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Sinopec Shanghai Petrochemical Company Limited
中國石化上海石油化工股份有限公司

(A joint stock limited company incorporated in the People's Republic of China)

(Stock Code: 00338)

Announcement of the Waiver of the Pre-emptive Rights in the Assigned Equity Interests in a Joint Venture Company, a Connected Transaction under the Listing Rules of the Shanghai Stock Exchange

Important Information:

- Content of the Transaction: Shanghai SECCO Petrochemical Company Limited (“Shanghai SECCO”) is a joint equity company of Sinopec Shanghai Petrochemical Company Limited (“Sinopec Shanghai”, “SPC” or the “Company”), China Petroleum & Chemical Corporation (“Sinopec Corp.”), and BP Chemical East China Investment Company Limited (“BP East China”). BP East China intends to assign the 50% equity interest it holds in Shanghai SECCO. Taking into consideration its own conditions and development strategy, the Company has resolved at the 19th meeting of the eight session of the Board of Directors (the “Board”) to waive said pre-emptive rights. Sinopec Corp. intends to purchase said equity interest through its subsidiary, Sinopec Shanghai Gaoqiao Petrochemical Co., Ltd (“Sinopec Shanghai Gaoqiao”). With Sinopec Corp. a connected party of the Company, the Company’s waiver of its pre-emptive rights to purchase the equity in the co-invested company with the connected party constituted a connected transaction under the Listing Rules of the Shanghai Stock Exchange (“Shanghai Listing Rules”) (the “Connected Transaction”). The Transaction does not constitute a connected transaction under the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the “Hong Kong Listing Rules”). The Company published this announcement pursuant to the requirements of the Shanghai Listing Rules.
- The reference amount of the Connected Transaction is more than 5% in terms of SPC’s latest audited net assets. Therefore, the Connected Transaction is subject to approval by the shareholders in a general meeting. A resolution will be proposed at the Company’s 2016 annual general meeting of the Company to be held on 15 June 2017.

1. Introduction of the Connected Transaction

Shanghai SECCO is a Sino-foreign joint venture established in 2001 by SPC, Sinopec Corp. and BP East China. As of the date of this announcement, the registered capital of Shanghai SECCO is US\$1,051,526,582. SPC holds a 20% equity interest in Shanghai SECCO; Sinopec Corp. holds a 30% equity interest in Shanghai SECCO while BP East China holds a

50% equity interest in Shanghai SECCO. BP East China intends to assign its 50% equity stake in Shanghai SECCO, through a tendering process, for a consideration of US\$1.6815 billion.

In accordance with the provisions in the “PRC Company Law”, “Shanghai SECCO Petrochemical Company Limited Joint Venture Contract” and “Articles of Association of Shanghai SECCO Petrochemical Company Limited”, being one of the shareholders of Shanghai SECCO, SPC has the pre-emptive right to purchase the equity which BP East China intends to assign. Upon SPC receiving the notification from BP East China on its intention to assign its equity interest, the Company considered in view of its own conditions and development strategy, and intends to waive said pre-emptive rights following internal discussions. Recently, SPC learnt that Sinopec Corp. intends to exercise its pre-emptive rights to purchase the said equity interest through its subsidiary Sinopec Shanghai Gaoqiao for a consideration of US\$1.6815 billion, deducting any dividends to be paid by Shanghai SECCO to BP East China for the period between the dates when the transaction’s acquisition agreement is signed and transfer of legal tenure (inclusive of the date). Since Sinopec Corp. is the controlling shareholder as well as a connected party of SPC, according to the regulation of Shanghai Listing Rules and “Shanghai Stock Exchange Guidelines for Connected Transactions”, SPC’s waiver of the said pre-emptive rights to purchase the equity interests in Shanghai SECCO, a co-invested company with a connected party, constitutes a connected transaction. The 19th meeting of the eight session of the Board considered and approved the Company’s waiver of exercising its pre-emptive rights to purchase the equity interest according to the approval process of connected transactions, and agreed to propose the resolution to the Company’s 2016 annual general meeting to be held on 15 June 2017. Additionally, the Board of Directors agree, if the transaction of Sinopec Shanghai Gaoqiao’s purchase of the said equity interest with BP East China terminates according to relevant terms in the agreement, and BP East China were to sell those assigned equity interest in Shanghai SECCO to another company within the next 12 months, SPC would waive its pre-emptive rights to purchase the said equity interest if the consideration is not less than US\$1.6815 billion and the assignee will not re-negotiate the terms of Shanghai SECCO joint venture contract.

