Years ended 31 December					
	2014		2013		2012	
	Million RMB	% of Net sales	Million RMB	% of Net sales	Million RMB	% of Net sales
<b>Synthetic fibres</b>						
Net sales	<b>2,891.5</b>	<b>3.1</b>	3,220.5	3.1	3,313.3	3.8
Operating expenses	<b>(3,473.4)</b>	<b>(3.7)</b>	(3,823.4)	(3.6)	(3,718.6)	(4.3)
Segment loss from operations	<b>(581.9)</b>	<b>(0.6)</b>	(602.9)	(0.5)	(405.3)	(0.5)
<b>Resins and plastics</b>						
Net sales	<b>12,489.4</b>	<b>13.5</b>	14,268.4	13.5	14,706.3	16.9
Operating expenses	<b>(12,820.9)</b>	<b>(13.8)</b>	(15,034.7)	(14.3)	(15,997.7)	(18.4)
Segment loss from operations	<b>(331.5)</b>	<b>(0.3)</b>	(766.3)	(0.8)	(1,291.4)	(1.5)
<b>Intermediate petrochemicals products</b>						
Net sales	<b>12,391.0</b>	<b>13.4</b>	18,430.8	17.5	17,993.5	20.6
Operating expenses	<b>(12,259.2)</b>	<b>(13.2)</b>	(17,366.8)	(16.5)	(17,160.8)	(19.6)
Segment profit from operations	<b>131.8</b>	<b>0.2</b>	1,064.0	1.0	832.7	1.0
<b>Petroleum products</b>						
Net sales	<b>49,259.5</b>	<b>53.1</b>	57,419.8	54.4	38,301.4	43.9
Operating expenses	<b>(49,288.8)</b>	<b>(53.2)</b>	(55,242.6)	(52.3)	(39,294.4)	(45.0)
Segment (loss) / profit from operations	<b>(29.3)</b>	<b>(0.1)</b>	2,177.2	2.1	(993.0)	(1.1)
<b>Trading of petrochemical products</b>						
Net sales	<b>14,791.0</b>	<b>15.9</b>	11,157.6	10.6	12,020.7	13.8
Operating expenses	<b>(14,724.9)</b>	<b>(15.9)</b>	(11,052.1)	(10.5)	(11,974.3)	(13.7)
Segment profit from operations	<b>66.1</b>	<b>0.0</b>	105.5	0.1	46.4	0.1
<b>Others</b>						
Net sales	<b>902.6</b>	<b>1.0</b>	1,006.1	0.9	882.1	1.0
Operating expenses	<b>(745.7)</b>	<b>(0.8)</b>	(791.3)	(0.7)	(843.9)	(1.0)
Segment profit from operations	<b>156.9</b>	<b>0.2</b>	214.8	0.2	38.2	0.0

<b>Total</b>						
Net sales	<b>92,725.0</b>	<b>100.0</b>	105,503.2	100	87,217.3	100.0
Operating expenses	<b>(93,312.9)</b>	<b>(100.6)</b>	(103,310.9)	(97.9)	(88,989.7)	(102.0)
(loss) / Profit from operations	<b>(587.9)</b>	<b>(0.6)</b>	2,192.3	2.1	(1,772.4)	(2.0)
Net finance (costs) / income	<b>(359.7)</b>	<b>(0.4)</b>	121.7	0.1	(283.3)	(0.3)
Investment income					6.4	0.0
Share of profit of associates and jointly controlled entities	<b>57.7</b>	<b>0.1</b>	130.7	0.1	32.8	0.0
(loss) / Profit before taxation	<b>(889.9)</b>	<b>(1.0)</b>	2,444.7	2.3	(2,016.5)	(2.3)
Income tax	<b>214.1</b>	<b>0.2</b>	(379.2)	(0.3)	511.4	0.6
(loss) / Profit for the year	<b>(675.8)</b>	<b>(0.7)</b>	2,065.5	2.0	(1,505.1)	(1.7)
<b>Attributable to: Equity shareholders of the Company</b>						
	<b>(692.2)</b>	<b>(0.7)</b>	2,055.3	1.9	(1,528.4)	(1.8)
Non-controlling interests	<b>16.4</b>	<b>0.0</b>	10.2	0.1	23.3	0.1
(loss) / Profit for the year	<b>(675.8)</b>	<b>(0.7)</b>	2,065.5	2.0	(1,505.1)	(1.7)

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**3.2 Comparison and Analysis**

The year ended 31 December 2014 compared to the year ended 31 December 2013.

**3.2.A Results of operations**

(1) Net sales

In 2014, net sales of the Group amounted to RMB92,725million, representing a decrease of 12.11% from RMB105,503.2 million over the previous year. For the year ended 31 December 2014, among the Group's synthetic fibres, resins and plastics, intermediate petrochemicals and petroleum products, the weighted average prices (excluding tax) of synthetic fibres, resins and plastics, intermediate petrochemical products and petroleum products decreased by 1.54%, 0.19%, 13.10% and 4.20% over the previous year, respectively.

(i) Synthetic fibres

In 2014, the Group's net sales for synthetic fibres amounted to RMB2,891.5 million, representing a decrease of 10.22% compared with RMB3,220.5 million in the previous year. The decrease in net sales was due to continued sluggish downstream demand and under-performing initiatives in raw material procurement. Sales volume for synthetic fibres fell 8.81% compared with the previous year, while weighted average sales price fell 1.54%. In particular, the weighted average sales price of the principal products of synthetic fibres of the Group acrylic fibre increased by 0.84%, while the weighted average sales price of polyester fibre decreased by 11.68% over the previous year. Sales of acrylic fibre and polyester fibre accounted for 79.15% and 14.95% of the total sales of synthetic fibres, respectively.

Net sales of synthetic fibre products accounted for 3.1% of the Group's total net sales in 2014, remaining approximately the same as compared to the previous year.

(ii) Resins and plastics

The Group's net sales of resins and plastics amounted to RMB12,489.4 million in 2014, representing a decrease of 12.47% as compared with RMB14,268.4 million over the previous year. The decrease in net sales is mainly attributable to the decrease in sales volume of polyester products. The sales volume for resins and plastics decreased by 12.30%, while weighted average sales price fell 0.19%. In particular, the weighted average sales price of polyethylene increased by 2.65%, the weighted average sales price of polypropylene increased by 1.53%, and the weighted average sales price of polyester pellet decreased by 13.82%. Sales of polyethylene, polypropylene and polyester pellet accounted for 43.58%, 35.52% and 16.56% of the total sales of resins and plastics, respectively.

Net sales of resins and plastics accounted for 13.5% of the Group's total net sales in 2014, remaining approximately the same as compared to the previous year.

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**Report of the Directors (continued)**

(iii) Intermediate Petrochemicals

The Group's net sales of intermediate petrochemical products amounted to RMB12,391.0 million in 2014, representing a decrease of 32.77% as compared with RMB18,430.8 million in 2013. This is mainly due to the weak sales of aromatics, including benzene and paraxylene, along with the decrease in downstream demand, the suspension of the production of No.1 ethylene plant, significant decrease in sales of olefins, leading to a plunge in net sales of petrochemical products and a decrease of 22.64% in sales volume. The weighted average sales price of intermediate petrochemical products decreased by 13.10% over the previous year. Among the intermediate petrochemical products, the weighted average sales prices of paraxylene, butadiene and ethylene oxide decreased by 18.83%, 14.29% and 2.92%, respectively, while weighted average sales price of benzene and glycol decreased by 9.07% and 11.32%, respectively. Sales of paraxylene, butadiene, ethylene oxide, benzene and glycol accounted for 29.07%, 6.33%, 18.74%, 18.56% and 6.11% of the total sales of intermediate petrochemical products, respectively.

