

SINOPEC SHANGHAI PETROCHEMICAL CO LTD

Form 20-F

April 30, 2013

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 20-F

“ **REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE
SECURITIES EXCHANGE ACT OF 1934**

OR

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934**

For the fiscal year ended December 31, 2012

OR

“ **TRANSITION REPORT PURSUANT TO SECTION 13 or 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934**

OR

“ **SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15 (d) OF THE
SECURITIES EXCHANGE ACT OF 1934**

Date of event requiring this shell company report

For the transition period from to

Commission file number 1-12158

(Exact name of Registrant as specified in its charter)

Sinopec Shanghai Petrochemical Company Limited

(Translation of Registrant's name into English)

The People's Republic of China

(Jurisdiction of incorporation or organization)

No. 48 Jinyi Road, Jinshan District, Shanghai, PRC 200540

(Address of principal executive offices)

Mr. Zhang Jingming

No. 48 Jinyi Road, Jinshan District, Shanghai, 200540

The People's Republic of China

Tel: +86 (21) 57943143

Fax: +86 (21) 57940050

(Name, Telephone, Email and/or Facsimile number and Address of Company Contact Person)

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Securities registered or to be registered pursuant to Section 12(b) of the Act.

Title of each class	Name of each exchange on which registered
American Depositary Shares, each representing 100 H Shares, par value RMB1.00 per Share	New York Stock Exchange
H Shares, par value RMB1.00 per Share	The Stock Exchange of Hong Kong Limited

Securities registered or to be registered pursuant to Section 12(g) of the Act.

None

(Title of Class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act.

None

(Title of Class)

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report.

2,330,000,000 H Shares, par value RMB1.00 per Share

4,870,000,000 domestic shares, par value RMB1.00 per Share

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ☒ No ☐

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or (15) (d) of the Securities Exchange Act of 1934. Yes ☐ No ☒

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☐ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

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Large Accelerated Filer ☒

Accelerated Filer ☐

Non-Accelerated Filer ☐

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP ☐

International Financial Reporting Standards as issued

Other ☐

by the International Accounting Standards Board ☒

If ☐ Other has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow. ☐ Item 17 ☐ Item 18 ☐

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). ☐ Yes ☐ No ☒

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

This annual report includes forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. All statements, other than statements of historical facts, included in this annual report that address activities, events or developments which we expect or anticipate will or may occur in the future are hereby identified as forward-looking statements for the purpose of the safe harbor provided by Section 27A of the Securities Act of 1933 and Section 21E of the Securities Exchange Act of 1934. The words such as believe , intend , expect , anticipate , project , estimate , predict , plan and similar expressions are also intended to identify forward-looking statements. Forward-looking statements address, among others, such issues as:

amount and nature of future development,

future prices of and demand for our products,

future earnings and cash flow,

capital expansion programs,

future plans and capital expenditures,

expansion and other development trends of the petrochemical industry,

expected production or processing capacities, including expected rated capacities and primary distillation capacities, of units or facilities not yet in operation,

expansion and growth of our business and operations; and

our prospective operational and financial information.

These statements are based on assumptions and analyses made by us in light of our experience and our perception of historical trends, current conditions and expected future developments, as well as other factors we believe are appropriate in particular circumstances. However, whether actual results and developments will meet our expectations and predictions depends on a number of risks and uncertainties which could cause actual results to differ materially from our expectations, including the risks set forth in Item 3. Key Information Risk Factors and the following:

fluctuations in crude oil and natural gas prices,

fluctuations in prices of our products,

failures or delays in achieving production from development projects,

potential acquisitions and other business opportunities,

continued availability of capital and financing;

general economic, market and business conditions, including volatility in interest rates, changes in foreign exchange rates and volatility in commodity markets; and

other risks and factors beyond our control.

Consequently, all of the forward-looking statements made in this annual report are qualified by these cautionary statements and readers are cautioned not to place undue reliance on these forward-looking statements. These forward-looking statements should be considered in light of the various important factors set forth above and elsewhere in this annual report. In addition, we cannot assure you that the actual results or developments anticipated by us will be realized or, even if substantially realized, that they will have the expected effect on us or our business or operations.

EXCHANGE RATES

Unless otherwise specified, references in this annual report to U.S. Dollars or U.S.\$ are to United States Dollars, references to HK dollars or HK\$ are to Hong Kong dollars and references to Renminbi or RMB are to Renminbi yuan, the legal tender currency of the PRC.

We publish our financial statements in Renminbi. Unless otherwise indicated, all translations from Renminbi to U.S. Dollars have been made at a rate of RMB6.2301 to U.S.\$1.00, the noon buying rate on December 31, 2012 as set forth in the H.10 statistical release of the U.S. Federal Reserve Board. We do not represent that Renminbi or US dollar amounts could be converted into U.S. Dollars or Renminbi, as the case may be, at any particular rate.

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CERTAIN TERMS AND CONVENTIONS

References to **we** or **us** or **Company** are references to Sinopec Shanghai Petrochemical Company Limited and our subsidiaries, unless the context requires otherwise. Before our formation, these references relate to the petrochemical businesses carried on by the Complex.

References to **Sinopec Corp.** are references to China Petroleum & Chemical Corporation, the controlling shareholder of the Company.

References to the **Sinopec Group** are references to China Petrochemical Corporation, the controlling company of Sinopec Corp.

References to the **Complex** are references to Shanghai Petrochemical Complex, our predecessor founded in 1972.

References to **China** or the **PRC** are references to The People's Republic of China which, for the purpose of this annual report and for geographical reference only, excludes Hong Kong, Macau and Taiwan.

References to our **A Shares** are references to 720,000,000 of our domestic shares, par value RMB1.00 per share, which are ordinary shares subscribed for and traded exclusively on the Shanghai Stock Exchange by and between Chinese investors.

References to **ADSs** are references to our American Depositary Shares, which are listed and traded on the New York Stock Exchange. Each ADS represents 100 H Shares.

References to our **domestic shares** are references to all of our domestic shares, par value RMB1.00 per share, which are ordinary shares held by Chinese investors.

References to our **H Shares** are references to our overseas-listed foreign ordinary shares, par value RMB1.00 per share, which are listed and traded on the Stock Exchange of Hong Kong Limited (**HKSE**) under the number **338** .

Rated Capacity is the output capacity of a given production plant or, where appropriate, the throughput capacity, calculated by estimating the number of days in a year that the production plant is expected to operate, including downtime for regular maintenance, and multiplying that number by an amount equal to the plant optimal daily output or throughput, as the case may be.

All references to **tons** are to metric tons.

Unless otherwise noted, references to sales volume are to sales to entities other than us or our divisions and subsidiaries.

Table of Contents**PART I****ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISORS.**

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE.

Not applicable.

ITEM 3. KEY INFORMATION.**A. Selected Financial Data.**

Our selected consolidated statements of operations data (except for ADS data) and cash flows data for each of the years ended December 31, 2010, 2011 and 2012 and our selected consolidated balance sheets data as of December 31, 2011 and 2012 are derived from our consolidated financial statements included in Item 17. Financial Statements. Our selected consolidated statements of operations data and cash flows data for the years ended December 31, 2008 and 2009 and our consolidated balance sheets data as of December 31, 2008, 2009 and 2010 are derived from our consolidated financial statements not included in this annual report. Our selected consolidated financial data should be read in conjunction with our consolidated financial statements, and the notes thereto, and Item 5. Operating and Financial Review and Prospects. Our consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board.

Selected Consolidated Financial Data

(in thousands, except per share and per ADS data)

	Years Ended December 31,				
	2008 (RMB)	2009 (RMB)	2010 (RMB)	2011 (RMB)	2012 (RMB)
CONSOLIDATED STATEMENTS OF OPERATIONS DATA					
Net sales:					
Synthetic fibers	3,662,023	2,823,663	3,906,636	4,150,231	3,313,318
Resins and plastics	14,850,284	12,263,540	14,900,012	16,418,559	14,706,350
Intermediate petrochemicals	10,271,840	8,421,035	17,206,440	19,023,204	17,993,493
Petroleum products	27,552,859	18,917,890	28,733,890	37,350,244	38,301,388
Trading of petrochemical products	2,813,200	4,623,989	6,565,793	11,616,999	12,020,651
Others	179,565	295,147	783,111	950,416	882,074
(Loss)/profit from operations	(7,820,762)	2,019,978	2,963,594	1,059,824	(1,772,446)
(Loss)/earnings before income tax	(8,017,936)	2,163,011	3,529,878	1,296,706	(2,016,473)
Net (loss)/income attributable to equity shareholders of the Company	(6,241,067)	1,588,365	2,769,023	956,106	(1,528,397)
Net income attributable to non-controlling interests	36,717	64,471	25,358	30,416	23,255
Basic (loss)/earnings per share(a)	(0.87)	0.22	0.38	0.13	(0.21)
Basic (loss)/earnings per ADS(a)	(86.68)	22.06	38.46	13.28	(21.23)

(a)

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The calculation of earnings per share is based on the weighted average number of shares outstanding of 7,200,000,000 in each of 2008, 2009, 2010, 2011 and 2012, respectively. Earnings per ADS are calculated on the basis that one ADS is equivalent to 100 H Shares.

	Years Ended December 31,				
	2008	2009	2010	2011	2012
	(RMB)	(RMB)	(RMB)	(RMB)	(RMB)
CONSOLIDATED STATEMENTS OF CASH FLOWS DATA					
Net cash (used in)/generated from operating activities	(3,986,490)	3,346,890	3,973,719	2,219,994	(2,066,385)
Capital expenditure	1,511,072	2,120,292	1,356,845	3,481,235	4,259,859

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	Years Ended December 31,				
	2008	2009	2010	2011	2012
	(RMB)	(RMB)	(RMB)	(RMB)	(RMB)
Net proceeds/ (repayment) related to corporate bonds		1,000,000		(1,000,000)	
Proceeds from loans and borrowings	32,528,758	29,211,434	39,355,780	35,106,127	53,365,372
Repayment of loans and borrowings	27,377,610	31,849,620	42,631,344	32,791,261	46,779,614

	Years Ended December 31,				
	2008	2009	2010	2011	2012
	(RMB)	(RMB)	(RMB)	(RMB)	(RMB)

CONSOLIDATED BALANCE SHEETS DATA

Current assets	6,511,351	9,061,425	8,531,841	9,665,814	12,891,424
Property, plant and equipment	13,272,899	14,977,205	13,570,559	12,501,980	17,468,748
Total assets	27,667,066	30,039,902	28,697,535	30,718,865	36,462,546
Short term debt(a)	9,372,725	7,774,673	4,395,438	5,512,074	11,023,877
Current liabilities	13,342,720	14,304,925	10,573,225	12,271,832	18,927,257
Long term debt (excluding current portion)	429,021	304,258	175,000	160,050	1,231,340
Total equity attributable to equity shareholders of the Company	13,630,972	15,136,434	17,689,457	17,925,563	16,037,166

(a) Including corporate bonds and current portion of long term debt.

