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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 ninth meeting of the tenth session of the board of directors (the “**Board**”) of the Company was held on 25 August 2021, in which the Joint Venture Agreement between the Company and Sinopec Baling Petrochemical Limited (“**Baling Petrochemical**”) was reviewed and approved for signing to jointly invest and establish the Joint Venture Company (as defined below). The Company will subscribe for and contribute RMB400 million of capital in cash to the Joint Venture Company (the “**Transaction**”). The Joint Venture Agreement will be signed after being reviewed and approved by the Board.

Baling Petrochemical is a subsidiary of China Petroleum & Chemical Corporation (“**Sinopec Corp.**”), which is the controlling shareholder of the Company. As a subsidiary of Sinopec Corp., Baling Petrochemical 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. Therefore, the Transaction constitutes a related party transaction of the Company under the Shanghai Listing Rules and also constitutes a connected transaction under the Hong Kong Listing Rules.

In accordance with the requirements under 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 Transaction exceeds 0.1% but is less than 5%, the Transaction 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.

1. INTRODUCTION

The Company intends to sign the Joint Venture Agreement with Baling Petrochemical with a total investment of RMB 800 million from both parties to set up a joint venture company, Shanghai Jinshan Baling New Materials Co., Ltd. (tentative name, subject to the name that will be finally approved by the industrial and commercial registration authority, the “**Joint Venture Company**”). The Company will subscribe for and contribute RMB400 million of capital in cash, accounting for 50% of the total registered capital, and hold 50% of the equity of the Joint Venture Company. Baling Petrochemical will subscribe for and contribute RMB400 million of capital in cash, accounting for 50% of the total registered capital, and hold 50% of the equity of the Joint Venture Company.

2. CONNECTED PERSON AND CONNECTED RELATIONSHIP

The basic information of Baling Petrochemical is set out below:

Name of enterprise	Sinopec Baling Petrochemical Co., Ltd.
Type of enterprise	Limited liability company (a state-owned holding company)
Place of incorporation	Room 625, Science and Technology Entrepreneurship Service Center, Hunan Yueyang Green Chemical Industrial Park, Yunxi District, Yueyang City, Hunan Province, PRC
Registered capital	RMB3 billion
Legal representative	Wu Zhiyong
Scope of business	Production and sales of petrochemicals, chemical fibres, chemical fertilizers, fine chemical products and other chemical products allowed by the policy (dangerous chemicals are operated in accordance with the varieties and methods approved in the Work Safety License); coal gasification processed syngas; industrial gas production and sales; production and energy sales of electricity and heat; sales of coal ashes; processing and supply of industrial and domestic water; solid waste (excluding hazardous waste treatment), air pollution and water pollution treatment; sales of petrochemical raw materials, mechanical equipment and spare parts; operation management of road transport, self-provided railway transport, warehouses and ports; proprietary import and export and import and export agency businesses (except commodities and technologies restricted by the State for operation by a company or prohibited from import and export); petrochemical technology design and development, technical consultation and achievement transfer services; computer information and management consulting services; petroleum refining; analysis and inspection of petrochemical products; photovoltaic power generation; leasing of machinery and equipment, land and self-owned houses (except financial leasing); export of human resources in the form of outsourcing (excluding export of overseas labour); accommodation and catering services.

The shareholders of Baling Petrochemical are Sinopec Corp. and Sinopec Group Asset Management Co., Ltd. (“**Sinopec Group Asset**”), whereby Sinopec Corp. holds 55% of the shares in Baling Petrochemical and Sinopec Group Asset holds 45% of the shares in Baling Petrochemical. Sinopec Corp. holds 50.44% of shares of the Company and is the controlling shareholder of the Company. Baling Petrochemical is a connected person of the Company.

As at 31 December, 2020, the total assets, total liabilities and owner’s equity of Baling Petrochemical are, respectively, RMB11.36806 billion, RMB6.62802 billion, and RMB4.74004 billion. In 2020, Baling Petrochemical achieved operating income of RMB2.90467 billion and net profit of RMB0.25682 billion (audited).