Net sales of intermediate petrochemicals accounted for 13.4% of the Group's total net sales in 2014, representing a decrease of 4.1 percentage points compared with the previous year.

(iv) Petroleum products

The Group's net sales of petroleum products amounted to RMB49,259.5 million in 2014, representing a decrease of 14.21% as compared with RMB57,419.8 million in the previous year, with the weighted average sales price decreasing by 4.20%, while sales volume decreased by 10.45%. The decrease in net sales is mainly attributable to a continuous drop in prices of refined oil products and a decrease in crude oil processing volume.

Net sales of petroleum products accounted for 53.1% of the Group's total net sales in 2014, representing a decrease of 1.3 percentage points compared with the previous year.

(v) Trading of petrochemical products

The Group's net sales of the trading of petroleum products amounted to RMB14,791.0 million in 2014, representing an increase of 32.56% as compared with RMB11,157.6 million in the previous year. This was mainly attributable to the establishment of the subsidiary Shanghai Jinshan Trading Corporation in 2014, which enhanced intermediary trades, enabling the Group to expand its trading segment and increase net sales.

Net sales of trading of petrochemical products accounted for 15.9% of the Group's total net sales in 2014, representing an increase of 5.3 percentage points compared with the previous year.

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(vi) Others

The Group's net sales of other products amounted to RMB902.6 million in 2014, representing a decrease of 10.29% as compared with RMB1,006.1 million in the previous year. This decrease in net sales was mainly attributable to the decreased asset rental business.

Net sales of other products accounted for 1.0% of the Group's total net sales in 2014, representing an increase of 0.1 percentage point as compared with the previous year.

(2) Operating expenses

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

Operating expenses of the Group slightly decreased from RMB103,310.9 million in 2013 to RMB93,312.9 million in 2014. The operating expenses involving synthetic fibres, resins and plastics, intermediate petrochemicals, petroleum products and others were RMB3,473.4 million, RMB12,820.9 million, RMB12,259.2 million, 49,288.8 million and 745.7 million representing decreases of 9.15%, 14.72%, 29.41%, 10.78% and 5.76% respectively. The operating expenses involving trading of petrochemicals amounted to RMB14,724.9 million, representing an increase of 33.23% compared with the previous year.

The Group's operating expenses involving trading of petrochemical products in 2014 increased by 33.23% compared with the previous year, primarily due to an increase in the Group's trading volume of the petrochemicals compared with the previous year.

The Group's operating expenses involving synthetic fibres, resins and plastics, intermediate petrochemicals, petroleum products and others decreased primarily due to the slight decreases in the Group's volume of the relative products compared with the previous year.

**Cost of sales**

The Group's cost of sales amounted to RMB92,910.1 million in 2014, decreasing by 9.99% from RMB103,225.9 million in 2013. Cost of sales accounted for 100.20% of net sales for 2014. The decrease in cost of sales is due to the decrease in crude oil processing volume.

**Selling and administrative expenses**

The Group's selling and administrative expenses amounted to RMB564.2 million in 2014, representing a decrease of 18.35% as compared with RMB691.0 million in the previous year, mainly due to a decrease in the cost of loading and unloading transports.

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**Report of the Directors (continued)**

**Other operating income**

The Group's other operating income amounted to RMB261.6 million in 2014, representing a decrease of 61.15% compared with RMB673.4 million in the previous year. The decrease in other operating income was mainly attributable to the receipt of refunds relating to local education surcharge of RMB124 million in 2014, compared with RMB465 million in net income generated from the asset transfer involving the Chenshan oil depot and foreign exchange gain of RMB67.3 million from China Jinshan Associated Trading Corporation in 2013.

**Other operating expenses**

The Group's other operating expenses were RMB100.2 million in 2014, representing an increase of 48.66% compared with RMB67.4 million in the previous year. This was mainly due to the exchange loss of RMB49.8 million as a result of the depreciation of the RMB against the US dollar, and the loss on fixed assets disposal of RMB18.8 million as a result of the disposal of No.1 Ethylene Plant.

(3) (Loss) / profit from operations

The Group's loss from operations amounted to RMB587.9 million in 2014, representing a decrease in RMB2,780.2 million compared with a profit from operations of RMB2,192.3 million in the previous year. In 2014, demand for petrochemicals in China remained sluggish and petrochemical prices weakened. Profit margin for the Group's petrochemical products declined significantly and the petrochemical sector recorded a loss. In the second half of 2014, especially in the fourth quarter, the price of crude oil in the international market saw a continuous and significant decline, resulting in a significant decrease in the price of the Group's oil products and petrochemical products. Given that imported crude oil has a long procurement cycle and the cost of the Group's crude oil in transit and in storage is relatively high, the profit margin of the refining sector and the petrochemical sector has been further reduced, with the refining sector recording a loss.

(i) Synthetic fibres

In 2014, the Group's operating loss for synthetic fibres amounted to RMB581.9 million, representing a decrease compared with the operating loss of RMB602.9 million in the previous year. As the synthetic fibres industry is currently in the doldrums with selling price of the products remaining at low levels, the Group limited production for some of the products, resulting in lower sales which led to net sales for synthetic fibres falling 10.22%. Meanwhile, selling costs fell by 9.15%, narrowing the operating loss of synthetic fibres.



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(ii) Resins and plastics

In 2014, the Group's operating loss for resins and plastics amounted to RMB331.5 million, representing a decrease of 56.74% compared with the operating loss of RMB766.3 million the previous year. This was mainly attributable to a 12.47% decrease in net sales caused by the fall in sales volume of resins and plastics, while selling costs fell by 14.72%, narrowing the operating loss.

(iii) Intermediate petrochemical products

In 2014, the Group's operating profit for intermediate petrochemical products amounted to RMB131.8 million, representing a decrease of 87.61% compared with RMB1064.0 million the previous year. This was mainly attributable to a decrease of 32.77% in net sales of intermediate petrochemical products, while selling costs only fell by 29.41%, narrowing the operating profit compared with the previous year.

(iv) Petroleum products

In 2014, the Group's operating loss for petroleum products amounted to RMB29.3 million, representing a decrease of 101.35% as compared with the operating profit of RMB2,177.2 million in 2013. This was mainly attributable to the decrease of 14.21% in net sales of petroleum products, while selling costs only fell by 10.78%, resulting in the operating loss compared with the previous year.

(v) Trading of petrochemical products

In 2014, the Group's operating profit for trading of petrochemical products amounted to RMB66.1 million, representing a decrease of 37.35% compared with RMB105.5 million the previous year. This was mainly attributable to an increase of 32.56% in net sales of the trading business, while the costs increased by 33.23%, decreasing the operating profit compared with the previous year.

(vi) Others

In 2014, the Group's operating profit of other products amounted to RMB156.9 million, representing a decrease of 26.96% compared with RMB214.8 million the previous year. This was mainly attributable to a decrease of 10.29% in net sales of other products, while costs fell by 5.76%, lowering the operating profit compared with the previous year.

(4) Net finance (costs) / income

The Group's net finance costs were RMB359.7 million in 2014, compared with a net finance income of RMB121.7 million in 2013. The reversal was mainly due to RMB49.8 million of net foreign exchange loss during the Reporting Period caused by the depreciation of RMB against US Dollars as compared with RMB407.9 million of net foreign exchange gains caused by the appreciation of RMB against US Dollars in the previous year.

