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
Adjustment of Peer Benchmark Enterprises for the Share Option Scheme

Sinopec Shanghai Petrochemical Company Limited ("Sinopec Shanghai" or the "Company") convened the eighteenth meeting of the eighth session of the board of directors (the "Board") on 15 March 2017 and reviewed and adopted *The Resolution about the Adjustment of Peer Benchmark Enterprises for the A-Share Option Scheme of the Company*. . Relevant matters are hereby set out as follows. Unless otherwise specified, capitalized terms used in this announcement shall have the same meanings as those defined in the circular of the Company dated 6 November 2014

I. Introduction to the Share Option Scheme

1. On 15 August 2014, the *A-Share Option Scheme of Sinopec Shanghai Petrochemical Company Limited (Draft)* (the "Share Option Scheme (Draft)") was reviewed and approved at the Company's second meeting of the eighth session of the Board and the second meeting of the eight session of the supervisory committee respectively.

2. On 13 October 2014, the *Share Option Scheme (Draft*) of the Company was approved by the State-owned Assets Supervision and Administration Commission of the State Council of the People's Republic of China ("SASAC") under an approval document (Guo Zi Fen Pei No. [2014] 1006).

3. After the *Share Option Scheme (Draft)* of the Company was filed for the record by the China Securities Regulatory Commission ("CSRC") without objection, the eighth session of the Board convened the fourth meeting on 29 October 2014, and it was decided at the meeting that the 2014 first extraordinary general meeting, the 2014 first

A-shareholders class meeting and the 2014 first H-shareholders class meeting would be convened on 23 December 2014 to review the resolutions in respect of the Share Option Scheme.

4. On 23 December 2014, in accordance with the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Hong Kong Listing Rules"), the Company's controlling shareholder, China Petroleum and Chemical Corporation, convened a general meeting to review and adopt the *Share Option Scheme*.

5. 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, the Share Option Scheme was reviewed and adopted.

6. On 6 January 2015, the *Resolution Regarding the Initial Grant under the Share Option Scheme* was reviewed and adopted at the Company's fifth meeting of the eighth session of the Board and the sixth meeting of the eight session of the supervisory committee respectively.

7. On 16 March 2016, the *Resolution Regarding Adjustment of the Peer Benchmark Enterprise for A-Share Option Scheme* was reviewed and approved at the eleventh meeting of the eighth session of the Board. The Board approved the resolution to replace the previous peer benchmark enterprise Yizheng Chemical Fibre by Shenma Industrial Co., Ltd ("Shenma"), considering that Yizheng Chemical Fibre changed its core business after a major asset restructuring, and that its industry classification was changed by the CSRC accordingly.

8. On 14 March 2017, the *Resolution Regarding Adjustment of the Peer Benchmark Enterprise for A-Share Option Scheme* was reviewed and adopted by the twelfth meeting of the eight session of the supervisory committee.

9. On 15 March 2017, the *Resolution Regarding Adjustment of the Peer Benchmark Enterprise for A-Share Option Scheme* was reviewed and approved at the eighteenth meeting of the eighth session of the Board. The independent directors of the Company expressed their independent opinion on the resolution.

II. Proposed Adjustment of the Peer Benchmark Enterprises: Reasons, Evidence and Progress Status

According to the annual appraisal, the Board decided to remove North Huajin Chemical Industries Co., Ltd ("Huajin Chemical") and Shenma from the list of its peer benchmark enterprises based on their current situation. The specific details are as follows:

