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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**

**Continuing Connected Transaction**

Reference is made to the announcement of Sinopec Shanghai Petrochemical Company Limited (the “**Company**”) dated 24 November 2016 in relation to the oil tanks lease agreement entered into between the Company and the Baishawan branch of Sinopec Petroleum Reserve Company Limited (“**Baishawan Branch**”) on 5 December 2016 (the “**Previous Lease Agreement**”). As the Previous Lease Agreement will expire on 31 December 2018, the Company and the Baishawan Branch will enter into the Lease Agreement which was considered and approved at the 14th meeting of the ninth session of the board of directors of the Company held on 28 December 2018. The Lease Agreement will be signed before 31 December 2018.

As the Baishawan Branch is a branch office of Sinopec Petroleum Reserve Company Limited (“**Sinopec Reserve**”) and is not a separate legal entity, the Lease Agreement shall be binding upon, and all rights and obligations thereunder shall be ultimately assumed by Sinopec Reserve. Sinopec Reserve is a wholly-owned subsidiary of China Petrochemical Corporation (“**Sinopec Group**”), the controlling shareholder of the Company as defined under the Hong Kong Listing Rules and the de facto controller of the Company as defined under the Shanghai Listing Rules. As a wholly-owned subsidiary of Sinopec Group, Sinopec Reserve 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. The Lease Agreement constitutes an ordinary related party transaction under the Shanghai Listing Rules and a continuing connected transaction under the Hong Kong Listing Rules.

In accordance with Rule 14A.76(2) of the Hong Kong Listing Rules, as one or more of the applicable percentage ratios (as defined in the Hong Kong Listing Rules) in respect of the Annual Caps for the Lease Agreement will exceed 0.1% but will be less than 5%, the transaction under the Lease 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.

## 1. INTRODUCTION

Reference is made to the announcement of the Company dated 24 November 2016 in relation to the Previous Lease Agreement. As the Previous Lease Agreement will expire on 31 December 2018, the Company will enter into the Lease Agreement with the Baishawan Branch before 31 December 2018 so as to ensure that the Company's normal operation will not be affected.

Pursuant to the Lease Agreement, the Company will rent the Oil Tanks from the Baishawan Branch for the year ending on 31 December 2019 at an annual rent of RMB95.00 million (value-added tax inclusive).

## 2. CONNECTED PERSON AND CONNECTED RELATIONSHIP

As the Baishawan Branch is a branch office of Sinopec Reserve and is not a separate legal entity, the Lease Agreement shall be binding upon, and all rights and obligations thereunder shall be ultimately assumed by Sinopec Reserve. Sinopec Reserve is a wholly-owned subsidiary of Sinopec Group, the controlling shareholder of the Company as defined under the Hong Kong Listing Rules and the de facto controller of the Company as defined under the Shanghai Listing Rules. As a wholly-owned subsidiary of Sinopec Group, Sinopec Reserve 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. The Lease Agreement constitutes an ordinary related party transaction under the Shanghai Listing Rules and a continuing connected transaction under the Hong Kong Listing Rules.

The general information of Sinopec Reserve and the Baishawan Branch is set out below:

Name of enterprise:	Sinopec Petroleum Reserve Company Limited
Type of enterprise:	Limited liability company
Place of incorporation:	No. 22 Chaoyangmen North Street, Chaoyang District, Beijing, PRC
Principal place of business:	No. 22 Chaoyangmen North Street, Chaoyang District, Beijing, PRC
Legal representative:	Ren Jiajun
Registered capital:	RMB38,683,326,000

Sinopec Reserve primarily engages in the wholesale distribution of refined oil: gasoline and kerosene, crude oil wholesaling (other than oil storage business in Beijing), the sales and storage of crude oil (other than storage business in Beijing), import and export business, investment and construction of petroleum storage facilities. The Baishawan Branch is a branch office of Sinopec Reserve. It operates in the name of Sinopec Reserve and mainly engages in import and export business, as well as investment and construction of petroleum storage facilities.

## 3. THE LEASE OF THE OIL TANKS

The key terms of the Lease Agreement are as follows:

### **Parties**

The Company (as lessee) and the Baishawan Branch (as lessor)

### **Subject Matter and Term**

The Lease Agreement is expected to be signed before 31 December 2018.

Under the Lease Agreement, the Baishawan Branch shall lease the Oil Tanks to the Company for a one-year term, which will commence on 1 January 2019 and expire on 31 December 2019.

### **Bearing of Maintenance Costs**

The Baishawan Branch shall bear the costs incurred from the day-to-day repair and maintenance work in order to maintain the Oil Tanks in good conditions.

### **Rent**

The annual rent payable by the Company to the Baishawan Branch shall be RMB95.00 million (value-added tax inclusive). The Company shall pay the rent quarterly on the 20th day of February, May, August and November in 2019 in cash.

