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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

Connected Transaction

The 14th meeting of the ninth session of the board of directors of Sinopec Shanghai Petrochemical Company Limited (the “**Company**”) was held on 28 December 2018, in which the technical services agreement for the Company’s smart factory program (the “**Technical Services Agreement**”) to be entered into between the Company and Petro-CyberWorks Information Technology Co., Ltd. (“**CyberWorks Company**”) was considered and approved. The Technical Services Agreement will be signed before 31 December 2018.

CyberWorks Company is a non-wholly owned subsidiary of China Petroleum & Chemical Corporation (“**Sinopec Corp.**”), the controlling shareholder of the Company. As a non-wholly owned subsidiary of Sinopec Corp., CyberWorks Company is a related party of the Company under the Shanghai Listing Rules and a connected person of the Company under the Hong Kong Listing Rules. Accordingly, the entering into of the Technical Services Agreement constitutes a related party transaction under the Shanghai Listing Rules as well as a connected transaction under the Hong Kong Listing Rules.

In addition, the Company has also entered into various agreements (the “**Existing Agreements**”) with CyberWorks Company in relation to the provision of technical services from 28 December 2017 up to the date of this announcement. In accordance with Rule 14A.76(1) of the Hong Kong Listing Rules, as all applicable percentage ratios (as defined in the Hong Kong Listing Rules) in respect of the transactions under the Existing Agreements, on an aggregate basis, are less than 0.1%, the transactions under the Existing Agreements constitute *de minimis* transactions and are fully exempted from reporting, announcement, circular and independent Shareholders’ approval requirements under Chapter 14A of the Hong Kong Listing Rules.

As the Existing Agreements and the Technical Services Agreement are entered into with the same connected person and are of a similar nature, the Existing Agreements and the Technical Services Agreement shall be aggregated under Rule 14A.81 of the Hong Kong Listing Rules. In accordance with Rule 10.2.5 of the Shanghai Listing Rules, the transaction contemplated under the Technical Services Agreement is not required to be submitted to the Shareholders for their approval at the general meeting of the Company. In accordance with Rule 14A.76(2) of the Hong Kong Listing Rules, as the highest applicable percentage ratio (as defined in the Hong Kong Listing Rules) in respect of the transactions under the Existing Agreements and Technical

Services Agreement (on an aggregate basis) exceeds 0.1% but is less than 5%, the transaction under the Technical Services Agreement is subject to the reporting and announcement requirements, but is exempted from the circular and independent Shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

The board of directors of the Company (the “**Board**”) and all of its directors guarantee that this announcement does not contain any false information, misleading statement or material omission, and severally and jointly accept responsibility for the authenticity, accuracy and completeness of the contents of this announcement.

1. INTRODUCTION

Pursuant to the Technical Services Agreement, the Company shall engage CyberWorks Company to provide design, development, operation and maintenance services to its smart factory program. The total contract value of the Technical Services Agreement is RMB30,580,000 (tax inclusive). In addition, the Company has also entered into the Existing Agreements with CyberWorks Company from 28 December 2017 up to the date of this announcement, including the technical services agreement for Shanghai Petrochemical's smart material management system, the technical services agreement for upgrading Shanghai Petrochemical's TBM system, the technical services agreement for Sinopec Engineering's energy management system demonstration project (Phase II) and the technical services agreement for Shanghai Petrochemical's demonstration project for 3D simulation training system in large tonnage machinery. The total aggregated contract value of the Existing Agreements was RMB18,204,280. The total aggregated contract value of the Existing Agreements and the Technical Services Agreement will be RMB48,784,280.

2. CONNECTED PERSON AND CONNECTED RELATIONSHIP

Cyberworks Company is a non-wholly owned subsidiary of Sinopec Corp., the controlling shareholder of the Company. Therefore, it is a related party of the Company under the Shanghai Listing Rules and a connected person of the Company under the Hong Kong Listing Rules. Accordingly, the entering into of the Technical Services Agreement constitutes a related party transaction under the Shanghai Listing Rules as well as a connected transaction under the Hong Kong Listing Rules.