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**Report of the Directors** (continued)

(5) (Loss) / profit before taxation

The Group's loss before taxation was RMB889.9 million in 2014, representing a decrease in profit of RMB3,334.6 million as compared with the profit before taxation of RMB2,444.7 million in the previous year.

(6) Income tax

The Group's income tax benefit amounted to RMB214.2 million in 2014, while the Group's income tax expense was RMB379.2 million in the previous year. The change was primarily attributable to the deferred tax assets recognized as the Company recorded losses in 2014.

In accordance with the PRC Enterprise Income Tax Law (amended) which took effect from 1 January 2008, the income tax rate of the Group in 2014 was 25% (2013: 25%).

(7) (Loss) / profit for the year

The Group's loss for the year was RMB675.8 million, representing a decrease in profit of RMB2,741.3 million compared with profit for the year of RMB2,065.5 million in the previous year.

**3.2.B Liquidity and Capital Sources**

The Group's primary sources of capital are operating cash flows and loans from unaffiliated banks. The Group's primary uses of capital are costs of goods sold, other operating expenses and capital expenditures.

(1) Capital Sources

(i) Net cash flow generated from operating activities

The Group's net cash inflows from operating activities amounted to RMB3,662.4 million in 2014, representing a decrease in cash inflows of RMB1,436.1 million as compared with net cash inflows of RMB5,098.5 million in the previous year. In particular, due to 1) the Group recorded loss during the Reporting Period, net cash outflows from loss before taxation (net of depreciation and impairment losses on property, plant and equipment) amounted to RMB1,049.8 million in 2014, representing a decrease of RMB3,504.7 million in cash inflows as compared with net cash inflows of RMB4,554.5 million in the previous year, 2) the Group's decreased inventory balance leading to an increase in operating cash flow of RMB3,108.5 million in 2014 (compared with a decrease in operating cash flow of RMB101.2 million in the previous year due to increased inventory balance at the end of the previous year).

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(ii) Borrowings

The total borrowings of the Group at the end of 2014 amounted to RMB5,710.9 million, representing a decrease of RMB2,010.9 million compared with the end of the previous year, of which short-term borrowings decreased by RMB3,015.8 million and long-term borrowings increased by RMB1,004.9 million.

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

(2) Liability-to-asset ratio

As at 31 December 2014, the Group's liability-to-asset ratio was 45.73% (2013: 50.89%). The ratio is calculated using this formula: total liabilities/total assets.

**3.2.C Research and Development, Patents and Licenses**

The Group includes a number of technology development units, including the Petrochemical Research Institute, the Plastics Research Institute, the Polyester Fibre Research Institute, the Acrylic Fibre Research Institute and the Environmental Protection Research Institute. These units are charged with various research and development tasks with respect to new technology, new products, new production processes and equipment and environmental protection. The Group's research and development expenditures for the years ended 2012, 2013 and 2014 were RMB72.2 million, RMB67.3 million and RMB43.6 million, respectively. Due to a reduction in expenses related to market research and travelling allowance, research and development expenditure fell in 2014.

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

**3.2.D Off-Balance Sheet Arrangements**

Please refer to note 30 to the financial statements prepared under IFRS in this annual report for details of the Group's capital commitments. The Group did not provide any guarantee to outside parties during the Reporting Period.

**Table of Contents****Report of the Directors** (continued)**3.2.E Contractual Obligations**

The following table sets forth the Group's obligations to repay loan principal in future as at 31 December 2014:

	As at 31 December 2014 payment due by period		
	Total (RMB 000)	Within 1 year (RMB 000)	After 1 year but within 2 years (RMB 000)
Contractual obligations			
Short term borrowings	4,078,195	4,078,195	
Long term borrowings	1,632,680		1,632,680
Total contractual obligations	5,710,875	4,078,195	1,632,680

**3.2.F Analysis of Performance and Results of the Companies in Which the Company Has Controlling Interests or Investment Interests during the Reporting Period**

As at 31 December 2014, the Company had more than 50% equity interest in the following principal subsidiaries:

Company	Place of registration	Principal Activities	Place for principal activities	Type of legal person	Percentage of equity held by the Company (%)	Percentage of equity held by the Group (%)	Registered Capital ( 000)	Profit/ (loss) for 2014 (RMB 000)
Shanghai Petrochemical Investment Development Company Limited	China	Investment management	China	Limited company	100	100	RMB 1,000,000	31,597
China Jinshan Associated Trading Corporation		export of petrochemical products and equipment	China	Limited company	67.33	67.33	RMB 25,000	21,924
Shanghai Jinchang Engineering Plastics	China	Production of polypropylene	China	Limited company		74.25	US\$ 9,154	7,299

Company Limited		compound products							
Shanghai Golden Phillips Petrochemical Company Limited	China	Production of polypropylene products	China	Limited company	60	US\$	50,000	16,486	
Zhejiang Jin Yong Acrylic Fibre Company Limited	China	Production of acrylic fibre products	China	Limited company	75	75	RMB	250,000	(33,771)
Shanghai Golden Conti Petrochemical Company Limited	China	Production of petrochemical products	China	Limited company	100	RMB	545,776	(75,631)	
Shanghai Jinshan Trading Corporation		Import and export of petrochemical products and equipment	China	Limited company	67.33	RMB	20,000	2,611	

None of the subsidiaries has issued any debt securities.

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The Group's equity interests in its associates comprised an equity interest of 38.26%, amounting to RMB1,043.3 million, in Shanghai Chemical Industry Park Development Co., Ltd., a company incorporated in the PRC; and an equity interest of 20%, amounting to RMB1,497.7 million, in Shanghai Secco Petrochemical Company Limited, a company incorporated in the PRC. The principal business of Shanghai Chemical Industry Park Development Co., Ltd. includes planning, developing and operating the Chemical Industry Park in Shanghai, while the principal business of Shanghai Secco Petrochemical Company Limited is the production and distribution of petrochemicals.

In 2014, Shanghai Golden Conti Petrochemical Co. Ltd, a subsidiaries controlled by the Group, had an effect of more than 10% on the net profit of the Group. The increase in loss of the subsidiary is mainly attributable to the continuous decrease in the price of international liquefied gas, which led to a decrease in the selling price of the products.

### **3.2.G Major Suppliers and Customers**

The Group's top five suppliers in 2014 were China International United Petroleum & Chemical Co., Ltd., Sinochem Oil Co., Ltd., CNOOC-SINOPEC United International Trading Co., Ltd, Sinochem industries Co., Ltd., and Shanghai Secco Petrochemical Company Limited. Total procurement costs involving these suppliers, which amounted to RMB53,892.9 million, accounted for 78.88% of the total procurement costs of the Group during the year ended 31 December 2014. The procurement costs from the largest supplier amounted to RMB30,931.6 million, representing 45.27% of the total costs of purchases by the Group during the year ended 31 December 2014.

The Group's top five customers in 2014 were East China Branch of Sinopec Sales Company Limited, Sinopec Petrochemical Sales Company Limited, Jiaxing Petrochemical Company Limited, Sinopec Refinery Product Sales Company and Shanghai Chlor-alkali Chemical Co., Ltd. Total sales to these customers amounted to RMB62,005.1 million, representing 60.68% of the Group's total turnover during the year ended 31 December 2014. Sales to the Group's largest customer amounted to RMB51,404.1 million, representing 50.31% of the Group's total turnover during the year ended 31 December 2014.