Dividends

The following table sets forth certain information concerning the dividends since January 1, 1994:

Dividend Period	Dividend per Share
January 1, 1994-June 30, 1994	RMB0.04 (U.S.\$0.0064)
July 1, 1994-December 31, 1994	RMB0.085 (U.S.\$0.0136)
January 1, 1995-June 30, 1995	RMB0.04 (U.S.\$0.0064)
July 1, 1995-December 31, 1995	RMB0.09 (U.S.\$0.0144)
January 1, 1996-June 30, 1996	RMB0.04 (U.S.\$0.0064)
July 1, 1996-December 31, 1996	RMB0.08 (U.S.\$0.0128)
January 1, 1997-December 31, 1997	RMB0.06 (U.S.\$0.0096)
January 1, 1998-December 31, 1998	RMB0.03 (U.S.\$0.0048)
January 1, 1999-December 31, 1999	RMB0.05 (U.S.\$0.0080)
January 1, 2000-December 31, 2000	RMB0.06 (U.S.\$0.0096)
January 1, 2001-December 31, 2001	No dividend
January 1, 2002-December 31, 2002	RMB0.05 (U.S.\$0.0080)
January 1, 2003-December 31, 2003	RMB0.08 (U.S.\$0.0128)
January 1, 2004-December 31, 2004	RMB0.20 (U.S.\$0.0321)
January 1, 2005-December 31, 2005	RMB0.10 (U.S.\$0.0161)
January 1, 2006-December 31, 2006	RMB0.04 (U.S.\$0.0064)
January 1, 2007-December 31, 2007	RMB0.09 (U.S.\$0.0144)
January 1, 2008-December 31, 2008	No dividend
January 1, 2009-December 31, 2009	RMB0.03 (U.S.\$0.0048)
January 1, 2010-December 31, 2010	RMB0.10 (U.S.\$0.0161)
January 1, 2011-December 31, 2011	RMB0.05 (U.S.\$0.0080)
January 1, 2012-December 31, 2012	No dividend

See also Item 8. Financial Information A. Consolidated Statements and Other Financial Information Dividend Policy.

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The Chinese government controls its foreign currency reserves in part through direct regulation of the conversion of Renminbi into foreign exchange and through restrictions on foreign trade. See [Item 10. Additional Information](#) **D. Exchange Controls**.

The following table sets forth information concerning exchange rates between Renminbi and U.S. Dollars for the periods indicated:

Period	Noon Buying Rates (RMB/U.S.\$)			
	Period End	Average ⁽¹⁾	High	Low
2008	6.8225	6.9477	7.2946	6.7899
2009	6.8259	6.8307	6.8470	6.8176
2010	6.6000	6.7696	6.8330	6.6000
2011	6.2939	6.4630	6.6364	6.2939
2012	6.2301	6.3093	6.3879	6.2221
October 2012	6.2372	6.2627	6.2877	6.2372
November 2012	6.2265	6.2338	6.2454	6.2221
December 2012	6.2301	6.2328	6.2502	6.2251
January 2013	6.2186	6.2215	6.2303	6.2134
February 2013	6.2213	6.2323	6.2438	6.2213
March 2013	6.2108	6.2154	6.2246	6.2105

Source: The sources of the exchange rates are: (i) with respect to any period ending on or prior to December 31, 2008, the Federal Reserve Bank of New York, and (ii) with respect to any period ending on or after January 1, 2009, the H.10 statistical release of the Federal Reserve Board.

Note: (1) Determined by averaging the rates on the last business day of each month during the respective period.

B. Capitalization and Indebtedness.

Not applicable.

C. Reasons for the Offer and Use of Proceeds.

Not applicable.

D. Risk Factors.

An investment in our ADSs involves significant risks. The risks and uncertainties described below are not the only ones we face. You should consider carefully all of the information in this annual report, including the risks and uncertainties described below and our consolidated financial statements and related notes, before making an investment in our ADSs. Any of the following risks could have a material adverse effect on our business, financial condition and results of operations. In any such case, the market price of our ADSs could decline, and you may lose all or part of your investment.

Our operations may be adversely affected by the cyclical nature of the petroleum and petrochemical market and by the volatility of prices of crude oil and petrochemical products.

Most of our revenues are attributable to the sale of refined oil and petrochemical products, which have historically been cyclical and sensitive to the availability and price of raw materials and general economic conditions. Markets for many of our products are sensitive to changes in industry capacity and output levels, changes in regional and global economic conditions, the price and availability of substitute products and changes in consumer demand, which from time to time have had a significant impact on our product prices in the regional and global markets. Due to the decrease in tariff charges, the removal of other restrictions on importation and the Chinese government's gradual relaxation of its control of the allocation of products and pricing, many of our products have become increasingly vulnerable to the cyclical nature of regional and global petroleum and petrochemical markets, which may adversely affect our operations.

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We consume large amounts of crude oil to manufacture our products of which more than 90% is imported. In 2012, crude oil costs accounted for RMB55.54 billion, or 62.67% of our annual cost of sales. As a result, changes in crude oil prices can affect our profitability. In recent years, due to various reasons, the price of crude oil has fluctuated significantly. We cannot rule out the possibility of the occurrence of certain global emergencies which might disrupt our crude oil supply. We expect that the volatility and uncertainty of the prices of crude oil and petrochemical products will continue, and that increasing crude oil prices and declines in prices of petrochemical products may adversely affect our business, financial condition and results of operations.

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Some of our products are subject to government price controls, and we are not able to pass on all cost increases from rising crude oil prices through higher product prices.

We consume large amounts of crude oil to manufacture our products of which more than 90% is imported. We attempt to mitigate the effect of increased costs due to rising crude oil prices. However, our ability to pass on these increased costs to our customers is dependent on market conditions and government regulations. Given that the increase of the sales prices of our products may lag behind the increase of crude oil costs, we may fail to completely cover the increased costs by increasing our sales prices, particularly where government regulations restrict the prices of certain of our fuel products. In particular, gasoline, diesel and jet fuel, and liquefied petroleum gas are subject to government price controls at present. In 2010, 2011 and 2012, approximately 34.41%, 36.70% and 40.09% of our net sales were from such products subject to price controls. In 2012, the domestic prices of refined oil products were not brought into line with the prices of crude oil on the international markets in a timely manner due to various policy concerns, e.g., the government's desire to control the high inflation rate in China, which resulted in a decline of RMB539.7 million of the operating profit of our refining business over the previous year. Although the current price-setting mechanism for refined petroleum products in China allows the Chinese government to adjust price in the PRC market when the average international crude oil price fluctuates beyond certain levels within a certain time period (see Item 4. Information on the Company B. Business Overview Product Pricing), the Chinese government still retains discretion as to whether or when to adjust the prices of the refined oil products. The Chinese government generally exercises certain price control over refined oil products once international crude oil prices experience a sustained rise or become significantly volatile. For instance, some of our fuel products are required to be sold to designated distributors (such as the subsidiaries of Sinopec Corp.). Because we cannot freely sell our fuel products to take advantage of opportunities for higher prices, we may not be able to fully cover increases in crude oil prices by increasing the sale prices of our products, which has had and will possibly continue to have a material adverse effect on our financial condition, results of operations and cash flows.

Our development and operation plans have significant capital expenditure and financing requirements, which are subject to a number of risks and uncertainties.

The petrochemical business is a capital intensive business. Our ability to maintain and increase our revenues, net income and cash flows depends upon continued capital spending. Our current business strategy contemplates capital expenditure for 2013 of approximately RMB2.6 billion (U.S.\$417.3 million), which will be provided through financing activities and use of our own capital. Our actual capital expenditures may vary significantly from these planned amounts, subject to our ability to generate sufficient cash flows from operations, investments and other factors that may be beyond our control. In addition, there can be no assurance as to whether, or at what cost, our capital projects will be completed or the success of these projects if completed.

As of March 31, 2013, we had an aggregate outstanding indebtedness of approximately RMB9.526 billion (U.S.\$1.529 billion). Most of our loans are with state-controlled banks in China and structured as short term debt obligations with payment due in one year or less. These banks have generally been willing to provide new short term loans while we pay off existing loans. Sinopec Corp., our controlling shareholder, did not provide any guarantee or credit support for our debt for the year ended December 31, 2012 and for the three-month period ended March 31, 2013.

Our ability to obtain external financing in the future and our ability to make timely repayments of our debt obligations are subject to a variety of uncertainties, including: our future results of operations, financial condition and cash flows; the condition of the economy in China and the condition of markets for our products; the cost of financing and the condition of financial markets; the issuance of relevant government approvals and other project risks associated with the development of infrastructure in China; and the continuing willingness of banks to provide new loans as we pay down existing debt.

While we anticipate that we will rely less on debt to finance capital expenditures and operations as the global economic outlook continues to improve, our business, results of operations and financial condition could be adversely affected if we fail to obtain sufficient funding for our operations or development plans.

We could face increasing competition.

Our principal market, Eastern China, which is comprised of Shanghai, Shandong, Jiangsu, Anhui, Zhejiang, Jiangxi and Fujian, has enjoyed stronger economic growth and a higher demand for petrochemical products than other regions of China. As a result, we believe that our competitors will try to expand their sales and build up their distribution networks in our principal market. We believe this will have an adverse impact on the production and sale of our major products. Moreover, Chinese private enterprises have gradually overcome technological and funding barriers to extend their business from the downstream processing sector to the upstream petrochemical field. These enterprises have advantages in many areas such as flexibility in operation costs, preferential policy treatments and regional presence, and may use these advantages to compete with us in our target market.

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We are controlled by Sinopec Corp., whose interests may not be aligned with yours.

As of March 31, 2013, Sinopec Corp. owned 55.56% of our shares. Accordingly, it has voting and management control over us, and its interests may be different from the interests of our other shareholders. Subject to our Articles of Association and applicable laws and regulations, Sinopec Corp. will be in a position to cause us to declare dividends, determine the outcome of corporate actions requiring shareholder approval or effect corporate transactions without the approval of the holders of the H shares and ADSs. Any such increase in our dividend payout would reduce funds available for reinvestment in our business and any such actions or transactions could adversely affect us or our minority shareholders. Sinopec Corp. may also experience changes in its own business strategy and policies. Although we are not currently aware of any specific changes, Sinopec Corp. may change its policies or practices toward us in ways that we cannot predict, with corresponding unpredictable consequences for our business. Additionally, Sinopec Corp. may leverage its controlling shareholder position to influence our decisions with regard to the manufacturing and operation, allocation of financial resources and appointment and removal of senior managements, which could adversely affect us or our minority shareholders.