The general information of CyberWorks Company is set out below:

Name of enterprise:	Petro-CyberWorks Information Technology Co., Ltd.
Type of enterprise:	Limited liability company (a Sino-foreign joint venture)
Place of incorporation:	Room 408, Yin Hai Building North, No. A10 Zhongguancun South Main Street, Haidian District, Beijing
Principal place of business:	Room 408, Yin Hai Building North, No. A10 Zhongguancun South Main Street, Haidian District, Beijing
Legal representative:	Li Defang
Registered capital:	RMB300 million

CyberWorks Company is mainly engaged in the following businesses: design and development of enterprise resources planning technology, logistics management technology, supply chain management technology, customer relations management technology, production process management and enhancement technology; design, production and maintenance of IT products; design and implementation of computer network and system integration; marketing of self-produced products; provision of technical, consulting, technology transfer and training services for self-produced products; provision of information services for E-commerce; wholesaling, commission agency and services for computer related products; implementation of light current system and intelligent construction and installation engineering; wholesaling of computer peripherals, electrical equipment and communication equipment; data processing; corporate management consulting; energy-saving services; IT outsourcing services; conference services; import and export of goods and technology, as well as import and export agency services.

3. THE TECHNICAL SERVICES AGREEMENT FOR SMART FACTORY PROJECT

The key terms of the Technical Services Agreement are as follows:

Date of signature

Before 31 December 2018

Parties

The Company (as the principal) and CyberWorks Company (as the agent)

Term

The term of the Technical Services Agreement shall commence on the date when the parties to the Technical Services Agreement sign it and is expected to expire on 28 February 2020 or such date after the project delivery passes the acceptance procedures.

Responsibilities of the agent

CyberWorks Company has extensive experience in the development and implementation of smart factory programs. It grasps an insight into the development of smart factory programs and commands the related technical knowhow. CyberWorks Company shall undertake the design, development, operation and maintenance of the Company's smart factory program.

Contract value and terms of payment

The total contract value of the Technical Services Agreement is RMB30,580,000 (tax inclusive). Of which, the technical services fee is RMB26,067,600 (tax inclusive), and software fee is RMB4,512,400 (tax inclusive).

Upon receiving valid value-added tax invoices issued by CyberWorks Company and prepared in accordance with the PRC regulations, the Company shall pay CyberWorks Company the respective amount by the following payment methods:

Technical services fee:

- (1) the Company shall pay 30% of technical services fee to CyberWorks Company within one month after the Technical Services Agreement is signed;
- (2) the Company shall pay 10% of technical services fee to CyberWorks Company within one month after the detailed design is completed and receives its approval;
- (3) the Company shall pay 30% of technical services fee to CyberWorks Company within one month after it confirms that all subsystems are put into operation;
- (4) the Company shall pay 20% of technical services fee to CyberWorks Company within one month after its acceptance of the smart factory program;
- (5) the Company shall pay 10% of technical services fee to CyberWorks Company within one month after its confirms at the expiry of the warranty period that the services delivered by the latter are free of defect.

Software fee:

- (1) the Company shall pay 87.5% of software fee to CyberWorks Company within one month after its acceptance of the software;
- (2) the Company shall pay 12.5% of software fee to CyberWorks Company within one month after the software commences operation.

Pricing

The technical services fee and software fee are determined and agreed upon according to the work scope of the tasks to be undertaken and the costs and expenses expected to be incurred after arm's length negotiations.

Ownership and sharing of technological achievements

According to the Technical Services Agreement, the Company shall have the rights of patents application, while the confidential information relating to the technology involved shall be jointly owned by the Company and CyberWorks Company.