To the knowledge of the Board, in relation to the suppliers and customers listed above, none of the Directors (or their associates) or shareholders of the Company had any interest in Sinochem Oil Co., Ltd., Sinochem industries Co., Ltd., Jiaxing Petrochemical Company Limited and Shanghai Chlor-alkali Chemical Co.,Ltd.

China International United Petroleum & Chemical Co. Ltd., East China Branch of Sinopec Sales Company Limited, Sinopec Petrochemical Sales Company Limited and Sinopec Refinery Product Sales Company are subsidiaries of China Petroleum & Chemical Corporation, the controlling shareholder of the Company. China International United Petroleum & Chemicals Co., Ltd owns a 40% equity interest in CNOOC-SINOPEC United International Trading Co., Ltd. China Petroleum & Chemical Corporation and the Company own 30% and 20% equity interests in Shanghai Secco Petrochemical Company Limited, respectively.

**Table of Contents****Report of the Directors (continued)****4. Discussion and Analysis of the Company's Operation (prepared under CAS)****4.1 Analysis of the Company's Major Business****4.1.A Analysis of Changes in the Consolidated Income Statement and the Consolidated Cash Flow Statement**

Item	For the year ended	For the year ended	Change (%)
	31 December 2014 (RMB 000)	31 December 2013 (RMB 000)	
Operating income	102,182,861	115,539,829	-11.56
Operating costs	90,046,890	100,477,000	-10.38
Business taxes and surcharges	9,401,283	9,987,148	-5.87
Selling and distribution expenses	544,227	691,020	-21.24
General and administrative expenses	2,666,597	2,732,355	-2.41
Financial expenses ( - for financial income)	391,625	-189,024	-307.18
Net cash inflow from operating activities ( - for net outflow)	4,039,919	5,480,669	decreased inflow 26.29%
Net cash inflow from investing activities ( - for net outflow)	-910,104	-629,246	increased outflow 44.63%
Net cash inflow from financing activities ( - for net outflow)	-2,983,972	-4,878,991	decreased outflow 38.84%
Research and development expenditures	43,569	67,315	-35.28

**Analysis of Major Changes in the Consolidated Income Statement**

Item	For the years ended 31 December		Increase/ decrease amount RMB 000	Change %	Major reason for change
	2014 RMB 000	2013 RMB 000			
Financial expenses ( - for financial income)	391,625	-189,024	580,649	-307.18	Appreciation of the US Dollar resulting in net foreign

					exchange loss
Asset impairment loss	<b>224,039</b>	39,838	184,201	462.38	Increase in inventory depreciation reserves
Investment income	<b>54,145</b>	120,667	-66,522	-55.13	Revenue decrease in associated and joint enterprises
Non-operating income	<b>208,480</b>	543,142	-334,662	-61.62	An increase in non-operating revenue from the asset transfer involving the Chenshan oil depot in 2013
Operating profit ( - for loss)	<b>-1,037,655</b>	1,922,159	-2,959,814	-153.98	Gross profit and sales volume decreased
Total profit ( - for net loss)	<b>-914,149</b>	2,392,870	-3,307,019	-138.20	
Net profit ( - for net loss)	<b>-699,965</b>	2,013,719	-2,713,684	-134.76	
Income tax expenses	<b>-214,184</b>	379,151	-593,335	-156.49	Deferred tax assets are recognized as the loss recorded this year



**Table of Contents****Analysis of Major Changes in the Cash Flow Statement**

Item	For the years ended 31 December		Increase/ decrease amount	Change (%)	Major reason for change
	2014 RMB 000	2013 RMB 000			
Net cash inflow from operating activities ( - for net outflow)	<b>4,039,919</b>	5,480,669	Decrease inflow of 1,440,750	Decrease inflow of 26.29%	Loss during the reporting period
Net cash inflow from investing activities ( - for net outflow)	<b>-910,104</b>	-629,246	Increase outflow of 280,858	Increase outflow of 44.63%	RMB594 million cash flow generated from the asset transfer involving the Chenshan oil depot in 2013
Net cash inflow from financing activities ( - for net outflow)	<b>-2,983,972</b>	-4,878,991	Decrease outflow of 1,895,019	Decrease outflow of 38.84%	Purchasing of crude oil decreased this year, so as to compensate the decrease of operating capital loan

**4.1.B Operating Income**

## (1) Analysis of Changes in Operating Income

The weighted average prices (VAT excluded) of the Group's synthetic fibres, resins, plastics, intermediate petrochemical products and petroleum products fell by 1.54%, 0.19%, 13.10% and 4.20% respectively. At the same time, sales growth saw a slight decrease in 2014 compared with the previous year, resulting in a lower operating income in 2014 compared with the previous year.

## (2) Major Customers

Please refer to 3.2.G for details of major customers of the Group.

**Table of Contents****Report of the Directors** (continued)**4.1.C Operating Costs**

## (1) Analysis of Operating Costs

Operating costs of the Group amounted to RMB90.0469 billion in 2014, representing a decrease of 10.38% as compared with RMB100.477 billion in 2013, which was mainly due to a decrease in the price of raw materials and Group's sales volume.

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

	For the years ended 31 December		2013		Change (%)
	2014		2013		
	Million of RMB 000	% of Total	Million of RMB 000	% of Total	
Cost of raw materials					
Crude oil	<b>59,559.8</b>	<b>66.14</b>	71,592.8	71.25	-16.81
Ancillary materials	<b>11,865.4</b>	<b>13.18</b>	12,555.3	12.50	-5.49
Depreciation and amortisation	<b>1,876.7</b>	<b>2.08</b>	2,087.2	2.08	-10.09
Staff costs	<b>1,655.1</b>	<b>1.84</b>	1,696.6	1.69	-2.45
Costs of merchandise	<b>14,586.0</b>	<b>16.20</b>	10,970.4	10.92	32.96
Others	<b>503.9</b>	<b>0.56</b>	1,574.7	1.56	-68.00
Total	<b>90,046.9</b>	<b>100.00</b>	100,477.0	100.00	-10.38

## (2) Major Suppliers

Please refer to 3.2.G for details of major suppliers of the Group.

**4.1.D Expenses**

Please refer to Analysis of Major Changes in the Consolidated Income Statement and the Consolidated

Cash Flow Statement in this section for the analysis of expenses changes during the Reporting Period.

**Table of Contents****4.1.E Research and Development Expenditure**

## (1) Table of Research and Development Expenditure

	Unit: RMB 000
Expensed R&D expenditure during the Reporting Period	43,569
Capitalised R&D expenditure during the Reporting Period	
<b>Total</b>	<b>43,569</b>
% of Net Assets	0.26
% of Operating Income	0.04

## (2) Explanation

Please refer to 3.2.C. of this section for details of Research and Development, Patents and Licenses of the Group.

**4.1.F Cash Flow**

Please refer to Analysis of Major Changes in the Consolidated Income Statement and the Consolidated Cash Flow Statement in this section for details of the changes in cash flow statement items.