According to the “Shanghai Stock Exchange Guidelines for Connected Transactions”, for a listed company which intends to waive its pre-emptive rights to purchase an equity interest in a co-invested company with a connected party, the amount of the transaction should be based on the amount involved in waiving the pre-emptive rights. The amount of the Connected Transaction is US\$672.6 million (approximately RMB4.64 billion based on the exchange rate US\$1:RMB6.9), which is more than 5% of the Company’s latest audited net assets. Therefore, it is subject to approval by the shareholders in a general meeting.

The Connected Transaction does not constitute a significant asset restructuring as stipulated under the “Management of Significant Asset Restructurings of Listed Companies” of China Securities Regulatory Commission.

2. Introduction of Sinopec Corp. (a Connected Party in respect of the Connected Transaction)

1) Background

Name of corporation	China Petroleum & Chemical Corporation
Type of corporation	Other limited liability company (listed)
Location of registration	No. 22 Chaoyangmen North Street, Chaoyang District, Beijing, PRC
Legal representative	Wang Yupu
Registered capital	RMB121,071,209,646
Major operating business	Oil and gas exploration and extraction, pipeline transmission and marketing; oil refining; production, marketing, storage and transportation of petrochemicals, chemical fibers, chemical fertilizers and other chemical products; import, export and import/export agency business of crude oil, natural gas, refined oil products, petrochemicals, chemicals, and other commodities and technologies; and the research, development and application of technology and information
Major shareholder	China Petrochemical Corporation

2) Description of the Connected Relationship under the Shanghai Listing Rules

Sinopec Corp., controlling shareholder of the company, holds a 50.56% equity interest of the Company and is regarded as the Company's connected party under the Shanghai Listing Rules.

3) Financial Information

Unit: in RMB millions

Item	31 December 2016 (Audited)
Total assets	1,498,609
Total equity attributable to equity shareholders of the Company	712,232
Operating income	1,930,911
Net profit attributable to equity shareholders of the Company	46,416

3. General information of the subject matter of the Connected Transaction

1) Name and Type of Connected Transaction

The Connected Transaction is about the Company's waiver of exercising its pre-emptive rights to purchase an equity interest in Shanghai SECCO, a co-invested company with the Company's connected party, Sinopec Corp.

2) Background of Shanghai SECCO

Name of corporation	Shanghai SECCO Petrochemical Company Limited
Type of corporation	Other holdings limited company (Sino-foreign Joint Venture)
Date of incorporation	29 October 2001
Location of registration	No. 557 Nan Yinhe Road, Shanghai Chemical Industry Park, Shanghai
Legal representative	James Yim
Registered capital	US\$1,051,526,582
Major operating business	Production of ethylene, polyethylene, styrene, polystyrene, propylene, acrylonitrile, polypropylene, butadiene, aromatics and by products, etc; the sale of these products and purchase of raw materials; provision of after-sales service and technical consultation; the application and development of polymers; and the provision of subsidiary utility services to suppliers and processors.

3) Shareholding structure of Shanghai SECCO

Unit: USD in ten thousands

Shareholder	Capital contribution ratio	Capital contribution amount
BP East China	50%	52,576.3291
Sinopec Corp.	30%	31,545.8215
The Company	20%	21,030.5076

4) Financial Information of Shanghai SECCO

Unit: RMB in thousands

Item	31 December 2016 (Audited)	31 March 2017 (Unaudited)
Total assets	12,179,204	14,284,138
Net assets	10,196,272	11,489,972
Operating income	23,969,408	7,340,272
Net profit	3,778,739	1,293,700
Net profit after deduction of non-recurring profit or loss	3,772,692	1,293,719

PricewaterhouseCoopers Zhong Tian LLP (Special General Partnership) has issued standard unqualified opinions on Shanghai SECCO's financial statements for the financial year 2016. PricewaterhouseCoopers Zhong Tian LLP (Special General Partnership) is qualified to engage in the securities and future business.