### **Historical Transaction Amounts**

The aggregate annual amounts paid to the Baishawan Branch for the three years ended 31 December 2016, 2017 and 2018 under the Previous Lease Agreement were RMB53.96 million, RMB53.96 million and RMB53.96 million, respectively (exclusive of value-added tax).

### **Annual Caps**

The aggregate annual amounts payable to the Baishawan Branch for the year ending 31 December 2019 shall not exceed RMB95.00 million (value-added tax inclusive).

The annual rents payable under the Lease Agreement were determined with reference to the rents paid to the Baishawan Branch in recent three years for renting the Oil Tanks and taking into account the following two factors:

- (1) The repair and maintenance costs were borne by the Company in the past three years, while the repair and maintenance costs under the Lease Agreement shall be borne by the Baishawan Branch. Therefore, the annual aggregate rent shall be adjusted upwards accordingly;
- (2) China's crude oil imports have grown rapidly in recent years due to increased capacity and upgrading of oil refineries nearby and more crude oil import quotas and licences granted to privately-owned refineries by the government. On the other hand, the renovation and upgrading of oil storage facilities could not catch up with this trend, leading to substantial increase in the costs for renting oil tanks due to tight supply in the market.

While determining the Annual Caps, the Company and Sinopec Reserve took reference to the rents payable by the third parties to Sinopec Reserve for renting its oil tanks. After comparison, the Company took the view that the aggregate rents payable under the Lease Agreement for each 100,000 m<sup>3</sup> oil tank would not be higher than those payable by the third parties to Sinopec Reserve.

#### **4. REASONS FOR AND BENEFITS OF ENTERING INTO THE LEASE AGREEMENT**

The Company has reinforced its production and management in recent years in order to maximize returns. The conclusion of the Lease Agreement will enable it to simplify the process of temporary adjustment in crude oil deployment and transportation in accordance with its operational needs and ensure the stable operation of its facilities. At the same time, the Lease Agreement can increase the Company's flexibility of crude oil deployment, and provide it greater room for optimizing crude oil feedstock.

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

The Lease Agreement concurrently constitutes an ordinary related party transaction under the Shanghai Listing Rules and a continuing connected transaction under the Hong Kong Listing Rules. In accordance with Rule 14A.76(2) of the Hong Kong Listing Rules, as one or more of the applicable percentage ratios (as defined in the Hong Kong Listing Rules) in respect of the Annual Caps for the Lease Agreement will exceed 0.1% but will be less than 5%, the transaction under the Lease 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.

#### **6. BOARD APPROVAL**

At the 14th meeting of the ninth session of the Board on 28 December 2018, the Board approved the Lease Agreement. None of the Directors has a material interest (as defined in the Hong Kong Listing Rules) in the Lease Agreement. Under the Shanghai Listing Rules, Mr. Lei Dianwu and Mr. Mo Zhenglin were deemed interested in the Lease Agreement as they worked in the companies which were connected persons 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 Lease Agreement and the Annual Caps for the year ending 31 December 2019 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, namely Mr. Zhang Yimin, Mr. Liu Yunhong, Mr. Du Weifeng and Ms. Li Yuanqin gave the following independent opinions on the Lease 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 is entered into on normal commercial terms in the ordinary and usual course of business and the terms of the Lease Agreement (including the Annual Caps) are fair and reasonable to the Company. It will not damage the interests of the Company and its minority shareholders and the terms in it are in the interests of the Shareholders as a whole; and
- (4) The execution of the transaction under the Lease Agreement by the Company with the Baishawan Branch shall be approved.

In accordance with the Shanghai Listing Rules, the relevant information in relation to the Lease Agreement was submitted to the independent non-executive Directors for review and approval before approval by the Board. The independent non-executive Directors 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 fibres, 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:

“Annual Cap(s)”	The maximum aggregate annual value(s)
“Baishawan Branch”	The Baishawan branch of Sinopec Reserve, a branch office of Sinopec Reserve established under the PRC laws
“Board”	The board of directors of the Company
“China Petrochemical Corporation”	China Petrochemical Corporation, a wholly state-owned enterprise incorporated in the PRC
The “Company” of “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)
“Director(s)”	The director(s) of the Company, including independent non-executive directors
“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
“Oil Tanks”	Eight oil tanks with a total volume of 950,000 cubic meters and related ancillary facilities, houses and buildings located in Baishawan, Dushangang Town, Pinhu District, Zhejiang Province, PRC, which are held by the Baishawan Branch
“Lease Agreement”	The lease agreement to be entered into between the Company and the Baishawan Branch for the lease of the Oil Tanks by the Baishawan Branch to the Company
“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
“Previous Lease Agreement”	The oil tanks lease agreement entered into between the Company and the Baishawan branch on 5 December 2016
“RMB”	Renminbi, the lawful currency of the PRC
“Shanghai Listing Rules”	The listing rules of the Shanghai Stock Exchange
“Shareholder(s)”	The shareholder(s) of the Company
“Sinopec Reserve”	Sinopec Petroleum Reserve Company Limited

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.*