**4.2 Analysis of Business Operations by Segment, Product and Geographical Location****4.2.A Principal operations by segment or product**

				Increase/ decrease of	Increase/ decrease of	Increase/ decrease of gross profit margin as compared to the previous year
	Operating	Operating	Gross profit/ (loss) margin	operating income as compared to	operating costs as compared to the previous year	of gross profit margin as compared to the previous year
	income	costs		the previous year		

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By segment or product	(RMB 000)	(RMB 000)	(%)	(%)	(%)	(percentage point)
Synthetic fibres	2,935,540	3,131,196	-6.67	-10.08	-10.44	0.42
Resins and plastics	12,654,400	11,992,851	5.23	-12.37	-15.67	3.71
Intermediate petrochemicals	12,579,993	11,094,167	11.81	-32.67	-30.52	-2.72
Petroleum products	58,243,904	48,604,614	16.55(note)	-12.97	-11.89	-1.02
Trading of petrochemical products	14,792,432	14,585,761	1.40	32.56	32.96	-0.29
Others	976,592	638,301	34.64	-8.91	-3.26	-3.82

Note: Gross profit margin is calculated according to the price of petroleum products, which includes consumption tax.  
Gross profit margin of petroleum products after deducting consumption tax amounted to 3.03%.

**Table of Contents****Report of the Directors (continued)****4.2.B Principal operations by geographical location**

Geographical location	Operating income	
	RMB 000	Increase/decrease of operating income compared with the previous year (%)
Eastern China	98,313,759	-10.15
Other regions in the PRC	2,552,122	-49.05
Exports	1,316,980	18.45

**4.3 Analysis of Assets and Liabilities**

Item	As at 31 December 2014		As at 31 December 2013		Change (%)	Major reason for change
	Amount RMB 000	% of Total Assets	Amount RMB 000	% of Total Assets		
Cash at bank and on hand	279,198	0.90	133,256	0.36	110	Decrease in cash outflows for financing activities
Notes receivable	1,372,277	4.41	2,984,445	8.08	-54	Decrease in revenue and operation receivables
Accounts receivable	1,628,121	5.23	1,976,496	5.35	-18	Decrease in revenue and operation receivables
Advances to suppliers	31,098	0.10	5,930	0.02	424	Increase in pre-paid for goods by the end of the Year
Inventories	5,930,703	19.04	9,039,239	24.49	-34	Decrease in raw materials by the end of the Year
Other current assets	197,799	0.64	297,779	0.81	-34	Decrease in purchasing by the end of the Year, compensating the decrease in deductible VAT.
Long-term equity investment	3,106,262	9.97	3,173,594	8.60	-2	
Fixed assets	15,611,926	50.13	16,768,602	45.42	-7	
Long-term deferred expenses	602,451	1.93	458,463	1.24	31	Part of the catalyst is expiring, increasing input
Deferred tax assets	915,069	2.94	684,599	1.85	34	The Company recorded loss in the Reporting Period, resulting in an increase in unrealised deductible losses
Short-term borrowings	4,078,195	13.09	6,484,336	17.57	-37	Purchasing of crude oil decreased this year, resulting in a decrease in short-term borrowings
Accounts payable	5,924,035	19.02	8,851,932	23.98	-33	Purchasing of crude oil decreased this year
Taxes payable	1,276,874	4.10	840,682	2.28	52	Taxes payable increase due to the increase of consumption tax by the end of Year
Current portion of non-current liabilities			609,690	1.65	-100	To pay back the loan expiring in a year
Long-term borrowings	1,632,680	5.24	627,800	1.70	160	Long-term borrowings to improve cash flow due to the increased loss recorded in this Year



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**5. Others**

**(1) Group's employees**

Please refer to Directors, Supervisors, senior management and employees for details of employees.

**(2) Purchase, Sale and Investment**

Save and except as disclosed in this annual report, there was no material purchase or sale of the Group's subsidiaries or associates or any other material investments in 2014.

**(3) Pledge of assets**

As at 31 December 2014, no fixed asset was pledged by the Group (31 December 2013: RMB Nil)

**6. Status of Holding Foreign Currency Financial Assets and Financial Liabilities**

As at 31 December 2014, the Group held foreign-currency denominated bank deposits and loans and borrowings, equivalent to RMB33,408,000 and RMB2,654,457,000, respectively.

**7. 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 make it a major manufacturer of refined oil, intermediate petrochemical products, synthetic resins and synthetic fibers. It also has self-owned utilities and environmental protection systems, as well as sea transport, inland shipping, rail transport and road transport ancillary facilities.

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

**Table of Contents****Report of the Directors (continued)****8. Investment Analysis****8.1 Trust Financing and Derivative Investment Commissioned by Non-financial Companies**

## (i) Trust Financing

The Group does not have any trust financing.

## (ii) Entrusted Loans

<b>Borrower</b>	<b>Amount of entrusted loan RMB 000</b>	<b>Term of loan</b>	<b>Interest rate of loan %</b>	<b>Whether it is connected with the transaction</b>	<b>Whether it has been intended related</b>	<b>Whether it is the capitals are connected</b>	<b>Whether it is connected with the income</b>	<b>Expected income RMB 000</b>
Chevron Phillips Chemicals (Shanghai)	30,000	2014/4/26-2015/4/25	3.25	No	No	No	No	Nil
Corporation	12,000	2014/8/29-2015/8/28	3.25	No	No	No	No	258
	28,000	2014/11/28-2015/11/27	3.25	No	No	No	No	834
	12,000	2014/12/26-2015/12/26	3.00	No	No	No	No	359

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

**8.2 Analysis of Performance and Results of the Companies in Which the Company Has Controlling Interests or Investment Interests during the Reporting**

Period Please refer to 3.2.F Analysis of Performance and Results of the Companies in Which the Company Has Controlling Interests or Investment Interests during the Reporting Period in this section for details.

**8.3 Major Projects from Non-raised Capital**

In 2014, the capital expenditure of the Group amounted to RMB1,089 million, representing a decrease of 17.31% compared with RMB1,317 million in 2013. Major projects include the following:

**Project**



	<b>Total project investment in RMB million</b>	<b>Project progress as at 31 December 2014</b>
Diesel quality up-grading on 3# Diesel Hydrogenation plant	75	Completed
Denitration & Dedusting Project for 1#&2# Furnaces of the Thermal Power Division	108	Completed
Second phase Project for advanced treatment and recycling of discharge waste water	117	Completed
The EVA Project with a capacity of 100,000 tons/year	1,132	Preliminary

The Group's capital expenditure for 2015 is estimated at approximately RMB1,600.0 million.

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**9. Company Outlook on Future Development (Business Prospects)**

**9.1 Development trends and market competition in the industry**

The global economy will remain volatile following the financial crisis as the generally weak rebound is expected to largely continue in 2015. Amid the reindustrialization of the US economy, which is hoped to stimulate the economy and in turn improve the world's economy, the exit of QE monetary policy of the US will impose pressure on emerging markets. Against the adversities in the global economy resulting from high level of debt in developed countries and slowing of potential growth in major economies, the enhanced efforts in economic structural adjustment by emerging economies will promote economic development.

China's economic development faces uncertainties in the recovery of the global economy. While the steady economic growth is driven by the country's general conditions and reform policy, factors such as difficulties in boosting domestic and foreign demand significantly, as well as sharp structural contradictions, will hamper and constrain economic growth. As such, there remains multiple challenges in maintaining steady economic growth.

Ample supply is expected in the international crude oil market. In the meantime, demand for crude oil will be suppressed by the pessimistic outlook for global economic growth. As long as the supply of crude oil remains abundant, the fundamentals will continue to subdue the price of crude oil. Looking ahead to 2015, it is expected that the price of crude oil will fluctuate at a low level.

In this context, the domestic petroleum and petrochemical markets will face a tougher external business environment with market competition intensifying due to the slowdown in market demand, over capacity of refineries in the country and impact from imported petrochemical products. Stricter regulations in relation to environment and resources brought greater challenges to business operations and development.