4. Purpose of the Connected Transaction and Influence on the Company

The Company has decided to waive its pre-emptive rights to purchase the said equity interest mainly in view of the following considerations:

- 1) Taking into consideration the current Shanghai SECCO's raw material, product structure and geographical positioning, SPC could not achieve greater potential business value by purchasing the equity interest from Shanghai SECCO.

In view of its raw materials and product structure, Shanghai SECCO manufactures chemical products such as ethylene, propylene, polyethylene, polypropylene, styrene, polystyrene, acrylonitrile, butadiene, benzene, toluene and by-products with naphtha as its raw materials. Shanghai SECCO has 13 major petrochemical devices with the ethylene cracking of 1.09 million tons/year as the key device.

SPC experienced six stages of large-scale centralized construction, and as at the end of 2016, its comprehensive processing capacity of crude oil was 14 million tons/year and production capacity was 0.70 million tons/year of ethylene, 0.835 million tons/year of p-xylene, 4.28 million tons/year of organic chemical raw materials, 1.00 million tons/year of plastic resins, 1.09 million tons/year of synthetic fibers raw materials, 0.59 million tons/year of synthetic fibers polymers and 0.28 million tons/year of synthetic fibers. With crude oil as main raw material, SPC produced four types of products through a series of processing procedure such as distillation, cracking, separation, reforming, and reaction, namely, oil products, chemical products, synthetic resin and synthetic fiber polymers and synthetic fiber, including over 60 kinds of products such as gasoline, diesel, jet fuel, ethylene, propylene, p-xylene, benzene, ethylene glycol, polyethylene and polypropylene.

The integration of crude oil as raw material for petrochemical units is higher than that of naphtha. A high degree of integration is more beneficial for the optimization of raw material structure and product structure optimization, therefore enhancing the unit's adaptability of raw material price fluctuations, and also more beneficial to maximize efficiencies. For example, from the view of the economy of ethylene units (the key petrochemical unit), compared with ethylene units that use solely naphtha as raw material, those ethylene unit cracking raw materials offered by integrated plant have advantages in terms of major technical and economic indicators including high value-added products yield and diene yield.

Currently, Shanghai SECCO's ethylene cracking unit uses naphtha as the only raw material and relies heavily on outsourcing, mainly from subsidiaries of Sinopec Corp. such as Sinopec Shanghai Gaoqiao. The refinery integration cracking unit of SPC is more advantageous on optimization, with a more diversified raw material structure.

In view of the product structure, apart from gasoline, diesel, jet fuel and other refined oil, the chemical products manufactured by Shanghai SECCO are relatively similar to those of the Company, which are all bulk petrochemical raw materials. As the profitability of bulk petrochemicals raw materials is heavily affected by the cost of raw materials like crude oil, manufacturers may not be able to alleviate the surge of raw materials cost through price rises in a high oil price environment, thereby narrowing their profitability. Accordingly, if the Company acquires the equity interest in Shanghai SECCO, it may elevate such risk, which would be unfavorable to its risk control in a high oil price environment.

In view of geographical positioning, the straight line distance between Shanghai SECCO and SPC is approximately 15 kilometers, having achieved maximum mutual benefit and win-win situation through mutual supply on certain chemical raw materials by means of six mutual supply pipelines, tank car and shipping. The current carrying capacity is close to saturation, while other approaches that will further expand mutual supply capacity such as

new pipelines are subject to routing restrictions. Thus, SPC could not achieve further synergies by purchasing the equity interest in Shanghai SECCO.

- 2) SPC has drafted a development direction on content type development, to further advancing the advantages of refining-chemical integration into play via the optimization of inner resources, utilities and systems, with which the acquisition of equity interest in Shanghai SECCO does not conform.