3. BASIC INFORMATION OF THE TRANSACTION

The Transaction is a joint foreign investment with a connected person. The Joint Venture Company has not been established. The basic information below is the proposed information, which specifics are subject to the information in the industrial and commercial registration:

Name of enterprise	Shanghai Jinshan Baling New Materials Co., Ltd.
Type of enterprise	Limited liability company (a state-owned holding company)
Place of incorporation	The Second Industrial Zone, Jinshan District, Shanghai, PRC
Scope of business	Production and sales of new styrene thermoplastic elastomer materials (i.e. SBS, SIS, SEBS, SEPS, SSB, together “SBC”) and their raw materials, intermediate goods and by-products; import and export trades (subject to industrial and commercial registration; for projects subject to approval according to the law, business activities may only be carried out after they have been approved by the relevant departments)
Registered capital	RMB800 million

The names, amounts of capital subscribed, proportions of capital contribution and methods of capital contribution of the shareholders of the Joint Venture Company:

RMB’0000

Shareholder’s name	Amount of capital contribution	Proportion of capital contribution	Method of capital contribution
Baling Petrochemical	40,000	50%	Cash
Shanghai Petrochemical	40,000	50%	Cash
Total	80,000	100%	/

The Transaction will not cause any changes in the scope of the consolidated statements of the Company.

4. PRICING POLICY AND PRICING BASIS FOR THE CONNECTED TRANSACTION

The pricing of the Transaction is determined by the parties through negotiation in accordance with general commercial terms, combined with industry practices and market prices, and observing the principle of fairness, and will not damage the interests of either party, other shareholders or the relevant parties. The Company and Baling Petrochemical will jointly invest in accordance with the proportions of capital contribution and share profits and risks.

5. MAJOR INFORMATION OF THE JOINT VENTURE AGREEMENT

(1) Parties of the Agreement

Shanghai Petrochemical and Baling Petrochemical.

(2) Methods of Cooperation

The registered capital of the Joint Venture Company will be RMB800 million, of which, Baling Petrochemical will subscribe for and contribute RMB400 million of capital in cash, representing 50% of the total registered capital, and hold 50% of the equity of the Joint Venture Company. The financials of the Joint Venture Company will be reported on a consolidated basis in the financial statements of Baling Petrochemical. The Company will subscribe for and contribute RMB400 million of capital in cash, representing 50% of the total registered capital, and hold 50% of the equity of the Joint Venture Company.

(3) Scope of Business of the Joint Venture Company

Production and sales of new styrene thermoplastic elastomer materials and their raw materials, intermediate goods and by-products; import and export trades (subject to industrial and commercial registration; for projects subject to approval according to the law, business activities may only be carried out after they have been approved by the relevant authorities).

(4) Effectiveness

The Joint Venture Agreement shall be established upon being signed and sealed by both parties and shall become effective upon the internal and external approvals of both parties respectively. The parties may jointly negotiate and agree on matters not mentioned in the Joint Venture Agreement by means of written supplemental agreements.

(5) Board of Directors and Directors of the Joint Venture Company

The Joint Venture Company shall establish a board of directors, which comprises seven directors and of which three directors are nominated by Baling Petrochemical, three directors are nominated by Shanghai Petrochemical and one worker director.

(6) Liabilities for Breach of Agreement

The Company and Baling Petrochemical shall be respectively liable for making false capital contributions and compensating for any damage caused to third parties during the course of the agreement. If the amount of capital contribution for the registered capital remains due from the defaulting party for more than three months, the other party that has fulfilled its capital contribution obligation may terminate the Joint Venture Agreement in accordance with its provisions, require the defaulting party to contribute the agreed amount of capital and pay 2% of its capital contribution as damages in a timely manner, and shall be entitled to demand compensation from the defaulting party.

For all costs, fees, third-party compensation liabilities or losses caused by the breach of the agreement by any party to the Joint Venture Company or the other party, the defaulting party shall compensate the Joint Venture Company or the other party for such costs, fees, compensation liabilities or losses so that they will be free from damage.

If any party fails to perform its obligations under the Joint Venture Agreement due to administrative actions of the government or force majeure, it should promptly notify the other party to the Joint Venture Agreement of the reasons for its non-performance, its need to postpone its performance or partial performance, and shall provide the other party with written evidence of the relevant departments within 15 days. After receiving such written evidence, the Company and Baling Petrochemical shall negotiate whether to postpone the performance, partially perform or not to perform the Joint Venture Agreement and may partly or fully waive the liabilities for the breach in light of actual circumstances.

If any one of the Company and Baling Petrochemical fails to fully perform its obligations under the Joint Venture Agreement due to force majeure, it shall proactively take effective measures to minimize the economic losses caused to the Joint Venture Company and the other party.