Liabilities for breach of contract

CyberWorks Company shall complete the implementation and maintenance work in adherence to the development schedule set forth in the Technical Services Agreement. In case of delay in delivery of the work for reasons other than the necessary changes in technical requirements, technical specifications or the extension of completion time due to the changes in government policy, law, regulations, administration for market regulation, and/or mandatory technical standards, CyberWorks Company shall pay the Company the indemnity for each day of delay in an amount equivalent to 0.1% of total contract value, with a cap of 5% of total contract value.

The Company shall pay CyberWorks Company the technical services fee in accordance with the Technical Services Agreement. Other than the reasons of force majeure, the Company shall pay CyberWorks Company the belated payment for each day of late payment in an amount equivalent to 0.1% of total contract value, with a cap of 5% of the total contract value.

If CyberWorks Company cannot deliver the services specified in the appendix of the Technical Services Agreement due to its faults or non-performance of the Technical Services Agreement, the maximum liability of CyberWorks Company shall be the compensation to the Company for its actual loss suffered, with a cap on total consulting service fee under the Technical Services Agreement.

CyberWorks Company should fulfill its confidentiality obligation and legally use licensed software while developing products and delivering services. The liability cap on total consulting service fee shall not be applicable for all legal liabilities incurred, the loss suffered by the Company and the infringement damage compensation borne by the Company due to CyberWorks Company's infringement of intellectual property rights (including but not limited to illegal use of subcontractors' patent rights, copyrights and trade secrets).

Force majeure

If any party fails to perform its obligations under the Technical Services Agreement owing to force majeure reasons (earthquakes, typhoons, floods, fires, wars or other unexpected reasons), it should give another party written reasons on a timely basis of non-performance of or failure to fully comply with the terms of the Technical Services Agreement. Besides, it should give another party the proofs provided by local government within four days. In case of the occurrence of force majeure conditions, another party should approve a moratorium, partial performance or non-performance of the terms of the Technical Services Agreement by it and exempt its related obligations.

4. REASONS FOR AND BENEFITS OF ENTERING INTO THE TECHNICAL SERVICES AGREEMENT

In order to realize lean management, reduce costs and increase returns, the Company decided to implement smart factory program after taking into account its overall development plan and major works in three years, and carrying out demand studies and technology exchanges.

The smart factory program includes three parts: ProMace infrastructure platform, integrated optimization and smart command system.

The development of ProMace infrastructure platform will enable data life cycle management and enhance the overall enterprise resources management.

Through integrated optimization, the Company can further integrate the operation of its supply chain and increase the adaptation and flexibility of supply chain, thereby enabling it to adjust production with greater flexibility, capture potential opportunities and improve its efficiency.

Through the development of command system, the Company can realize comprehensive perception and real-time monitoring, low-level discovery for prediction and precaution, anomaly detection and proactive response, as well as smart management by precise execution of scientific decision-making. The efficiency of command process and decision standards can thus be further enhanced.

5. IMPLICATION UNDER THE HONG KONG LISTING RULES AND THE SHANGHAI LISTING RULES

The Company has also entered into the Existing Agreements with CyberWorks Company from 28 December 2017 up to the date of this announcement. In accordance with Rule 14A.76(1) of the Hong Kong Listing Rules, as all applicable percentage ratios (as defined in the Hong Kong Listing Rules) in respect of the transactions under the Existing Agreements, on an aggregate basis, are less than 0.1%, the transactions under the Existing Agreements constitute *de minimis* transactions and are fully exempted from reporting, announcement, circular, independent Shareholders' approval requirements under Chapter 14A of the Hong Kong Listing Rules.

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6. BOARD APPROVAL

At the 14th meeting of the ninth session of the Board held on 28 December 2018, the Board approved the Technical Services Agreement. None of the Directors has a material interest (as defined in the Hong Kong Listing Rules) in the Technical Services Agreement. Under the Shanghai Listing Rules, Mr. Lei Dianwu and Mr. Mo Zhenglin are deemed interested in the Technical Services Agreement as they work in the companies which are related parties of the Company. Therefore, they abstained from voting at the Board meeting.