We have also engaged from time to time and will continue to engage in a variety of transactions with Sinopec Corp., Sinopec Group, the controlling company of Sinopec Corp., and their various subsidiaries or affiliates which provide a number of services to us, including the supply of raw materials, product distribution and sales agency, project design and installment service, petrochemical industry related insurance and financial services. We also sell oil and petrochemical products to Sinopec Corp. and its affiliates. Our transactions with these companies are governed by a Mutual Product Supply and Sales Services Framework Agreement with Sinopec Corp. and a Comprehensive Services Framework Agreement with Sinopec Group, the terms of which were negotiated on an arm's length basis, see [Item 7. Related Party Transactions](#) [B. Intercompany Service Agreements and Business-related Dealings](#). Our business and results of operations could be adversely affected if Sinopec Corp. or Sinopec Group refuses to engage in such transactions or if they seek to amend the contracts between the parties in a way adverse to us. In addition, Sinopec Corp. has interests in businesses which compete or are likely to compete, either directly or indirectly, with our businesses. Because Sinopec Corp. is our controlling shareholder and its interests may conflict with our own interests, Sinopec Corp. may take actions that favor itself over our interests.

Our business operations may be adversely affected by present or future environmental regulations.

We are subject to extensive environmental protection laws and regulations in China. These laws and regulations permit:

the imposition of fees and penalties for the discharge of waste substances;

the levy of payments and fines for damages for environmental offenses; and

the government to close or suspend any facility which fails to comply with orders and require it to correct or stop operations causing environmental damage.

Our production operations produce substantial amounts of waste materials (*i.e.*, waste water, waste gas and waste residue). In addition, our production and operations require permits that are subject to renewal, modification and revocation. At present, we believe that our operations substantially comply with all applicable Chinese environmental laws and regulations as they have been previously interpreted and enforced. The Chinese government (including the local governments), however, has moved, and may move further, toward the adoption of more regulations and more stringent environmental standards. Chinese national or local authorities may also apply more rigorous enforcement of such regulations which would require additional expenditures on environmental matters.

Our operations are exposed to risks relating to operating hazards and production safety and we have limited insurance coverage for resulting losses.

Our operations involve the handling and storage of explosives and other hazardous articles. In addition, our operations involve the use of heavy machinery, which involves inherent risks that cannot be entirely eliminated through our preventive efforts. As a result, we may encounter fires, explosions and other unexpected incidents during our operations, which may cause personal injuries or death, property damage, environmental damage, interruption of operations and reputational damages to us. Each of such incidents could have a material adverse impact on our business, financial condition and results of operations.

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We maintain a package of insurance coverage plan through Sinopec Group on our property, facilities and inventory. In addition, we maintain insurance policies for such assets as the engineering construction projects and products in transit with third-party's commercial insurance company. We do not carry any third party liability insurance to cover claims in respect of personal injury, property or environmental damage arising from accidents on our property or relating to our operations other than on our transportation vehicles. Our insurance coverage may not be sufficient to cover all the financial losses caused by the operating hazards. Resulting losses required to be compensated or otherwise paid by us due to such operating hazards that are not fully insured may have a material adverse effect on our financial condition and results of operations.

Our business may be limited or adversely affected by government regulations.

The Chinese central and local governments continue to exercise a certain degree of control over the petrochemical industry in China by, among other things:

mandating distribution channels for our fuel products;

setting allocations and pricing of certain resources, products and services;

assessing taxes and fees payable;

setting import and export quotas and procedures; and

setting safety, environmental and quality standards.

As a result, we may face significant constraints on our flexibility and ability to expand our business operations or to maximize our profitability. In addition, we have in the past benefited from favorable regulatory policies that have, for example, reduced the competition we face from illegal imports of petroleum products. Existing policies that favor our industry may change in the future and our business could be adversely affected by any such changes.

Our development plans may require regulatory approval.

We are currently engaged in a number of construction and expansion projects. Most of our projects are subject to governmental review and approval. The timing and cost of completion of these projects will depend on numerous factors, including approvals from relevant governmental authorities and general economic conditions in China.

While in general we attempt to obtain governmental approval as far in advance as practicable, we are unable to predict the timing and outcome of such governmental reviews and approvals. If any of our projects required for our future growth are not approved, or not approved on a timely basis, our results of operations and financial condition could be adversely affected.

China's entry into the World Trade Organization, or WTO, may significantly increase foreign competition in our lines of business.

China joined the WTO on December 11, 2001 and had committed to eliminate some tariff and non-tariff barriers to foreign competitions in the domestic petrochemical industry that benefited us in the past. In particular, China:

has reduced tariffs on imported petrochemical products that compete with ours;

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increased levels of permitted foreign investment in the domestic petrochemical industry, allowing foreign investors to own 100% of a domestic petrochemicals company from December 11, 2004;

has gradually relaxed restrictions on the import of crude oil by non-state owned companies;

has granted foreign-owned companies the right to import petrochemical products; and

has permitted foreign-owned companies to distribute and market fuel products in both retail and wholesale markets in China. As a result of these measures, we face increased competition from foreign companies and imports. In 2013, we expect the global financial crisis to continue to have a negative effect on the market for petrochemical products, and in turn our business. The petrochemical industry has experienced a slow recovery. In addition, competition for our products has increased, as many overseas companies have switched their focus to sales in China. In addition, tariff reductions could reduce our profit margins or otherwise negatively impact our revenue from certain products, including a small number of significant products. The Chinese government may also reduce the tariffs imposed on production equipment that we may import in the future.

Political and economic policies in China could affect our business in unpredictable ways.

The economy of China differs from the economies of most countries belonging to the Organization for Economic Co-operation and Development in a number of respects, including:

structure;

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level of government involvement;

level of development;

level of capital reinvestment;

control of foreign exchange; and

allocation of resources.

Before its adoption of reform and open-door policies beginning in 1978, China was primarily a planned economy. Since that time, the Chinese government has been reforming the Chinese economic system, and has also begun reforming the government structure. These reforms have resulted in significant economic growth and social progress. Although the Chinese government still owns a significant portion of the productive assets in China, economic reform policies since the late 1980s have emphasized autonomous enterprises and the utilization of market mechanisms. We expect that the Chinese government will continue these reforms, further reduce government intervention and rely more heavily on market mechanisms to allocate resources. Although we believe these reforms will have a positive effect on our overall long term development, we cannot predict whether changes to China's political, economic and social conditions, laws, regulations and policies will have any adverse effect on our current or future business or results of operations.

If the Chinese government changes current regulations that allow us to make payments in foreign currencies, we may be unable to obtain the foreign currency necessary for our business.

The Renminbi currently is not a freely convertible currency. We receive most of our revenue in Renminbi. A portion of our Renminbi revenue must be converted into other currencies to meet our foreign currency obligations. We have substantial requirements for foreign currencies, including:

debt service costs on foreign currency-denominated debt;

purchases of imported equipment;

payment of any cash dividends declared in respect of the H shares and the ADSs; and

import of crude oil and other materials.

Under existing foreign exchange regulations in China, we may undertake current account foreign exchange transactions, including the payment of dividends, without prior approval from the State Administration of Foreign Exchange (SAFE) by producing commercial documents evidencing the foreign exchange transactions, provided that they are processed through Chinese banks licensed to engage in foreign exchange transactions. The Chinese government has stated publicly that it intends to eventually make the Renminbi freely convertible. However, uncertainty exists as to whether the Chinese government may restrict access to foreign currency for current account transactions if foreign currency becomes scarce in China.

Foreign exchange transactions under the capital account (international revenues and expenditures that increase or decrease debt or equity, including principal payments in respect of foreign currency-denominated obligations) continue to be subject to limitations and require the prior approval of the SAFE. These limitations could affect our ability to obtain foreign exchange through debt financing, or to make capital expenditures in foreign currency.

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If the Chinese government restricts our ability to make payments in foreign currency, we may be unable to obtain the foreign currency necessary for our business. In that case, our business may be materially adversely affected, and we may default on our obligations.

The change of currency policy and the fluctuation of Renminbi might adversely affect our business and operation results.

The exchange rate between the Renminbi and the U.S. Dollar or other foreign currencies might fluctuate and be affected by the change in Chinese political and economic conditions. In July 2005, the Chinese government changed its policy of pegging the Renminbi to the U.S. Dollar. Under the new policy, the Renminbi is permitted to fluctuate within a narrow and managed band against a basket of certain foreign currencies. Since the adoption of this new policy, the value of the Renminbi has fluctuated daily within a narrow band against the U.S. Dollar. Nevertheless, the Chinese government continues to receive significant international pressures to further liberalize its currency policy which could result in China adjusting its currency policy further.

A small portion of our cash and cash equivalents is denominated in foreign currencies (including the U.S. Dollar). The appreciation in the value of Renminbi against foreign currencies (including the U.S. Dollar) may cause a decrease in the Renminbi value of our cash and cash equivalents that are denominated in foreign currencies. In addition, the appreciation of Renminbi may harm the exports of our downstream manufacturers, thus adversely affecting the market demand for our products.

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As most of our revenue is denominated in Renminbi, and most of our purchase of crude oil and some equipment and certain loan repayments are made in foreign currencies, any depreciation of the Renminbi would increase our cost and adversely affect our capacity of making profits. In addition, any depreciation of the Renminbi could adversely affect the value of the dividends of our H shares and ADSs, which we declare in Renminbi and pay in foreign currencies.

The rejection of the proposed share reforms required of companies listed on the Shanghai Stock Exchange may adversely affect our market image and our ability to effectuate future transactions such as public offerings on the Shanghai Stock Exchange.

Pursuant to regulations issued by the China Securities Regulatory Commission (the "CSRC"), we were required to obtain shareholder approval for and implement certain share reforms in 2006. Under the share reform plans proposed by holders of our non-circulating A Shares in October 2006 and December 2007, respectively, all non-circulating A Shares would be converted into circulating A Shares and may be sold publicly on the Shanghai Stock Exchange subject to any applicable lock-up period under the condition that holders of our non-circulating A Shares transfer a portion of their A Shares to holders of our circulating A Shares. However, holders of our circulating A Shares rejected both share reform plans for various reasons. We are uncertain as to when such share reforms will be completed. On January 8, 2007, the Shanghai Stock Exchange began to impose stricter regulations on its listed companies that are required but unable to complete the share reforms, including imposing a cap and a basket on the price fluctuation rate set at 5% daily, stricter trading information disclosure requirements that are similarly applicable to ST and *ST shares and more restrictions on future financing abilities. Since March 26, 2007, the Shanghai Stock Exchange has required us to make public announcements periodically regarding the status of our share reforms. In addition, the CSRC is expected to impose stricter scrutiny on any securities-related applications filed by publicly listed PRC companies that are required to but have failed to complete such share reforms, their major shareholders and ultimate beneficial owners. The failure to complete the proposed share reforms may adversely affect our market image, the environment of our operation and our ability to effectuate future transactions such as public offerings on the Shanghai Stock Exchange. The possibility that the CSRC and the Shanghai Stock Exchange will impose more restrictions cannot be eliminated.