**9.2 Company Development Strategies**

The Company has been focusing on its goal of establishing a refining and petrochemical enterprise which is "Take the lead in China, Be the First-class in the world". Taking into account the development status and trend of the global petrochemical industry, as well as the development trend of domestic, especially East China region, oil and chemical products market, we define our development strategy as follows: giving consideration to both cost-leadership and differentiation, paying equal attention to scale and specialty, laying special emphasis on cost-leadership and scale in the plants of up-stream, and high value-added and refined product in the plants of down stream. The Company aimed to improve its competitiveness by leveraging its strengths in broad product chain, product diversification and geographical proximity to the market. In view of this development strategy, the Company adopted the development concept of "further expand refining business, take the lead in petrochemical industry, and be excellent in particular fine chemicals" in combining the resource optimization and development planning of enterprises in the Shanghai region, to further consolidate the three existing processing chains of refining, olefin and aromatic. The Company has also created a new development model of integrated refinery and petrochemical by using the concept of molecular refinery and molecular petrochemical to further boost its economic returns.

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**Report of the Directors (continued)**

**9.3 Business plans for 2015**

Under the prolonged nature of the challenging production and operation environment, the Group will continue its efforts in safety and environmental protection. It will also maintain stable production and operations when focusing on industrial structure adjustment and improvement of products in 2015. The Group will further strengthen its internal management and endeavour to maximize economic benefits for sustainable growth.

To achieve its business objectives in 2015, the Group will work hard in the following areas:

(i) Further implement QHSE management

The Group will implement QHSE management in a comprehensive manner, prioritize the safety supervision in direct operating and further enhance the management and assessment system in relation to safety and environmental. Meanwhile, the Group is committed to green and low carbon operations, energy saving and emission reduction, as well as clean production. Hence, it will tighten control of waste water, waste solid and waste gas at the source, and maintain a 100% properly treatment ratio. In addition, it will strictly supervise and evaluate the performance of contractors to raise their awareness in enhancing HSE management. The Group upholds the quality standard of

**Making Every Drop Count** and promotes stronger oversight in every production procedure, thereby putting in place stringent controls on outgoing products.

(ii) Enhance management of production and operations

The Group will pursue more refined management of its production system and strictly comply with the reporting system in relation to major production events, with an aim to minimize non-scheduler short-term dsudden production disruptions. It will also strengthen the management of production technology and increase supervision and evaluation of the progress in attaining technical and economic indicators. In addition, the Group will also strengthen its management of facilities operations and fully leverage the advantages of quantifying inspection and platform for processing malfunction and repair requests. Through its major efforts in HSE-based detection and rectification of potential hazards in facilities, the Group's management of facilities will be effectively improved.

(iii) Deepen the movement of potential, trapping by full process optimization and cost/expenditure reduction

The Group will continue to adopt cost-to-performance ratio as its primary basis for crude oil purchases by focusing on the selection of ideal sources of crude oil and cost control. When optimizing and adjusting the structure of refined oil, it will continue to enhance the proportion and output of high-grade refined oil products. With a view to promoting the structural adjustment of petrochemical products, the Group will adhere to the implementation of dynamic optimization by using the main product optimization model, strengthening the marginal contribution tracking for chemical plants and adjusting the load of plants in a timely manner. The Group will also step up its efforts in minimizing expenditure to further reduce finance expenses. In addition, the Group will continue to adhere to its strategy of optimizing its inventory level. It will ensure the safety and stability of production and business operations, while minimizing its exposure to operating risks. To reduce transportation costs, the Group will continue to improve and delineate its sales

area in a prudent manner.

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### (iv) Foster transformation, scientific research and development and informatization

Riding on the development opportunities brought by the production base in the north coast of Hanzhou Bay, the Group will further adjust and optimize its refinery/petrochemical integration plan. The Group will proactively facilitate the integration of its refinery with petrochemical plane while swiftly commencing certain projects with relatively strong competitive edges when appropriate. While ramping up scientific research and development, the Group will also focus efforts on the implementation of key scientific research projects such as carbon fibre and needle coke project, while exploring external sales model for technical services to tap a new source of profit for the Company. The Group will proactively foster industrial and informatization integration, expand the application of APC system as well as facilitate the construction of informatization projects, including the comprehensive statistics information system.

### (v) Strive to enhance internal management

The Group will further optimize its corporate management systems and processes while fostering an integrated, procedural and informatization-driven organic combination. This will realize its transition from function-driven to operations-driven, and functional management to process management. On-site management will be escalated for production area and operation. The Group will continue to strengthen its management structure and steadily re-align management duties, while emphasizing professional and central management over meters. By downsizing its structure, excessive staff will be eliminated. The Group will improve its management of performance appraisal, and establish and strengthen its performance-oriented performance management system.

## **9.4 Risk exposure in the Company's future development**

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

A large part of the Group's operating income is derived from the sales revenue of refined oil and petrochemical products. Historically, such products have been cyclical in nature and relatively sensitive to macroeconomic changes. In addition to 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 major 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 China's relaxed control over the distribution and pricing of products, many of the Group's products will increasingly be subject to the impact of the petrochemical cycle in 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 90% of the crude oil required 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 customers, but the ability to do so is limited by market conditions, and government control over the pricing of refined oil products. Since there is a time-lag between increases in crude oil prices and increases in petrochemical product prices, higher costs cannot be totally offset by raising the selling prices. In addition, the State also imposes control over the distribution of some petroleum products within China. For instance, some of the Group's petroleum products are required to be sold to designated customers (such as subsidiaries of Sinopec Corp). Hence, when crude oil prices are high, the higher costs cannot be totally offset by raising the selling prices of the Group's petroleum products. This has created, and will continue to create, a significant impact on the Group's financial condition, operating results or cash flow.

- (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 RMB1,600 million in 2015, which will be met by financing activities and by internal funding. The Group's real capital expenditures may vary significantly due to the Group's ability to generate sufficient cash flow from operations, investments and other factors that are beyond its control. Furthermore, there is no assurance as to the completion, cost or success of the Group's capital 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 condition and cash flow in the future; China's economic conditions and the market conditions for the Group's products; financing costs and conditions of the financial market, and availability 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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- (iv) The Group's business operations may be affected by existing or future environmental protection regulations.

The Group is governed by 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 has already enforced and may further enforce stricter environmental standards, and the Group cannot assure that the central or local governments will not issue more regulations or enforce certain stricter regulations which may cause the Group to incur additional expenses on environmental protection measures.

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

The exchange rate of the Renminbi against the US Dollar and other foreign currencies may fluctuate and is subject to alterations due to changes on the Chinese political and economic scenes. 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 certain foreign currencies. Since the adoption of this new policy, the value of the Renminbi against the US dollar has fluctuated 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 is 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 Shares.