The Board (including the independent non-executive Directors) takes the view that the terms of the Technical Services Agreement are fair, reasonable and on normal commercial terms. It was entered into in the usual and ordinary course of business and that the Technical Services Agreement is in the interests of the Company and its Shareholders as a whole.

The independent non-executive Directors, namely Mr. Zhang Yimin, Mr. Liu Yunhong, Mr. Du Weifeng and Ms. Li Yuanqin gave the following independent opinions on the Technical Services Agreement:

- (1) The transaction complies with the relevant laws, regulations and regulatory documents within and outside the PRC and the relevant provisions of the articles of association of the Company;
- (2) At the time of voting on the relevant resolution, the Directors who were deemed interested under the Shanghai Listing Rules, namely Mr. Lei Dianwu and Mr. Mo Zhenglin, abstained from voting and the voting process complied with the relevant laws, regulations and regulatory documents within and outside the PRC and the relevant provisions of the articles of association of the Company;
- (3) The transaction was entered into on normal commercial terms in the ordinary and usual course of business and the terms of the Technical Services Agreement are fair and reasonable to the Company. It shall not damage the interests of the Company and its minority shareholders and the terms are also in the interests of the Shareholders as a whole; and
- (4) The entering into of the Technical Services Agreement by the Company with CyberWorks Company shall be approved.

In accordance with the Shanghai Listing Rules, the relevant information in relation to the Technical Services Agreement was submitted to the independent non-executive Directors for review and approval before approval by the Board. The independent non-executive Directors had agreed to submit the relevant resolution to the Board for consideration.

7. GENERAL INFORMATION

Located at Jinshanwei in the southwest of Shanghai, the Company is a highly integrated petrochemical enterprise which mainly processes crude oil into a broad range of synthetic fibers, resins and plastics, intermediate petrochemical products and petroleum products.

8. DEFINITIONS

In this announcement, unless the context otherwise requires, the following expressions have the following meanings:

“Board”	the board of directors of the Company
“Company”	Sinopec Shanghai Petrochemical Company Limited, a company incorporated in the PRC and listed on the Main Board of the Hong Kong Stock Exchange (stock code: 00338), as well as in Shanghai (stock code: 600688) and New York (stock code: SHI)
“CyberWorks Company”	Petro-CyberWorks Information Technology Co., Ltd.
“Director(s)”	the director(s) of the Company, including its independent non-executive directors
“Existing Agreements”	the agreements entered into between the Company and CyberWorks Company in relation to the provision of technical services from 28 December 2017 up to the date of this announcement
“Hong Kong”	Hong Kong Special Administrative Region of the PRC
“Hong Kong Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“Hong Kong Stock Exchange”	The Stock Exchange of Hong Kong Limited
“PRC” or “China”	the People’s Republic of China and, for the purpose of this announcement, excluding the Hong Kong and Macao Special Administrative Regions as well as Taiwan
“RMB”	Renminbi, the lawful currency of the PRC
“Sinopec Corp.”	China Petroleum & Chemical Corporation, a joint-stock company incorporated in the PRC

“Shanghai Listing Rules”

the listing rules of the Shanghai Stock Exchange

“Shareholder(s)”

the shareholder(s) of the Company

By Order of the Board
Sinopec Shanghai Petrochemical Company Limited
Guo Xiaojun
Joint Company Secretary

Shanghai, the PRC, 28 December 2018

As at the date of this announcement, the executive directors of the Company are Wu Haijun, Shi Wei, Jin Qiang, Guo Xiaojun, Zhou Meiyun and Jin Wenmin; the non-executive directors of the Company are Lei Dianwu and Mo Zhenglin; and the independent non-executive directors of the Company are Zhang Yimin, Liu Yunhong, Du Weifeng and Li Yuanqin.