Interpretation and enforcement of Chinese laws and regulations is uncertain.

The Chinese legal system is based on statutory law. Under this system, prior court decisions may be cited as persuasive authority, but do not have the binding effect of precedents. Since 1979, the Chinese government has been developing a comprehensive system of commercial laws and considerable progress has been made in the promulgation of laws and regulations dealing with economic matters, such as corporate organization and governance, foreign investment, commerce, taxation and trade. Because these laws, regulations and legal requirements are relatively new and not all accessible to the public and because prior court decisions have little precedential value, the interpretation and enforcement of these laws, regulations and legal requirements involve greater uncertainty than in other jurisdictions.

You may not enjoy shareholders' protections that you would be entitled to in other jurisdictions.

As most of our business is conducted in China, our operations are governed principally by the laws of China. Despite the ceaseless improvement of the PRC Company Law and Securities Law, Chinese legal provisions for the protection of shareholders' rights and access to information are different from those applicable to companies formed in the United States, Hong Kong, the United Kingdom and other developed countries or regions. You may not enjoy shareholders' protections under Chinese law that you would be entitled to in other jurisdictions.

Our Articles of Association require you to submit your disputes with us and other persons defined by our Articles of Associations regarding the Company's affairs to arbitration. You will have no legal right to a court proceeding.

Our Articles of Association require holders of our H shares or ADSs having a claim against, or a dispute with, us, our directors, supervisors, executive officers or a holder of our domestic shares relating to any rights or obligations conferred or imposed by our Articles of Association, the Chinese Company Law or other relevant Chinese laws or regulations relating to our affairs, to submit such claim or dispute to arbitration with the China International Economic and Trade Arbitration Commission or to the Hong Kong International Arbitration Center. Our Articles of Association further provide that any arbitration decisions with respect to such disputes or claims shall be final and binding on all parties. As a result, you will have no legal right to a court proceeding.

Currently, United States financial regulatory and law enforcement agencies, including but not limited to the SEC, PCAOB, U.S. Department of Justice and NYSE, have limited or may have no ability to conduct investigations within the PRC concerning the Company, its officers, directors, auditors, market research services or other professional services or experts based in the PRC.

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The Company's operations and assets are physically located in the PRC. The PRC has limited or no agreements in place to facilitate cooperation with the SEC Division of Enforcement and other U.S. regulatory agencies charged with protecting investors for investigations within its jurisdiction. This may result in U.S. financial regulators, including but not limited to the SEC, the Public Company Accounting Oversight Board (PCAOB) and the U.S. Department of Justice, having limited access to the Company's books, records, testimony, on-site investigations of operations, subpoena power and other investigative actions, including those stemming from investor tips, complaints and referrals. Such limitations may result in the Company's investors receiving less protection from U.S. regulators than investors in companies operating in other jurisdictions because the Company and its service providers, particularly its auditors, are subject to less scrutiny than companies and service providers that are subject to regular investigations and inspections by U.S. regulators. For example, the PCAOB is currently unable to conduct independent regulatory inspections of PCAOB-registered firms' audit work related to a company's operations in China where the documentation of the audit work is located in China. As a result, our investors may be deprived of the benefits of the PCAOB's oversight of our independent registered public accounting firm through such inspections.

We may be or become a passive foreign investment company, which could result in adverse U.S. federal income tax consequences to U.S. investors.

We may be classified as a passive foreign investment company (PFIC) by the U.S. Internal Revenue Service (IRS) for U.S. federal income tax purposes. Such characterization could result in adverse U.S. federal income tax consequences to you if you are a U.S. investor. For example, U.S. investors who owned our H Shares or ADSs during any taxable year in which we were a PFIC generally are subject to increased U.S. tax liabilities and reporting requirements for that taxable year and all succeeding years, regardless of whether we actually continue to be a PFIC, although a shareholder election to terminate such deemed PFIC status may be available in certain circumstances. We do not intend to provide information to permit you to make a qualified electing fund election to avoid the adverse U.S. tax consequences described above. The same adverse U.S. federal income tax consequences will apply to U.S. investors who acquire our H Shares or ADSs during the current taxable year or any subsequent taxable year if we are treated as a PFIC for that taxable year.

The determination of whether or not we are a PFIC is made on an annual basis and depends on the composition of our income and assets, from time to time. Specifically, we will be classified as a PFIC for U.S. tax purposes for a taxable year if either (a) 75% or more of our gross income for such taxable year is passive income, or (b) 50% or more of the average percentage of our assets during such taxable year either produce passive income or are held for the production of passive income. For such purposes, if we directly or indirectly own 25% or more of the shares of another corporation, we generally will be treated as if we (a) held directly a proportionate share of the other corporation's assets, and (b) received directly a proportionate share of the other corporation's income.

We do not believe that we are currently a PFIC. However, because the PFIC determination is highly fact intensive and made at the end of each taxable year, there can be no assurance that we will not be a PFIC for the current or any future taxable year or that the IRS will not challenge our determination concerning our PFIC status. For further discussion of the adverse U.S. federal income tax consequences of our possible classification as a PFIC, see Item 10. Additional Information E. Taxation U.S. Taxation.

We have in the past sourced a small portion of crude oil from Iran that may be targeted by economic sanctions under relevant U.S. laws, and if such activities are determined by the U.S. governmental authorities as sanctionable activities, we could be sanctioned or otherwise penalized.

The United States has adopted a number of measures since 1996 that provide for the possible imposition of sanctions against non-U.S. companies engaged in certain activities in and with Iran in the energy sector, including the Executive Order 13622 issued on July 30, 2012 and the Iran Threat Reduction and Syria Human Rights Act of 2012 (ITRSHRA) issued on August 10, 2012. The sanctionable activities include certain investments, the provision of goods, services, technology, or support that could contribute to the development of petroleum and petrochemical resources or the production of refined petroleum products in Iran, the exportation of refined petroleum products to Iran, the transportation of crude oil from Iran, or the engagement in a significant transaction for the purchase or acquisition of petroleum or petroleum products from Iran.

We have sourced a small portion of our crude oil from Iran in the past through a wholly-owned subsidiary of Sinopec Corp., our controlling shareholder, and we may continue to purchase crude oil from Iran. In addition, Sinopec Corp., our current controlling shareholder, and Sinopec Group, the controlling shareholder of Sinopec Corp., have engaged in operations in or purchasing crude oil sourced from Iran and may continue to do so in the future. Furthermore, we have no control over the activities of Sinopec Group or Sinopec Corp. in connection with any activities that they may conduct in Iran.

If our purchases of crude oil from Iran are determined to be sanctionable activities by the U.S. President and/or the relevant U.S. governmental authorities, we may be subject to one or more of the twelve sanctions options available under the Iran Sanctions Act of 1996 (as amended) and the ITRSHRA, which include restrictions on bank financing, outright blocking of the Company's property within U.S. jurisdiction and prohibition of U.S. persons from investing or purchasing a significant amount of equity or debt instruments of the Company. In addition, many

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states in the United States have adopted legislation requiring state pension funds to divest themselves of securities in any company with active business operations in Iran. We cannot assure that we or any of our affiliates will not be sanctioned by the U.S. President and/or the relevant U.S. governmental authorities in light of the activities by us or our affiliates in Iran. The imposition of any such sanctions on us or our affiliates will have a negative impact on our business, reputation or stock price.

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Sinopec Group, the controlling shareholder of Sinopec Corp. which is our current controlling shareholder, or its affiliates' current or future activities in certain countries are the subject of economic sanctions under relevant U.S. laws and could result in negative media and investor attention to us and possible imposition of sanctions on Sinopec Group, which could materially and adversely affect our shareholders

Sinopec Group undertakes, from time to time and without our involvement, overseas investments and operations in the oil and gas industry, including the exploration and production of oil and gas, refining and Liquefied Natural Gas, or LNG, projects. Sinopec Group's overseas asset portfolio includes oil and gas development projects in Iran, Sudan and Syria, which countries are on the sanction list published and administered by the U.S. Department of the Treasury's Office of Foreign Assets Control, or OFAC. We cannot predict the interpretation or implementation of government policy at the U.S. federal, state or local levels with respect to any current or future activities by Sinopec Group or its affiliates in countries or with individuals or entities that are the subject of U.S. sanctions. Similarly, we cannot predict whether U.S. sanctions will be further tightened, or the impact that such actions may have on Sinopec Group. It is possible that the United States could subject Sinopec Group to sanctions due to these activities. Certain U.S. state and local governments and colleges have restrictions on the investment of public funds or endowment funds, respectively, in companies that are members of corporate groups with activities in certain countries that are the subject of U.S. sanctions. These investors may not wish to invest, and may divest their investment, in us because of our relationship with Sinopec Group and its investments and activities in those OFAC sanctioned countries. It is possible that, as a result of activities by Sinopec Group or its affiliates in countries that are the subject of U.S. sanctions, we may be subject to negative media or investor attention, which may distract management, consume internal resources and affect investors' perception of our company.

Further, the Iran Sanctions Act of 1996 (as amended) authorizes the imposition of sanctions on companies that engage in certain activities in and with Iran, especially in Iran's energy sector. It is possible that Sinopec Group or its affiliates engage in activities that are targeted for sanction purposes by ISA. It is possible that the U.S. government would determine, and in the event that the U.S. government so determines, that Sinopec Group, or an entity it owns or controls, had engaged in any such activities and if the most extreme sanction under the ISA, blocking, were applied to Sinopec Group's property, including controlled subsidiaries, Sinopec Group could be prohibited from engaging in business activities in the United States or with U.S. individuals or entities, and U.S. transactions in our securities and distributions to U.S. individuals and entities with respect to our securities could also be prohibited.

ITEM 4. INFORMATION ON THE COMPANY.

A. History and Development of the Company

General Information

We were established in the People's Republic of China as a joint stock limited company under the Chinese Company Law on June 29, 1993 as Shanghai Petrochemical Company Limited. On October 12, 2000, we changed our name to Sinopec Shanghai Petrochemical Company Limited. Our registered office is at No. 48 Jinyi Road, Jinshan District, Shanghai, China 200540. Our telephone number there is (86-21) 5794-1941.

Our Predecessor

Our predecessor, Shanghai Petrochemical Complex (the "Complex"), was founded in 1972 as one of the first large scale Chinese petrochemical enterprises using advanced imported technology and equipment. Prior to June 29, 1993, the Complex was wholly-owned by Sinopec Group, at the time a ministerial level enterprise (before its restructuring in 1998, "Sinopec"). The Complex's location was chosen because of accessibility by water and land transportation to Shanghai, a major industrial city of China, and the availability of reclaimable land. The Complex was initially under the administration of the Ministry of Textile Industry and in 1983 was placed under the administration of Sinopec.