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

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

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**Report of the Directors (continued)**

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

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

**Board's Explanation of non-standard Audit reports by the accounting firm**

**1. Board's Explanation of non-standard Audit reports by the accounting firm**

Not applicable

**2. Board's Explanation of Accounting Policies, Changes of Accounting measurements and its influences**

Not applicable

**3. Board's Explanation of Reasons and influences of corrections of major errors in the early stage**

Not applicable

**Plan for Profit Appropriation or Capital Reserve Capitalization**

**1. Disclosure of the Cash Dividend Policy and its Stipulation, Implementation or Amendment**

In 2013, the Company made amendments to its cash dividend policy in the Articles of Association. The proposed amendments to the Articles of Association and its appendices were considered and approved at the 2013 Second Extraordinary General Meeting held on 11 December 2013 and approved by the State-owned Assets Supervision and Administration Commission of the State Council on 26 January 2014. According to Article 205 of the amended Articles of Association:

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



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

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- (iii) The Company shall distribute cash dividends when the parent company's net profit and retained earnings, in separate financial statement, are positive and the Company has adequate cash flow for normal operations and sustainable development. The Company should pay dividends in cash. The total cumulative cash dividend for the most recent three years should not be less than thirty (30) percent of the total distributable profit of the Company for the most recent three years.
- (iv) The Company may adjust its profits distribution policy referred to in sub-paragraphs (2) and (3) of this Article in case of war, natural disasters or other force majeure events, or where changes to the external environment of the Company result in material impact on the production and operations of the Company, where there are significant changes in the Company's own operations or financial conditions, or where the Company's board of directors considers it necessary. Independent directors shall issue independent opinions on the adjustment of the profits distribution policy whilst the board of directors shall discuss the rationale of such adjustment in detail, and form a resolution which shall be submitted to a shareholders meeting for approval by special resolution. The convening of the shareholders meeting shall comply with regulatory provisions in the place where the Company's shares are listed.
- (v) The management of the Company shall formulate the annual profits distribution plan and submit such a plan to the board of directors for consideration. Independent directors shall issue independent opinions on such a plan and the board of directors shall form a resolution which shall be submitted for approval by shareholders meeting. If the conditions for the distribution of cash dividends have been satisfied and the Company does not propose a cash dividends distribution plan or does not propose such a plan in compliance with sub-paragraph (3) of this Article, independent directors shall issue independent opinions whilst the board of directors shall give a specific explanation regarding such an arrangement and form a resolution which shall be submitted to shareholders meeting for approval and make relevant disclosures. The plan for half-yearly dividend distribution of the Company shall comply with Article 213 of the Articles of Association.

**2. Plan for Profit Appropriation or Capital Reserves Capitalization for the Reporting Period**

In 2014, net loss attributable to equity shareholders of the Company amounted to RMB716.427 million under CAS (net loss of RMB 692.222 million under IFRS). The Board proposed not to distribute dividend or capitalize capital reserves.

**3. The Group should disclose detailed reasons and the usage of the undistributed profits and plan when the Company records profits and the undistributed profits is positive without proposing a cash dividend distribution plan.**

Not applicable.

**Table of Contents****Report of the Directors (continued)****4. Status of the Company's Payment of Dividends, Capitalization of capital fund and Surplus Reserve Fund over the Past Three Years (Including the Reporting Period)**

Year of paying dividends	Amount of bonus shares allocated every 10 shares (share)	Amount of dividends paid every 10 shares (RMB) (including tax)	Amount of shares transferred every 10 shares (share)	Amount of cash dividends (including tax) RMB 000	Net profit attributable to equity shareholders of the Company prepared under CAS for the year ( - for net loss) RMB 000	Percentage of net profit attributable to equity shareholders of the Company prepared under CAS for the year (%)
2014					-716,427	
Interim	1.64	0.50	3.36	360,000		
2013					2,003,545	44.92
Annual		0.50		540,000		
2012					-1,548,466	

**The Company's Disclosure on the fulfillment of its Corporate Social Responsibility****1. Fulfillment of social responsibility**

For the disclosure of the Company's social responsibility in 2014, please refer to the Sinopec Shanghai Petrochemical Company Limited's Fulfillment of Corporate Social Responsibility 2014 published by the Company on the website of the Shanghai Stock Exchange and the Hong Kong Stock Exchange.

**2. Description of environmental protection regulations in relation to listed companies and its subsidiaries of heavy pollution industries as required by the state environmental protection department**

The Company consistently places safety and environmental protection as its first priority. It continues to receive ISO14001 Environmental Management System Certification. In January 2013, it received certifications verifying three standards in quality from the Shanghai Audit Center of Quality (GB/T 19001:2008), environment (GB/T 24001:2004) and occupational health and safety (GB/T28001:2011). On 29 November 2013, the continued use of the title All-China Environmentally Friendly Enterprise was approved. For more details, please refer to the Sinopec Shanghai Petrochemical Company Limited's Fulfillment of Corporate Social Responsibility 2014 published by the Company on the website of the Shanghai Stock Exchange and the Hong Kong Stock Exchange.

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**Major Events**

**(1) Material litigation, arbitration or media queries**

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

**(2) States and Returning Progress on Occupied Funds during the Reporting Period**

No applicable.

**(3) Events regarding bankruptcy and restructuring**

No events regarding bankruptcy or restructuring occurred during the year.

**(4) Asset trading and corporate mergers during the Reporting Period**

No asset trading and corporate mergers occurred during the year.

**(5) Share Option Incentive Scheme and its Influence**

**1. Relevant Share Option Incentive Scheme has been disclosed in announcements and no future updates**

Summary

The 2nd meeting of the Eighth Session of the Board of Directors considered and passed resolution on the A Share Option Incentive Scheme of Sinopec Shanghai Petrochemical Company Limited (Draft) (the Share Option Scheme) and has approved the draft Scheme to be submitted for review by shareholders of the Company.

Share Option Incentive Scheme of Sinopec Shanghai Petrochemical Company Limited (Draft) was approved by The State-owned Assets Supervision and Administration Commission of the State Council (SASAC).

CSRC notified the Company that it has no objection to the filing of Share Option Incentive Scheme of Sinopec Shanghai Petrochemical Company Limited (Draft).

First Extraordinary General Meeting for 2014, First A Shareholders Class Meeting for 2014 and First H

For More details, please refer to  
Published on 18 August, 2014 at China Securities Journal, Shanghai Securities News, Securities Times, uploaded to the websites of Shanghai Stock Exchange, The Stock Exchange of Hong Kong and the Company.

Published on 17 October, 2014 at China Securities Journal, Shanghai Securities News, Securities Times, uploaded to the websites of Shanghai Stock Exchange, The Stock Exchange of Hong Kong and the Company.

Published on 30 October, 2014 at China Securities Journal, Shanghai Securities News, Securities Times, uploaded to the websites of Shanghai Stock Exchange, The Stock Exchange of Hong Kong and the Company.

Published on 24 December, 2014 at China Securities Journal, Shanghai Securities News, Securities Times,

Shareholders Class Meeting for 2014 were convened. Share Option Incentive Scheme (Draft) and relevant resolutions of the Company were considered and passed. uploaded to the websites of Shanghai Stock Exchange, The Stock Exchange of Hong Kong and the Company.

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**Table of Contents****Major Events** (continued)**2. Introduction to the Share Option Incentive Scheme**

On 15 August 2014, the Share Option Incentive Scheme and the related proposals were reviewed and adopted at the Second Meeting of the Eighth Session of the board of directors of the Company. The Company's Independent Non-executive Directors expressed their independent opinions on the Share Option Incentive Scheme (Draft) of the Company, and Beijing Haiwen & Partners issued a legal opinion on the aforesaid proposals. The Supervisory Committee convened the Second Meeting of the Eighth Session on the same day to review the aforesaid proposals and verified the list of participants set out in the Share Option Incentive Scheme (Draft). After that, Share Option Incentive Scheme (Draft) of the Company was approved by the SASAC by approval document (Guo Zi Fen Pei No. [2014]1006), and was put on record CSRC without dissent. On 23 December 2014, the Company convened the 2014 First General Meeting and the 2014 First A Shareholders Class Meeting through a combination of on-site voting, online voting (applicable to A shareholders) and solicitation of votes by Independent Non-executive Directors, and convened the 2014 First H Shareholders Class Meeting through a combination of on-site voting and solicitation of votes by Independent Non-executive Directors. At the above meetings, Share Option Incentive Scheme (Draft) and its related proposals were reviewed and approved. The Share Option Incentive Scheme of the Company officially became effective.