(1) According to the "Notice Regarding the Sale of All Equity of Xinjiang Fertilizers and Connected Transactions" disclosed by Huajin Chemical on 23 May 2015, Huajin Chemical sold all its shares of Akesu Huajin Chemical Fertilizers Co., Ltd. ("Xinjiang Fertilizers") to its controlling shareholder, i.e. North Huajin Chemical Industries Group Corporation ("Huajin Group") to reduce Huajin Chemical's loss by RMB170 million. According to the "Notice Regarding the Acquisition of Part of the Income Rights of China ZhenHua Oil in ZhenHua Offshore Oil Company and Connected Transactions" disclosed by Huajin Chemical on 25 September 2015, in September 2015, Huajin Chemical acquired part of the rights of China ZhenHua Oil Co., Ltd. ("ZhenHua Oil"), a company owned by the actual controller of Huajin Chemical, to its income generated from 1 January 2015 to 31 December 2022 by ZhenHua Offshore Oil Company. Huajin Chemical therefore recorded RMB261 million investment income for 2015, which accounted for 79.4% of its net profit attributable to equity shareholders of the company and 99.4% of the net profit attributable to equity shareholders of the company excluding non-recurring items for the year. Considering that the primary business of ZhenHua Offshore Oil Company are exploration and operation of the oil assets owned by the local governments, and that Sinopec Shanghai has not carried out any oil exploration business, the Board of the Company has decided to remove Huajin Chemical from the list of its peer benchmark enterprises.

(2) On 16 March 2016, the Board reviewed and approved the resolution concerning adjustments to peer benchmark enterprises, and adopted Shenma as one of the Company's peer benchmark enterprises. According to the "Notice on Corrections on the Previous Accounting Errors" disclosed by Shenma on 20 April 2016 and the 2014 Annual Report (Revised Version)" as published on 29 April 2016, Shenma's revenue from its core business decreased by 35.8% from RMB14.88 billion to RMB5.33 billion in 2014; and in 2015, its net profit attributable to equity shareholders of the company was RMB63.1296 million (its net profit excluding non-recurring items was RMB56.2177 million). A change in finance cost in 2015 increased profit by RMB72.44 million as compared to 2014.

In addition, the Board of the Company considered that out of the total 12 existing peer benchmark enterprises, there are four listed chemical fiber companies (accounting for one-third). In 2015, the total revenue from the four listed chemical fiber companies was RMB88.834 billion, accounting for 57% of the total revenue of RMB156.407 billion from all peer benchmark enterprises. However, in the case of Sinopec Shanghai, the revenue generated from chemical fiber business in 2015 accounted for only 2.97% of its total revenue, while other four major segments (i.e. petroleum products, plastic resin and plastic, intermediate petrochemical products and trade in petrochemical products) accounting for 54.3%, 12.68%, 11.89% and 16.98% respectively. In order to make the composition of the peer benchmark enterprises more reasonable, and taking into account the aforementioned elements, the Board has decided to remove Shenma from the peer benchmark enterprises.

After removing Huajin Chemical and Shenma from the peer benchmark enterprises, the number of peer benchmark enterprises was reduced from 12 to 10. In order to maintain a sufficient quantity of samples, the Board of the Company has decided to introduce Zhejiang Longsheng Group Co. Ltd. ("Zhejiang Longsheng") and Sinochem International Corporation ("Sinochem International") as peer benchmark enterprises after considering the similarity with their core products, and also considering whether the total operating revenue and net profit of those enterprises have been maintained at high levels in the industry, on the basis of the existing core businesses of Sinopec Shanghai. The specific details are as follows:

(1) The core business of Zhejiang Longsheng covers special chemicals, basic chemicals, real estate and the provision of services. Its operating revenue and the net profit excluding non-recurring items in 2015 are RMB14.842 billion and RMB1.653 billion respectively. Based on these two benchmarks, Zhejiang Longsheng is ranked above the 95th percentile in both the categories of chemical raw materials and chemical products manufacturing industries, and is in compliance with requirements relating to the operating revenue and net profit stipulated by the Company for the peer benchmark enterprises. Since the core business of Zhejiang Longsheng covers special chemicals and basic chemicals business and constitutes a relatively substantial proportion of its own business, its core business structure is similar to, and also comparable with, that of the Company.

(2) The core business of Sinochem International covers chemicals and natural rubber business. Its operating revenue and the net profit excluding non-recurring items in 2015 are RMB43.746 billion and RMB70.7 million respectively. Based on these two benchmarks, Sinochem International is ranked above the 95th and 60th percentile in the categories of the chemical raw materials and chemical products manufacturing industries respectively, and is in compliance with requirements relating to the operating revenue and net profit stipulated by the Company for the peer benchmark enterprises. Since the core business of Sinochem International covers chemicals and trading business and constitutes a relatively substantial proportion of its own business, its core business structure is similar to, and also comparable with, that of the Company.