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Construction Projects

The Complex and we, as its successor, have completed five major stages of construction. The first stage of construction (1972-1976) included reclamation of land and the installation of 18 production units. The second stage of construction (1980-1986) increased the Complex's capacity for processing crude oil and doubled its capacity for synthetic fiber production. The third stage of construction (1987-1992) primarily consisted of the installation of a 300,000 ton Rated Capacity ethylene unit, an additional crude oil refining unit and other units for the production of petrochemical products. The third stage of construction completed our transition from a synthetic fiber producer to a highly integrated producer of a wide variety of petrochemical products. The fourth stage of construction (2000-2002) mainly included the 700,000 ton Ethylene Expansion Project and Coal-Fired Power Plant Expansion Project. The fifth stage of construction (2003-2009) was mainly designed to optimize our structure and realize sustainable development, and mainly included 3,300,000t/a diesel hydrogenation unit, 1,200,000t/a delayed coking unit and other projects implemented for removing bottlenecks in refinery, the building of new 600,000t/a PX hydrocarbon complex unit, 150,000t/a C5 segregation unit, 380,000t/a ethane unit, etc.

The Company commenced the sixth stage of construction in 2010 (Phase 6 Project) and completed in December 2012. The purpose of the Phase 6 Project was to improve the Company's overall industrial structure and core competitiveness and its capability of maintaining sustainable developments. The Phase 6 Project focused on utilizing intensively natural resources and forming a complete set of facilities in accordance with the fundamental industrial model of integrating oil refining and petrochemical. It was expected to further achieve the reform of oil refining and to strengthen and expand the Company's core business while continuing to explore the development of fine chemicals and products with high added value. Phase 6 Project consisted of refining capacity expansion projects, technology development and fine chemicals projects, see Item 4. Information on the Company D. Property, Plant and Equipment Capital Expansion Program.

Over the past 39 years, the Company has established its own infrastructure system to support its production needs. The Company has its own facilities to supply water, electricity, steam and other utilities and to treat waste water, as well as ocean and inland waterway wharfs and railroad and road transportation facilities.

Our Initial Public Offering and Listing

We were established as a subsidiary of Sinopec on June 29, 1993. In preparation for our initial public offering of ordinary shares, all assets and liabilities of the Complex were transferred either to us or to Sinopec Shanghai Jinshan Industrial Company (JI), a separate subsidiary of Sinopec. The Complex's non-core businesses and assets, such as housing, stores, schools, transportation and medical services were transferred to JI. The Complex's core business and assets was transferred to us. The Complex then ceased to exist as a legal entity. In 1998, Sinopec was restructured into a limited liability company under the name of China Petrochemical Corporation (Sinopec Group). On February 25, 2000, Sinopec Group transferred its interest in us to its subsidiary, Sinopec Corp. In 1997, JI was restructured and its subsidiaries were either transferred to Sinopec or Shanghai Jinshan District. Sinopec Group now provides community services to us that were formerly provided by JI.

Our H Shares were listed on the HKSE on July 26, 1993. Our ADSs, each representing 100 H Shares, are listed on the New York Stock Exchange (NYSE). Our A Shares are listed on the Shanghai Stock Exchange. We were the first Chinese joint stock limited company to have securities concurrently traded in Hong Kong, the United States and China. On November 8, 1993, our A Shares were included in the Shanghai Stock Exchange Stock Index.

Description of Principal Capital Expenditures and Divestitures

In the fourth quarter of 2001, we established Secco, together with BP Chemicals East China Investments Limited (BP) and Sinopec Corp. We own 20%, while BP and Sinopec Corp. own 50% and 30% of the equity interest of Secco, respectively. Secco was established to build and operate a 900,000 ton Rated Capacity ethylene petrochemical manufacturing facility in order to manufacture and market ethylene, polyethylene, styrene, polystyrene, propylene, acrylonitrile, polypropylene, butadiene, aromatics and by-products; provide related after-sales services and technical advice with respect to such petrochemical products and by products; and engage in polymers application development. Secco completed construction in 2005. Secco's registered capital is U.S.\$901,440,964 of which we were obligated to contribute an amount in Renminbi equivalent to U.S.\$180,287,952 prior to the end of 2005. As of December 31, 2005, we had contributed such amount in full. For a description of capital expansion projects related to our facilities, see Item 4. Information on the Company D. Property, Plant and Equipment Capital Expansion Program.

B. Business Overview

We are one of the largest petrochemical companies in China based on 2012 net sales and ethylene production. Our highly integrated petrochemical complex processes crude oil into a broad range of products in four major product areas:

synthetic fibers,

resins and plastics,

intermediate petrochemicals, and

petroleum products.

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Based on 2012 sales volumes, we are a leading Chinese producer of synthetic fibers and resins and plastic products. We believe that we are also a leading competitor in sales of petroleum products and intermediate petrochemicals in our regional markets.

Our net sales by business lines as a percentage of total net sales in each of 2010, 2011 and 2012 are summarized as follows:

Net Sales of RMB72,095.9 million in 2010

Synthetic fibers	5.42%
Resins and plastics	20.67%
Intermediate petrochemicals	23.87%
Petroleum products	39.86%
Trading of petrochemical products	9.11%
Others	1.07%
Total	100.00%

Table of Contents**Net Sales of RMB89,509.7 million in 2011**

Synthetic fibers	4.64%
Resins and plastics	18.34%
Intermediate petrochemicals	21.25%
Petroleum products	41.73%
Trading of petrochemical products	12.98%
Others	1.06%
Total	100.00%

Net Sales of RMB87,217.3 million in 2012

Synthetic fibers	3.80%
Resins and plastics	16.86%
Intermediate petrochemicals	20.63%
Petroleum products	43.92%
Trading of petrochemical products	13.78%
Others	1.01%
Total	100.00%

We derive a substantial portion of our revenues from customers in Eastern China (comprising Shanghai and its six neighboring provinces), an area that has experienced economic growth above the national average in recent years. We believe that we are well-positioned to take advantage of opportunities which may arise through the economic growth of China generally and in this area in particular. Shown by geographic region and exports, our net sales by business lines as a percentage of total net sales for each of 2010, 2011 and 2012 are as follows:

2010 Net Sales by Region (%)

	Eastern China	Other parts of China	Exports
Synthetic fibers	85.05	14.08	0.87
Resins and plastics	87.20	12.80	0
Intermediate petrochemicals	83.07	14.08	2.85
Petroleum products	99.55	0.45	0
Trading of petrochemical products	88.90	0.36	10.74
Total net sales	92.32	7.01	0.67

2011 Net Sales by Region (%)

	Eastern China	Other parts of China	Exports
Synthetic fibers	83.27	16.20	0.53
Resins and plastics	87.77	12.22	0.01
Intermediate petrochemicals	85.68	12.44	1.88
Petroleum products	99.70	0.30	0
Trading of petrochemical products	89.43	0.79	9.78
Total net sales	93.25	6.32	0.43

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	Eastern China	Other parts of China	Exports
Synthetic fibers	84.61	14.83	0.56
Resins and plastics	86.50	13.50	0
Intermediate petrochemicals	89.32	9.31	1.37
Petroleum products	97.94	2.06	0
Trading of petrochemical products	92.54	0.58	6.88
Total net sales	94.18	4.68	1.14

Business Strategy

In 2013, we aim to develop the Company into a leading oil refining petrochemical enterprise. We will continue to focus on the improvement of quality and efficiency of developments, the adjustment of structure, the furtherance of reform and the improvement of management. We will proactively work on our underlying competitiveness, production and operation competence, management capabilities, research and development strength, the team of employees and the improvement of environment. We strive to utilize our advantages deriving from the launching of the Refinery Revamping and Expansion Project and the technological advancement programs and improve our economic returns.

To achieve its business objectives in 2013, the Company plans to carry out tasks in the following areas:

(a) Strengthening management of safety and environmental protection and promoting safe, green and low carbon development.

The Company will implement a green and low-carbon development strategy to further improve safety management and environmental protection. This includes diversifying safety management measures, actively launching safety competitions, and strengthening the grid management at construction sites, health, safety and environment (HSE) supervision and management during the direct operation process, the emergency response management and HSE supervision over outsourcing contractors. The Company will take greater efforts and establish a long-term mechanism to protect the environment. In addition, we will further and expand deodorizing programs in the manufacturing sites, continue to decrease the disposal of solid wastes, enhance the emergency response management with regard to the protection of water resources, the prevention and control of air pollution and the improvement of air quality, and get prepared for the measurement of carbon emissions.

(b) Enhancing plant operation capacity to ensure a safe, stable, long-cycle and full capacity operation of the plants.

The Company will bring in advanced management concepts in order to improve the plant operation management. We will strengthen the management of plant operation and manage to run well the newly built plants of Phase 6 Project. We will improve the organization and coordination of major production operations, and continue to organize special competitions for a safe, stable, long-cycle and full capacity operation among the production units. Furthermore, we will implement the unified management on the dispatch of production, electrical power and thermal power. In order to increase the Company's energy resources utilization efficiency, we will promote the energy conservation and the reduction of feedstock consumption, finish power balance tests on 20 integrated units and implement energy performance contracting. We will also improve our comprehensive capability for equipment management, implement plans for the long-cycle operation of the plants and strengthen the management of scheduled inspection and repair so as to lead the safe, stable, long-cycle, full capacity and good operation of the plants to a higher level.

(c) Further optimizing production operation and realizing the potential of economic returns.

The Company will closely monitor the market, optimize business operation and endeavor to utilize the advantage deriving from the integrated refining and chemical operation in order to improve the operational capability. We will improve the oil price trend analysis and increase the extent of centralization in terms of crude oil procurement in order to optimize the crude oil procurement and increase the economic return and we plan to fully utilize the facilities' potential capacities. With regard to the optimization of intermediate raw materials and our product mix, we will endeavor to achieve the optimized selection of raw materials, optimize the balance of materials and the adjustment of refined oil structure and increase the output of products, which will create economic returns. With regard to the sales, we will optimize the sales strategies and the material supply model, and endeavor to increase the market share of Shanghai IV refined oil products. Efforts will be made with respect to the sale of new products and the construction of a logistics line which allows delivery within 2 to 3 hours. We will also implement the low inventory strategy. As to the cost control, we will continue to leverage off the launching of the Refinery Revamping and Expansion Project and the optimization of the refinery and chemical system, implement various measures to decrease costs and fees, further emphasize the cost management among employees, and strictly control the expenditures. We will also establish a scientific and efficient strategy regarding

equipment repair and reduce the unreasonable inspection and repair expenses. Furthermore, we will strengthen the capital management and optimize the use of capital.

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(d) Pushing forward technological advancement and informationization in order to support future growth.