**Summary of Share Option Incentive Scheme**

## a. Purpose of the Scheme

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

## b. Scope of Participants Eligible Participants

The eligible participants shall include the Directors, senior management members and key business personnel of the Company. The Participants of the proposed initial Grant under the Scheme shall include: i. Directors and senior management members; and ii. key business personnel holding core positions. Such aforesaid Participants of the proposed initial Grant shall exclude independent non-executive Directors, supervisors and Directors who do not concurrently hold senior management positions in the Company, substantial shareholders holding more than 5% of the Shares and the de facto controllers of the Company, together with their respective spouses and immediate family members.



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- c. Total number of shares to be granted and percentage of the total share capital

Under the Share Option Scheme, the total number of Underlying Shares to be granted shall neither exceed 10% of the total share capital of the Company (10,800 million shares) nor exceed 10% of the total A-share capital of the Company (7,305 million shares). Under the proposed initial Grant, the number of Share Options to be granted by the Company to the Participants shall be no more than 41,030,000, with the corresponding Underlying Shares representing 0.38% of the total share capital of the Company (10,800 million shares).

- d. Maximum Entitlement of each participant

Unless approved by the Shareholders as a special resolution at a general meeting of the Company, the aggregate number of A Shares to be acquired by each Grantee through the Share Option Scheme and other effective share option schemes of the Company (if any) at any time shall not exceed 1% of the total A-share capital of the Company. The number of Share Options to be granted to each Participant was determined on the basis that the estimated benefit upon exercise of the Share Options will not exceed 30% of his/her total emolument level (including the estimated benefit upon exercise of the Share Options) at the Grant Date.

- e. Validity Period

The exercisable period for the share options shall be three years, commencing from the expiry of the two-year period after the grant date. Please refer to the following table for the details of the arrangement for the the Share Option Scheme:

Stage	Arrangement	Exercise Ratio Cap
Grant Date	determined by the board of directors upon fulfillment of the conditions for grant under the Share Option Incentive Scheme	
1 <sup>st</sup> Exercisable Period	commencing on the first trading day after 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%
2 <sup>nd</sup> Exercisable Period	commencing on the first trading day after the expiry of the 36-month period following the grant date and ending on the last trading day preceding the expiry of the 48-month period following the grant date	30%



3 <sup>rd</sup> Exercisable Period	commencing on the first trading day after the expiry of the 48-month period following the grant date and ending on the last trading day preceding the expiry of the 60-month period following the grant date	30%
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If a Participant is also a Director or member of senior management of the Company, at least 20% of the total Options granted to him/her shall not be exercisable until such Participant passes the appraisal during his/her term of office.

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**Major Events** (continued)

f. Vesting Period

The vesting period for each Grant under the Scheme shall be no less than two years.

g. Requirement of fund to apply or accept stock option (if applicable) and allotted time of payment or notice of payment or allotted time of credit payment for application of stock options

N/A

h. Exercise Price

(1) The Exercise Price under the initial Grant

The Exercise Price under the initial Grant shall not be lower than the highest of the followings:

- I. the closing price of the A shares of the Company on the trading day immediately before the date of announcement on the summary of the draft Scheme, which was RMB3.29 per share;
- II. the average closing price of the A shares of the Company for the 30 trading days immediately before the date of announcement on the summary of the draft Scheme, which was RMB3.27 per share; and
- III. RMB4.20 per share. In June 2013, the Sinopec Corp. undertook in the Company's equity division reform plan that it would propose to the Board a share option scheme which complies with the relevant systems of the SASAC and the CSRC, with an initial Exercise Price of the Share Options no lower than RMB6.43 per share (if there is occurrence of any ex-dividend event before the release of the draft share option scheme, the price shall be adjusted accordingly). As the Company carried out its 2013 half-year cash dividend plan, capitalisation of capital funds and surplus reserves plan in December 2013, and 2013 annual cash dividend plan in July 2014, the aforesaid initial Exercise Price of the Share Options, i.e. no less than RMB6.43 per share, is adjusted into RMB4.20 per share.

Accordingly, the Exercise Price under the initial Grant shall not be lower than RMB4.20 per share.

(2) The Exercise Price under Further Grant

The Exercise Price under each proposed Grant (other than the initial Grant) shall be the higher of the followings:

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

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II. the average closing price of the A shares of the Company for the 30 trading days immediately before the date of announcement on the summary of the draft proposal for each Grant. The Shareholders' general meeting shall authorise the Board to determine the Exercise Price under each of the further Grants in accordance with the Share Option Scheme.

i. Expiry date

The expiry date of the scheme is 22 December 2024.

**(6) Major connected transactions of the Company during the Reporting Period**

1. Connected Transactions in Relation to Daily Operations

During the Reporting Period, pursuant to the Mutual Product Supply and Sales Services Framework Agreement entered into with the controlling shareholder of the Company, Sinopec Corp., and the actual controller, Sinopec Group the Company purchased raw materials from, sold petroleum products and petrochemicals and leased properties to Sinopec Group, Sinopec Corp. and their associates. Sinopec Corp. and its associates provided agency sales services for petrochemical products. Pursuant to the Comprehensive Services Framework Agreement entered into with the company's actual controller Sinopec Group, the Company obtained construction and installation, project design, petrochemical industry insurance and financial services provided by 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 ongoing connected transactions under the Shanghai Listing Rules. The Company disclosed the two agreements and the respective connected transactions under the agreements in an announcement dated 25 October 2013 and a circular dated 1 November 2013. These two agreements and the respective connected transactions under the agreements together with the associated annual caps from 2014 to 2016 were considered and approved at the Second Extraordinary General Meeting for 2013 held on 11 December 2013.

During the Reporting Period, the relevant connected transactions were conducted in accordance with the terms of the Mutual Product Supply and Services Framework Agreement and the Comprehensive Services Framework Agreement. The transaction amounts of the relevant connected transactions did not exceed the caps in relation to the continuing connected transactions approved at the Second Extraordinary General Meeting for 2013.

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

**Table of Contents****Major Events** (continued)

Type of connected transactions	Connected parties	Annual cap for 2014 RMB 000	Transaction amount during the Reporting Period RMB 000	Percentage of the total amount of the same type of transaction (%)
<b>Mutual Product Supply and Sales Services Framework Agreement</b>				
Purchases of raw materials	Sinopec Group, Sinopec Corp. and its associates	<b>85,254,000</b>	39,270,634	57.48
Sales of petroleum products	Sinopec Corp. and its associates	<b>65,479,000</b>	54,017,562	52.88
Sales of petrochemical products	Sinopec Corp. and its associates	<b>24,394,000</b>	8,547,859	8.37
Property leasing	Sinopec Corp. and its associates	<b>112,000</b>	28,871	53.60
Agency sales of petrochemical products	Sinopec Corp. and its associates	<b>283,000</b>	113,162	100.00
<b>Comprehensive Services Framework Agreement</b>				
Construction, installation and engineering design services	Sinopec Group and its associates	<b>668,000</b>	144,248	17.33
Petrochemical industry insurance services	Sinopec Group and its associates	<b>180,000</b>	117,896	49.78
Financial services	Sinopec Group and its associates	<b>300,000</b>	60,960	