In accordance with the development targets for the “13th Five-Year Plan” of China’s petrochemical industry, under the background of Sinopec’s strategy to build up four major petrochemical bases, SPC is mapping out its own development. The Company will further tap out its potentials for the content type development by advancing the existing through the incremental, to improve its resources optimization level, thus enhancing its adaptability to different crude oil price environments, improving the level of green production, expanding the optimization of refinery resources, through phase 3 of ethylene plant revamping to expand the ethylene capacity and downstream value chain production capacity to improve its competitiveness. Of these, the Company will further optimize its ethylene raw materials, fully utilize its existing resources of both liquid and gas phase raw materials, to further enhance the diversification of ethylene raw materials. Base on existing devices, the Company will complete its ethylene downstream supporting facilities in order to maximize its edges in inventory and reduce investment. SPC will also continue to expand production capacity in ethylene oxide/ethylene glycol (EO/EG) and polymer where its conventional advantage lies to enhance the economies of scale as well as the Company’s competitiveness.

Considering the above, the Company has decided to waive its pre-emptive rights to purchase said equity interest, and considers the decision to be in line with the Company’s business development plan and overall interest. Following the assignment of equity interest of Shanghai SECCO, Sinopec Shanghai’s shareholding amount and ratio in Shanghai SECCO remains unchanged, Sinopec Shanghai is still an investing shareholder of Shanghai SECCO. The waiver of the pre-emptive rights to purchase said equity interest does not have a significant impact on the Company’s production operations and financial status.

5. Procedures for considering the Connected Transaction

- 1) Resolution at the Board meeting

On 27 April 2017, the Company convened the 19th meeting of the eighth session of the Board of Directors, the resolution of the “waiver of pre-emptive rights to purchase the assigned equity interest in an invested company and the Connected Transaction” was considered and approved with 7 votes in favor, 0 votes against and 0 abstentions. Pursuant to the Shanghai Listing Rules, Wang Zhiqing, Wu Haijun, Lei Dianwu and Mo Zhengli (the “Connected Directors”), who were deemed interested in the Transaction, abstained from voting. Independent Directors stated their prior approval opinion and independent opinion regarding this Connected Transaction. This Connected Transaction is subject to the approval by the shareholders in general meeting and the connected party with a material interests is required to abstain from voting. Sinopec Corp. is required to abstain from voting in the relevant resolution.

2) Prior approval opinion of Independent Directors regarding the Connected Transaction

Independent Directors are of the opinion that: “The Connected Transaction conforms to the Company’s business development plan and overall interest, and should be entered into on normal commercial terms, and is in the interests of the Company and shareholders of the Company as a whole, and no damage to the interest of the Company and its minority shareholders. We agreed to submit the resolution of the ‘waiver of the pre-emptive rights in the assigned equity interest in invested joint venture company and the Connected Transaction’ to the 19th meeting of the eight session of the Board for approval. At the time of voting on the resolution, the Connected Directors should abstain.”

3) Independent opinions from Independent Directors on the Connected Transaction

Independent Directors are of the opinion that: “The Transaction was conducted in strict compliance with the requirements of the ‘PRC Company Law’, ‘PRC Securities Law’, other relevant laws, regulations and regulatory documents; at the time of voting on the resolution, the Connected Directors abstained from voting and the voting process was conducted in compliance with the requirements of the ‘Company Law’, ‘Securities Law’, other relevant laws, regulations and regulatory documents and the relevant provisions of the Articles of Association of the Company; the Transaction was entered on normal commercial terms, the terms of the Transaction are fair and reasonable to the Company and its shareholders, and also in the interests of the Company and shareholders of the Company as a whole. We agree to waive the pre-emptive rights to purchase the equity interest assigned by Shanghai SECCO’s foreign shareholder.”

By Order of the Board
Sinopec Shanghai Petrochemical Company Limited
Wang Zhiqing
Chairman

Shanghai, the PRC, 27 April 2017

As at the date of this announcement, the executive directors of the Company are Wang Zhiqing, Wu Haijun, Gao Jinping, Jin Qiang and Guo Xiaojun; the non-executive directors of the Company are Lei Dianwu and Mo Zhenglin; and the independent non-executive directors of the Company are Choi Ting Ki, Zhang Yimin, Liu Yunhong and Du Weifeng.