The Company will continue to explore a technological innovation system featured by a combination of production and study as well as research and utilization in order to accelerate the informationization progress and improve technologies. With regard to the further development of new products and technologies, we will speed up the technological breakthrough for a new carbon fiber, launch a pilot project with a capacity of 1,000 tons for norbornene/ethylidene norbornene and hydrogenated petroleum resins, and push forward the development and utilization of new environmental protection technologies. Efforts will be made to improve the marketing and stable expansion of production of new products, including specialized materials for binary random copolymer, fire-retardant polyester series, NEP polyester chips, gel dyed acrylic and precursor liquid coloring acrylic. As parts of our efforts to push forward the informationization progress, we will launch APC systems for various plants such as those for online blending of diesel, aromatics complex, CDU and EO/EG plant, and the construction of process simulation systems for various plants, such as No. 3 diesel hydrogenation plant and butadiene plant. We aim to establish a production and operation monitoring and analysis system in order to enhance our utilization of information systems.

(e) Strengthening corporate management and improving scientific management skill.

In order to improve the scientific management skill, the Company will specify measures to be taken to fulfill each working assignment, establish a working system for the benchmarking management, and standardize the process management. We will increase the operational level of our integrated management system so as to promote the standardized operation. As parts of our efforts to enhance the effect of performance tests, we will establish and improve a goal oriented performance test system, adequately exert the orientation and incentive effect of performance tests and improve the correlation between the organizational performance and individual employee performance.

(f) Strengthening team building and creating a stable and harmonious environment for developments.

In order to build a first-class workforce, we will carry out the medium and long-term human resources planning, improve the setup of channels catering to the growth of various types of competent staff from time to time, and improve the staff training and the optimization of human resources. As parts of our efforts to create a great environment for developments, we will further refine and enrich the essence of our company's culture, actively cultivate our company's core values, take care for the staff's welfare and livelihood and push forward the healthy, stable and harmonious development of the Company.

Principal Products

We produce four principal types of products with different specifications, including synthetic fibers, resins and plastics, intermediate petrochemicals and petroleum products. We use many of the important petroleum products and intermediate petrochemicals we produce in producing our own downstream products.

In 2012, the volume of our physical production remained stable, with a total volume of products amounting to 11,844,100 tons, representing a decrease of 1.31% over the previous year. The Company processed 11,193,500 tons of crude oil (including 563,000 tons of crude oil processed on a sub-contract basis), representing an increase of 3.01%. Total production output of refined oil, including gasoline, diesel and jet fuel was 5,878,800 tons, representing an increase of 2.32%, among which the Company produced 1,020,300 tons of gasoline, 4,027,900 tons of diesel and 830,600 tons of jet fuel, representing an increase of 5.35%, 1.21% and 4.18%, respectively. The Company produced 914,700 tons of ethylene and 504,400 tons of propylene, representing an increase of 0.51% and 4.71%, respectively. The Company produced 866,200 tons of paraxylene, representing a decrease of 6.16%. The Company also produced 1,087,500 tons of synthetic resins and copolymers (excluding polyesters and polyvinyl alcohol), representing a decrease of 0.95%; 1,015,600 tons of synthetic fiber monomers, representing an increase of 7.33%; 636,100 tons of synthetic fiber polymers, representing a decrease of 4.23%; and 251,600 tons of synthetic fibers, representing an increase of 0.64%. We continue to produce premium products of a stable quality.

The following table shows our 2012 net sales by major products as a percentage of total net sales together with the typical uses of these products.

Product	% of net sales	Typical Use
SYNTHETIC FIBERS		
Polyester staple fiber	0.72%	Textiles and apparel
Acrylic staple fiber	2.84%	Woven into fabrics or blended with other material fabrics to make fabric or acrylic top
Others	0.24%	

Sub-total	3.80%	
RESINS AND PLASTICS		
Polyester chips	4.81%	Polyester fibers, films and containers
PE pellets	6.42%	Films, ground sheeting, wire and cable compound and other injection molding products such as housewares and toys

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Product	% of net sales	
PP pellets	4.93%	Extruded films or sheets, injection molded products such as housewares, toys and household electric appliance and automobile parts
PVA	0.45%	PVA fibers, building coating materials and textile starch
Others	0.25%	
Sub-total	16.86%	
INTERMEDIATE PETROCHEMICALS		
Ethylene	1.06%	Feedstock for polyethylene, EG, PVC and other intermediate petrochemicals which can be further processed into resins, plastics and synthetic fiber.
Ethylene oxide	1.73%	Intermediate for chemical and pharmaceutical industry, dyes, detergents and auxiliary agents
Benzene	3.33%	Intermediate petrochemical products, styrene, plastics, explosives, dyes, detergents, epoxies and nylon
Paraxylene	6.64%	Intermediate petrochemicals and polyester
Butadiene	2.44%	Synthetic rubber and plastics
Ethylene glycol	2.16%	Fine chemicals
Others	3.27%	
Sub-total	20.63%	
PETROLEUM PRODUCTS		
Gasoline	7.95%	Transportation fuels
Diesel	24.95%	Transportation fuels and agricultural fuels
Jet Fuel	4.05%	Transportation fuels
Others	6.97%	
Sub-total	43.92%	
TRADING OF PETROCHEMICAL PRODUCTS		
OTHERS	1.01%	
Total	100.00%	

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Production Processes

The key sectors in our vertically integrated production plants are the ethylene units which produce ethylene and propylene, and our aromatics plants which principally produce paraxylene (PX) and benzene. Ethylene is a major raw material in the production of polyethylene (PE) and monoethylene glycol (MEG) which, together with pure terephthalic acid (PTA), is used to manufacture polyester. Propylene is a major raw material in the production of acrylonitrile and polypropylene (PP). These products are produced through the processing of a series of petrochemical units from crude oil. Our production processes are shown in the flow chart below.

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Our refinery units refine crude oil into five basic components: (1) naphtha, (2) kerosene, (3) atmospheric gas oil (AGO), (4) VGO, and (5) residual oil. Part of the Naphtha and part of the AGO is fed to the ethylene units primarily to produce ethylene and propylene. Part of the Naphtha is fed to the reforming prehydrogenation units to produce refined Naphtha which shall be used for the production of Aromatics. The other part of the AGO is processed into diesel oil, and kerosene is fed to the jet fuel sweetening unit to produce jet fuel. Part of the VGO is further processed in a hydrocracking unit producing mainly light and heavy naphtha, liquefied petroleum gas (LPG), diesel oil, various aromatic hydrocarbon products and jet fuel. The other part of the VGO and residual oil can be further processed into gasoline, diesel oil, LPG, propylene and other products.

Intermediate Petrochemicals

Ethylene Ethylene is either directly processed into PE resins or processed into other intermediate petrochemicals. The most important of these is MEG. MEG is a key ingredient in polyester. It is produced by oxidizing ethylene in the ethylene oxide (EO)/ethylene glycol (EG) unit. Ethylene is also used to produce vinyl acetate which is processed into PVA.

Propylene Propylene is either processed directly into PP resins or is further processed into other intermediate petrochemicals such as acrylonitrile, acetonitrile, hydroxyl acetonitrile and sodium cyanide. Acrylonitrile is used in producing acrylics.

Vacuum gas oil VGO is passed through the hydrocracker, and the resulting heavy naphtha is fed into the aromatics plants to produce PX and benzene. PX is processed into PTA, one of the principal raw materials in producing polyester.

Resins and Plastics and Synthetic Fibers

We process our intermediate petrochemical products into five kinds of synthetic fiber raw materials: (1) polyester, (2) acrylonitrile, (3) PP, (4) PE and (5) PVA. Each of these five products has its own production line or lines. We further process polyester and acrylonitrile into various types of synthetic fibers.

Polyester MEG and PTA are fed into a polymerization unit which produces polyester chips and polyester melt. Both chips and melt are used as raw materials in the production of polyester staple and filaments. Some chips are also sold to third parties.

Polyester staple fiber is a multi-strand fiber cut into short lengths which can be spun into fabric on its own or blended with cotton, wool or flax to produce textiles. Polyester filaments are a class of more highly processed polyester materials which have been drawn and oriented to produce a long thread-like fiber.

Acrylonitrile We produce polyacrylonitrile by feeding acrylonitrile into a polymerization unit. By passing the polyacrylonitrile through the fiber unit, acrylic fiber and acrylic staple fiber are produced, including cotton and wool type staple fibers. Wool acrylic staple fiber can be processed into acrylic wool strips.

Polypropylene We produce PP resins by feeding propylene into a polymerization unit. Our fiber grade PP resin is the main ingredient for PP fiber production.

Polyethylene We have three sets of units producing PE, two of which produce LDPE using the kettle type process, and the other unit produces all density PE products using the Borstar bimodal process.

Polyvinyl acetate PVA granules are produced from vinyl acetate (VAC), derived from ethylene.

Raw Materials

We optimized the composition of crude oil resources with the establishment of a mechanism for measuring crude oil optimization level. Furthermore, we optimized the raw materials of ethylene, aromatic and the composition of raw materials and fuels for the production of hydrogen. The cost of raw materials was reduced and the utilization rate of resources was increased. The Company realized a value of RMB690 million due to these arrangements.

Crude Oil

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Crude oil is our primary raw material and the most significant raw material we purchase from outside sources. In 2012, crude oil accounted for approximately 62.67% of our total cost of sales. Accordingly, the supply and price of crude oil are key factors in determining our profitability.

Supply and Transportation All crude oil required by us, whether from domestic or foreign sources, is purchased through the channels of Sinopec Corp. as an agent. During 2012, we did not experience any significant problems in obtaining sufficient crude oil to meet our production needs.

Sinopec Group is responsible for preparing an annual plan on demand and supply for crude oil and petroleum products that forms the basis of the Chinese government's annual balancing plan which effectively dictates our planned volume of crude oil processing in each year. Likewise, under the balancing plan, some of our petroleum products are designated for sale to the subsidiaries of Sinopec Group or other designated customers at market prices and we must consult with Sinopec Group in order to sell elsewhere.

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We have received confirmation from Sinopec Corp. that it will purchase on our behalf 15.5 million tons of imported crude oil and nil tons of domestic offshore crude oil in 2013. Sinopec Corp. has further confirmed that, subject to China's national crude oil policy and our actual production needs, it will continue to purchase on our behalf sufficient quantities and appropriate kinds of crude oil, including domestic offshore and imported crude oil, to satisfy our anticipated annual needs. We anticipate fully utilizing our 2013 supply of crude oil. We believe that the mix of crude oil feedstocks currently available is sufficient for our 2013 production capacity and targets. Additionally, as part of China's commitment at its accession into WTO, certain non-state-owned enterprises have been granted an increasing quota to import crude oil. Although we do not expect to obtain crude oil through this channel in the foreseeable future due to the current crude oil supply system, this may provide us with an alternative source of crude oil supply.

Crude Oil Mix Our refining equipment is designed to process certain grades of crude oil. Therefore, the origin and quality of the crude oil available can be important to our business. We believe, as we are significantly increasing usage of imported crude oil, we will continue to be able to obtain from the market such imported crude oil that is compatible with our refining equipment. The overall mix of foreign versus domestic crude oil we process in 2013 will depend on a variety of factors, including the amount of future supply of domestic offshore crude oil and the availability, price, quality, processing profitability and compatibility with our refining capabilities of imported crude oil. Provided there are no significant modifications to the existing channels of crude oil acquisition, we believe that sufficient supplies of crude oil will be available on the domestic or international markets for our 2013 production capacity and goals.