(7) Others

Following the establishment of the Joint Venture Company, Shanghai Petrochemical shall provide the relevant raw materials and utilities to the Joint Venture Company. Upon the establishment of the Joint Venture Company, the Joint Venture Company and Shanghai Petrochemical shall enter into agreements regarding specific issues in accordance with national and local laws and regulations. Any other matters not mentioned in the Joint Venture Agreement shall be negotiated and resolved by both parties prior to signing such agreements regarding specific issues.

6. THE EFFECT OF THE CONNECTED TRANSACTION TO THE COMPANY

The newly established Joint Venture Company's relevant raw materials, utilities and other resources will be supplied by the Company and use Baling Petrochemical's advanced technologies for SBC products to approach the robust SBC market in Eastern China and facilitate the Company to extend the production chains of C4, C5 and other downstream materials, so as to improve the Company's ability to develop efficiencies.

7. THE IMPACT OF THE HONG KONG LISTING RULES AND SHANGHAI LISTING RULES

The Transaction constitutes a related party transaction of the Company under the Shanghai Listing Rules and also constitutes a connected transaction under the Hong Kong Listing Rules. In accordance with the requirements under 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 Transaction exceeds 0.1% but is less than 5%, the Transaction shall be 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.

8. EVALUATION PROCESS TO BE PERFORMED FOR THE CONNECTED TRANSACTION

At the ninth meeting of the tenth session of the Board of the Company held on 25 August 2021, the Board approved the Joint Venture Agreement. None of the directors of the Company has a material interest in the Joint Venture Agreement. As Mr. Wu Haijun, Mr. Du Jun and Mr. Xie Zhenglin are employed in related parties of the Company, the three directors abstained from voting at the Board meeting.

The Board of the Company (including independent non-executive directors) takes the view that the terms of the Joint Venture Agreement are fair, reasonable and on normal commercial terms. They are entered into in the usual and ordinary course of business and are in the interests of the Company and its shareholders as a whole.

The independent non-executive directors of the Company, namely Ms. Li Yuanqin, Mr. Tang Song, Mr. Chen Haifeng, Mr. Yang Jun and Mr. Gao Song gave the following independent opinions:

- (1) The signing of the Joint Venture Agreement 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 by the Board of the Company with respect to the Transaction, under the Shanghai Listing Rules, the related directors, namely, Mr. Wu Haijun, Mr. Du Jun and Mr. Xie Zhenglin, abstained from voting and the voting process complied with relevant laws, regulations and regulatory documents within and outside the PRC and the relevant provisions of the articles of association of the Company;
- (3) This Joint Venture Agreement is entered into on normal commercial terms in the ordinary and usual course of business and the terms of the Joint Venture Agreement are fair and reasonable to the Company. It does not damage the interests of the Company and its minority shareholders and the terms are also in the interests of the Company and its shareholders as a whole;
- (4) The execution of the agreement with respect to this joint venture by the Company with Baling Petrochemical shall be approved.

9. 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 petroleum products, intermediate petrochemicals, resins and plastics and synthetic fibres.

Baling Petrochemical is the subsidiary of Sinopec Corp., which is the Company's controlling shareholder. Sinopec Corp.'s principal operations include the exploration and production, pipeline transportation, sale of petroleum and natural gas; the production and sale, storage and transportation of petroleum refinery products, petrochemicals, coal chemicals, synthetic fibre and other chemical products; the import and export and the import and export agency business of petroleum, natural gas, petroleum products, petrochemical and other chemical products, and other commodities and technologies; research, development and application of technologies and information.

10. DEFINITIONS

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

“Company” or “Shanghai Petrochemical”	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)
“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
“Joint Venture Agreement”	the agreement plans to be signed between the Company and Baling Petrochemical in relation to jointly invest and establish the Joint Venture Company
“PRC” or “China”	the People's Republic of China
“RMB”	Renminbi, the lawful currency of the PRC
“Shanghai Listing Rules”	the listing rules of the Shanghai Stock Exchange

By Order of the Board
Sinopec Shanghai Petrochemical Company
Limited
Liu Gang
Joint Company Secretary

Shanghai, the PRC, 25 August 2021

As at the date of this announcement, the executive directors of the Company are Wu Haijun, Guan Zemin, Jin Qiang, Du Jun, Jin Wenmin, Huang Xiangyu and Huang Fei; the non-executive directors of the Company are Xie Zhenglin and Peng Kun; and the independent non-executive directors of the Company are Li Yuanqin, Tang Song, Chen Haifeng, Yang Jun and Gao Song.