According to article 25 of the Share Option Scheme, in the course of conducting the annual appraisal, if there is any material change in the core business of any of the peer benchmark enterprises, the Board may eliminate or replace such enterprise. In view of the above, the Board of the Company has decided to adjust the peer benchmark enterprises mentioned above and to submit such removal to the general meeting for review.

The impact of the adjustment on the relevant appraisal benchmarks of the peer benchmark enterprises for the year of the first exercise of the initial Grant of Share Options is shown in the below table:

Items	ROE in 2015	Compound growth rate of net profit in 2015 (with 2013 as base year)	Percentage of the core business revenue of the total business revenue in 2015
75th percentile before adjustment	5.54%	54.21%	98.63%
75th percentile after adjustment	7.04%	26.25%	99.35%

Note: The net profit as indicated above refers to the net profit excluding non-recurring items.

III. Procedures to be Completed for Making the Adjustment

The adjustment of peer enterprises has been reviewed and adopted at the eighteenth meeting of the eighth session of the Board and the twelfth meeting of the eighth session of the supervisory committee of the Company. Due to the impact of the adjustment on the appraisal result of the first exercise of the initial Grant of Share Options, according to Article 47 of the *Share Option Scheme*, the proposed adjustment will be subject to the approval by the shareholders of the Company at the general meeting.

IV. Opinion of the Independent Directors

According to relevant information disclosed by the peers enterprises, the independent directors are of the opinion that: (1) Huajin Chemical sold all the equity it held in Xinjiang Fertilizer in 2015 to reduce a loss by RMB 170 million. In the same year, Huajin Chemical acquired Zhenhua Offshore Oil, and hence recorded an investment income that accounted for a relatively substantial portion of its net profit attributable to the equity shareholders before and after non-recurring items for the year 2015. In addition, since Zhenhua Offshore Oil's primary business comprises exploration and operation of local government's oil assets, while Sinopec Shanghai has not carried out any oil exploration business, the independent directors agree with the Board of the Company to remove Huajin Chemical as it peer benchmark enterprise. (2) The sales revenue of Shenma's primary business declined by as much as 35.8%, and the profit from a change in finance cost accounted for a comparatively high proportion of its 2015 net profit attributable to the equity shareholders of the company. In the existing 12 peer benchmark enterprises, total revenue of the chemical fiber companies account for 57% of the total revenues from all peer benchmark enterprises. However, Sinopec Shanghai's chemical fiber segment only accounted for 2.97% of its 2015 revenue. In order to make the peer benchmark enterprise composition more reasonable, the independent directors agree with the Board of the Company to remove Shenma as a peer benchmark enterprise. On such basis, in order to maintain a sufficient quantity of samples, the independent directors have agreed with the Board of the Company to introduce Zhejiang Longsheng and Sinochem International as peer benchmark enterprises after considering the similarity with their core products, and also considering whether the total operating revenue and net profit of those enterprises have been maintained at high levels in the industry, on the basis of the existing core businesses of Sinopec Shanghai.

To ensure the comparability of the peer benchmark enterprises in terms of financial performances, these adjustments to the peer benchmark enterprises under the *Share Option Scheme* matches the Company's actual situation, laws and regulations including *Administrative Measures Governing the Share Incentive Schemes of Listed Enterprises* and Company's policies of *Share Option Scheme*. The Independent Directors agree to the Company in making adjustments to the peer benchmark enterprises, and submitting the same to the 2016 annual general meeting for review.

V. Legal Opinion

Haiwen & Partners is of the opinion that, the adjustments to be made by the Company to the peer benchmark enterprises under the Share Option Scheme is in accordance with the *Administrative Measures Governing Share Incentive Schemes of Listed Enterprises* and other laws and regulations as well as the provisions of the Share Option Scheme of the Company. The Company has also fulfilled the necessary procedures required at the current stage, pending the review and approval by the shareholders of the Company at the general meeting.

By Order of the Board
Sinopec Shanghai Petrochemical Company Limited
Zhang Jianbo
Joint Company Secretary

Shanghai, PRC, 15 March 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 Cai Tingji, Zhang Yimin, Liu Yunhong and Du Weifeng