In 2012, our crude oil was sourced as follows:

Domestic offshore crude oil	2.89%
Imported crude oil	97.11%
Total:	100.00%

As a result of a consistent decrease in the supply of domestic crude oil, we expect that we will continue to rely principally on foreign sources for our crude oil supply. However, we believe that we will be able to maintain our processing efficiency through technological adjustments of our equipment and quality control, and that our increased use of imported crude oil will not materially and adversely impact our business and results of operations.

Foreign and domestic offshore crude oil is supplied by tanker and pipeline to our oil terminal wharf and oil storage tank. See [Item 4.D. Property, Plants and Equipment -Wharfs](#).

In the past, we have not experienced disruption in our crude oil supply. We have on-site crude oil storage tanks at Chenshan wharf capable of storing approximately 300,000 cubic meters of crude oil, primarily to provide crude oil to our No. 2 atmosphere vacuum distillation facility. This crude oil storage can provide us with approximately a 2-week supply of crude oil. The crude oil for our No. 3 atmosphere vacuum distillation facility is mainly supplied from the Ningbo-Shanghai-Nanjing oil pipeline. Due to our ability to obtain crude oil from multiple sources, we are able to meet our normal requirements for crude oil.

Pricing The price of domestic offshore crude oil is controlled by China National Offshore Oil Corporation (CNOOC) and Sinopec Group based on government pricing policies and by reference to the price of crude oil of the same quality in the international market, while imported crude oil is generally sold to us at prevailing international market prices. The average cost of imported crude oil and domestic offshore crude oil in 2012 was RMB5,228.58 (U.S.\$839.24) per ton and RMB5,090.85 (U.S.\$817.14) per ton, respectively. In 2012, we processed 10,869,500 tons of imported crude oil and 324,000 tons of domestic offshore crude oil (including 563,000 tons of crude oil processed on a sub-contract basis).

Until March 2001 the Chinese government implemented a unified pricing system for crude oil. Each month, the National Development and Reform Commission (NDRC) would establish an indicative price for each grade of domestic onshore crude oil based on comparable international market prices, inclusive of any duties that would have been imposed had the oil been imported. The actual price for domestic onshore oil would be such indicative price plus a surcharge. This surcharge was determined by China National Petroleum Corporation (CNPC) and Sinopec Group to reflect any transportation and other miscellaneous costs that would have been incurred in having the oil delivered to various refineries. Beginning March 2001, the NDRC ceased publishing such indicative price. Instead, the indicative price for domestic onshore oil is calculated and determined directly by CNPC and Sinopec Group based on the principles and methods formerly applied by the NDRC.

On March 26, 2013, the NDRC announced adjustments to the existing refined oil pricing mechanism, which include, among other things, (i) shortening of price reference period from 22 working days to 10 working days; (ii) lifting the 4% downward and upward fluctuation cap on

benchmark crude oil prices; (iii) adjusting the composition of domestic benchmark crude oil types in response to changes of types of imported crude oil and crude oil trading in the overseas market. In the cases of changes such as significant increase in domestic prices or significant fluctuations of crude oil price, NDRC may issue additional procedural guidelines, such as implementing ad hoc suspension or delay of price adjustment upon approval by the State Council.

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We purchase crude oil through Sinopec Corp. and its affiliates in sources selected and quantities confirmed by the Company at market prices. On this basis, we believe that changes in crude oil prices should not have a material effect on our competitiveness with other domestic producers. Nevertheless, any increase in the price of crude oil could have an adverse impact on our profitability to the extent that we are unable to pass cost increases on to our customers.

Changes in crude oil prices can affect the Company's profitability. In 2012, international crude oil prices fluctuated at a high level, primarily due to geopolitical risks in the Middle East, the European and US macroeconomic outlook and the occurrence of material changes to the demand and supply of US crude oil, and . In 2012, the price of West Texas Intermediate (WTI) crude oil on the New York Mercantile Exchange fluctuated within a broad range of U.S.\$77-U.S.\$109/barrel (U.S.\$75-U.S.\$114/barrel in 2011), with peak and the bottom closing prices of U.S.\$109.77/barrel and U.S.\$77.69/barrel, respectively (U.S.\$113.93/barrel and U.S.\$75.67/barrel, respectively in 2011), for the year. The peak and the bottom closing prices of Brent crude oil futures on the London Intercontinental Exchange were U.S.\$126.22/barrel and U.S.\$89.23/barrel, respectively (U.S.\$126.64/barrel and U.S.\$93.33/barrel, respectively in 2011), for the year. In 2012, the average price of WTI crude oil on the New York Mercantile Exchange was U.S.\$94.145/barrel, an decrease of U.S.\$0.969 or 1% from U.S.\$95.114 in 2011; the average price of Brent crude oil on the London Intercontinental Exchange was U.S.\$111.673/barrel, an increase of U.S.\$0.761, or 0.7% from U.S.\$110.95 in 2011; and the average price of a package of OPEC oil was U.S.\$109.461/barrel, an increase of 1.9% compared to the daily average price of U.S.\$107.47 in 2011, reaching a record high. In 2012, we processed 11,193,500 tons of crude oil (including 563,000 tons of crude oil processed on a sub-contract basis), representing an increase of 326,800 tons over the previous year or 3.01%. The volumes of imported crude oil and domestic offshore crude oil processed by us were 10,869,500 tons and 324,000 tons, respectively. As a result, the average unit cost of crude oil we processed (for our own account) increased by 3.56% from RMB5,044.64 (U.S.\$809.72) per ton in 2011 to RMB5,224.38 (U.S.\$838.57) per ton in 2012. Our total costs of crude oil processing reached RMB55,538.0 million (U.S.\$8,914.5 million) in 2012, a slight increase of 3.77%, or RMB2,016.1million (U.S.\$323.6 million), compared to RMB53,521.9 million (U.S.\$8,590.9 million) for 2011, which represent 62.67% of our total cost of sales.

Coal

Most of the coal used for our electricity generation is purchased through a unified system of procurement administered by Sinopec Corp., and the rest is purchased directly by us from mines. Coal is transported by rail from the mines to Qinhuangdao port and shipped by barge to Jinshanwei where it is delivered to the plant via a wharf and a conveyer system. Our cost of coal is primarily dependent on coal price and transportation charges. Although coal may be purchased from alternative sources, railroad transportation must be obtained by allocation from the Chinese government on a monthly basis.

We expect that our total requirement for coal to generate electricity in 2013 will be approximately 2.01 million tons. In 2012, we consumed approximately 2.13 million tons of coal, an increase from 2011 of 0.03 million tons.

Other Raw Materials

We produce most of the raw materials used as feedstock for our operations. If any of these raw materials, other than ethylene, becomes unavailable from internal production, we believe that there are sufficient alternative sources at reasonable prices and the unavailability of raw materials from internal sources will not have a significant effect on our operations and profitability.

We purchase some ancillary raw materials from outside sources. These raw materials include natural gas, MX, methanol, ammonia, sodium hydroxide, sulfur, acetone, acrylonitrile, PTA, propylene and a variety of catalytic agents. In 2012, the total cost of these materials accounted for approximately 14.05% of our total cost of sales. We do not expect any difficulties in obtaining a supply of any of these ancillary raw materials in amounts sufficient to meet our needs in the foreseeable future.

Sales and Marketing**Distribution**

The distribution of our fuel products is subject to government regulations. We are required to sell certain refined products to the subsidiaries of Sinopec Group or customers designated by Sinopec Group. Since the second half of 2005, Sinopec Group has executed reforms to its system of selling petrochemical products and implemented what it refers to as a Five Consolidations strategy featuring consolidated marketing strategy, consolidated promotion, consolidated logistics optimization, consolidated sales and consolidated branding . As a result, the sales of our major petrochemical products are now conducted in a consolidated manner by sales agents designated by Sinopec Group. However, we have the autonomy to decide on the distribution method of our other products in accordance with market conditions. The products we sold in 2012 that were subject to planned distribution by Sinopec Group, sales by agents and sales based on our own discretion accounted for 51.16%, 43.32% and

5.52%, respectively, of the total products we sold.

We generally sell our products to large trading companies and industrial users with whom we have long-standing relationships, including Sinopec Group or customers designated by Sinopec Group. We believe that the transition to sales of major petrochemical products by agents designated by Sinopec Group will increase our distribution efficiency, reduce horizontal competition and enhance our overall bargaining power, by allowing us to benefit from Sinopec Group's extensive and highly specialized sales network. It will also allow us to focus more of our resources on reducing production costs and enhancing our technical support.

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We use long term contracts to sell most of our products. We did not experience significant write-offs or defaults on our accounts receivable or other trade accounts in 2012. In general we managed to keep a stable link between production and sales in 2012.

Product breakdown

Synthetic Fibers In 2012, 9.49% of our synthetic fiber products were purchased by provincial and municipal government trading companies that act as intermediaries between us and end-users. No single customer accounted for more than 13.77% of our sales of synthetic fibers in 2012.

Resins and Plastics In 2012, approximately 4.74% of our resins and plastics sales were to provincial and municipal government trading companies and approximately 63.68% were sold to industrial users. No single customer accounted for more than 3.22% of our sales of resins and plastics in 2012.

Intermediate Petrochemicals We sell a variety of intermediate petrochemical products, none of which were sold in substantial quantities.

Sinopec Yizheng Chemical Fibre Company Limited (Yizheng) and Oriental Petrochemical (Shanghai) Corporation (Oriental) are the principal outside consumers of our paraxylene. In 2012, we sold 112.3 thousand tons and 148.9 thousand tons of paraxylene, representing 12.96% and 17.19% of our total 2012 production of such product, to Yizheng and Oriental respectively, at prices mutually agreed upon by the relevant parties.

Petroleum Products In 2012, our primary gasoline and diesel customer was Sinopec Huadong Sales Company Limited.

Trading of Petrochemical Products In 2012, our primary trading customer was Sinopec Chemical Commercial Holding Company Limited.

Product Pricing

Most of our products are permitted to be sold at market prices. However, four types of petroleum products (gasoline, diesel and jet fuel, and liquefied petroleum gas) that we sell are subject to varying degrees of government pricing control and are, accordingly, sold at prices set by the Chinese government, which may sometimes be below our costs. In 2010, 2011 and 2012, approximately 34.41%, 36.70% and 40.09% of our net sales were from products subject to price controls. In 2012, the domestic prices of refined oil products were not brought into line with the prices of crude oil on the international markets in a timely manner due to various policy concerns, e.g., the government's desire to control the high inflation rate in China, which resulted in the decline of RMB539.7 million of the operating profit of our refining business over the previous year. Price controls may apply to these products in various ways. Such price controls are sometimes applied exclusively to our products, exclusively to our competitors' products or sometimes applied to neither our products nor our competitors' products. The Chinese government has adopted changes to the pricing mechanism for domestic refined oil to be indirectly aligned with international crude oil prices in a controlled manner through use of certain formula(s).

For products that are not subject to price controls, we set our prices with reference to prices in the major Chinese chemical commodities markets in Shanghai and other parts of China. We also monitor pricing developments in major international commodities markets, particularly in Southeast Asia. In most cases, we revise product prices each month, or more frequently during periods of price volatility. Due to our economies of scale, brand recognition and high quality of products, we believe that we can continue to price our products competitively.

Competition

We compete principally in the Chinese domestic market where 98.86% of our products in volume were sold in 2012. In addition, the limited transportation infrastructure in China and the difficulties involved in transporting petrochemical products force companies to compete primarily on a regional basis. In 2012, 94.18% of our net sales were made to customers in Eastern China.

Our Competitive Advantages

We believe our primary competitive advantages are quality of product, pricing, brand recognition, geographic location and vertical integration. We have received many prizes and awards from both central and local government authorities for high product quality. Furthermore, our location on the outskirts of the densely populated and highly industrialized Shanghai area places us in close proximity to many of our customers. This location also gives us convenient access to ocean transport and inland waterways, which results in a competitive advantage in terms of transportation cost and reliability and punctuality of product delivery.

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We believe that our vertical integration represents a significant competitive advantage over non-integrated competitors in China, both in terms of reliability in delivery and price. For most downstream products, our vertical integration results in significant savings on transportation and storage costs which would be incurred by less vertically integrated facilities.

The Domestic Competitive Environment

Prior to 1993, because distribution and pricing of our products were determined in accordance with the State Plan, we did not operate in a competitive environment. With the liberalization of control over pricing and product allocation by the Chinese government, competition in the domestic market has been gradually increasing. At the same time, Chinese private enterprises have gradually overcome technological and funding barriers to extend their business from the downstream processing sector to the upstream petrochemical field. These enterprises have advantages in many areas such as flexibility in operation costs, preferential policy treatment and regional presence, and may use these advantages to compete with us in markets for our products.

Foreign Competition and the World Trade Organization

China joined the WTO on December 11, 2001. As part of its membership commitments, China agreed to eliminate certain tariff and non-tariff barriers to foreign competition in the domestic petrochemical industry that benefited us in the past. In accordance with its WTO commitments, China:

has reduced tariffs on imported petrochemicals products that compete with ours;

increased levels of permitted foreign investment in the domestic petrochemicals industry, allowing foreign investors to own 100% of a domestic petrochemicals company from December 11, 2004;

has gradually relaxed restrictions on the import of crude oil by non-state owned companies;

has granted foreign-owned companies the right to import petrochemical products; and

has permitted foreign-owned companies to distribute and market fuel products in both retail and wholesale markets in China. As a result of these measures, we are facing increasing competition from foreign companies and imports, but, we think that China's WTO entry will also create substantial amounts of new investment and business in China, with a corresponding increase in sales opportunities for us.

Our Competitive Position

In the following discussion, internal consumption of resins and intermediate petrochemicals produced by integrated manufacturers in the production of downstream products are treated as sales.

Synthetic Fibers

In 2012, we had an approximate 0.87% share and imports had an approximate 1.45% share of total domestic polyester and acrylic consumption.

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The following table summarizes the competitive position of our principal synthetic fibers according to domestic sales in 2012.

Product	Our share of domestic consumption (%)	Our competitive ranking	Location of principal domestic competitor	Principal domestic competitor's share of consumption (%)	Imports share of consumption (%)
Acrylic	19.00%	1	Jilin Province	28.00%	21.39%

Sources: Statistics provided to us by Sinopec Group and the China National Council of Textiles.

Resins and Plastics

In 2012, we had an approximate 3.64% share and imports had an approximate 28.08% share of total domestic resins and plastics consumption. The following table summarizes the competitive position of our principal resins and plastics products according to domestic sales in 2012.

Product	Our share of domestic consumption (%)	Our competitive ranking	Location of principal domestic competitor	Principal Domestic competitor's share of consumption (%)	Imports share of consumption (%)
Polyester chips	5.19%	30	Jiangsu Province	12.00%	2.02%
PE	3.33%	3	Guangdong Province	5.18%	44.07%
PP	2.95%	5	Guangdong Province	3.50%	26.80%

Intermediate Petrochemicals

In 2012, we were one of the largest sellers of intermediate petrochemicals in China, holding an approximate 2.74% share of total domestic consumption, while imports had an approximate 27% share of domestic consumption. Ethylene glycol, paraxylene, benzene and butadiene are our major intermediate petrochemical products. In 2012, we were a major producer of ethylene glycol, paraxylene and benzene in China. The following table summarizes the competitive position of our principal intermediate petrochemicals according to domestic sales in 2012.

Product	Our share of domestic consumption (%)	Our competitive ranking	Location of principal domestic competitor	Principal Domestic competitor's share of consumption (%)	Imports share of consumption (%)
Ethylene glycol	4.32%	1	Zhejiang Province	15.00%	73.40%
Paraxylene	6.57%	2	Jiangsu Province	9.21%	47.68%
Benzene	5.61%	1	Jiangsu Province	5.30%	6.26%
Butadiene	4.95%	12	Zhejiang Province	5.78%	12.84%

Petroleum Products

In 2012, we had an approximate 1.95% share of total domestic petroleum products market while imports had an approximate 3.48% share. Although we have one of the largest refining capabilities in China, we use most of our refining capacity to produce feedstock for our own downstream processing of petrochemical products.

The domestic markets for each of our major petroleum products are geographically concentrated because these markets tend to be highly localized with individual producers controlling a large share of the markets in their locality. In 2012, we sold approximately 97.94% of our

petroleum products in Eastern China.

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We established Secco, a Sino-foreign equity joint venture, in late 2001 with BP and Sinopec Corp., primarily to build and operate a 900,000 ton Rated Capacity ethylene petrochemical manufacturing facility. Secco completed construction and commenced its manufacturing operations in 2005. In 2009, Secco had expanded the capacity of certain facilities to 1,090,000 tons of ethylene per annum. We own 20% of the equity interest of Secco.

In 2012, Secco achieved a sales revenue of RMB27.158 billion (U.S.\$4.36 billion), representing a decrease of 1.93% from its sales revenue of RMB27.693 billion (U.S.\$4.45 billion) in 2011. The decrease of sales revenue was primarily attributable to the relatively lower market demand in the second half of 2012, in correspondence to which Secco selected to control the production capacity of manufacturing facilities. Secco produced 1,040.9 thousand tons of ethylene in 2012, representing a decrease of 24.3 thousand tons over the previous year, down by 2.28%. Secco achieved a net loss of RMB349.03 million (U.S.\$56.02 million) in 2012, as compared to a net profit of RMB17.04 million (U.S.\$2.74 million) in 2011. The decrease in net profit was primarily due to the fluctuations of international crude oil price and the continuous increase in the price of naphtha raw material. The prices of the majority of domestic petrochemical products fell during 2012, in particular, the price of polyolefin products was at a low level. All the above reasons contributed to Secco's net loss in 2012.

Environmental Protection

We are subject to national and local environmental protection regulations, which currently impose a graduated schedule of fees for the discharge of waste substances, require the payment of fines for pollution and provide for the forced closure of any facility that fails to comply with orders requiring it to cease or cure certain environmentally damaging practices. We have established environmental protection systems which consist of pollution control facilities to treat certain of our waste materials and to safeguard against accidents. Because of the nature of our business, however, we store a significant amount of waste substances in the plants and discharge them into the environment after such waste substances are processed and meet the discharge standards. During 2012, we were assessed a total of RMB30.77 million (U.S.\$4.94 million) in fees for discharges of waste substances. As of March 31, 2013, we had not been assessed any fines for environmental violations and there were no actions pending or, to our knowledge, threatened which would result in the assessment of such a fine.

We believe our environmental protection facilities and systems are adequate for the existing national and local environmental protection regulations. In 2012, the Company continued to carry out various energy-saving and emissions reduction measures in accordance with the relevant domestic energy conservation and emissions reduction requirements, and achieved all energy-saving and emissions reduction goals set by the Chinese government during the year. In 2012, the Company's overall level of energy consumption per RMB10,000 product value was 0.998 ton of standard coal on a par with that for 2011. Furthermore, the Company provided 57,344,700 tons of water for production (2011: 58,069,200 tons), representing a decrease of 724,500 tons, or 1.25% year-on-year, while the recycling rate of industrial water reaching 96.90%. The use volume of fresh water decreased by 2.40%. The total volume of each COD, solid wastes, industrial waste water and SO₂ discharge declined by 2.97%, 18.10%, 1.53% and 6.65% respectively. Various indices, such as waste water discharge compliance rate and the hazardous waste treatment ratio, comply with environmental protection requirements. The average heat efficiency rate of heaters was 91.89%, increased by 0.27 percentage points over the previous year. In 2012, the Company's various projects, such as the Flue-gas Desulphurisation Project for Furnaces of Coal-fired Power Plants, the Removal of Foul Gas from the De-aeration Pool of the Waste Water Treatment Plants, Tail Gas Regenerative Thermal Oxidation Facilities at PTA Plants, Flare Gas Recovery System and the addition of Recycled Hydrogen Desulfurization Unit to the Diesel Hydrogenation Plant (with a capacity 550,000 tons/year), played an effective role in the energy conservation and emissions reduction.

Despite our continuous efforts to protect the environment and save energies, there can be no assurance that Chinese national or local authorities will not impose additional regulations that would require additional expenditures in respect of environmental matters in the future.

Insurance

We currently participate in a package of insurance coverage plan through Sinopec Group as its controlled subsidiary, which, as of December 31, 2012, was approximately RMB32.964 billion (U.S.\$5.29 billion) on our property and facilities and approximately RMB3.511 billion (U.S.\$0.56 billion) on our inventory. In addition, we maintain insurance policies for such assets as the engineering construction projects and products in transit with third-party's commercial insurance company. The Sinopec Group insurance coverage is compulsory and applies to all enterprises controlled by Sinopec Group, pursuant to guidelines of Sinopec Group which may not be legally enforceable against Sinopec Group. Thus, there are uncertainties under Chinese law as to what percentage insurance claims we may demand against Sinopec Group.

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We do not carry any third party liability insurance to cover claims in respect of personal injury, property or environmental damage arising from accidents on our property or relating to our operations other than on our transportation vehicles. We have not had a third party liability claim filed against us during the last five years. Since business interruption insurance is not customary in China, we do not carry such insurance.

Government Regulations

Following the development of several major oil fields and a growth in demand for petroleum and petrochemical products in China in the early 1970 s, the Chinese government organized petroleum refining and petrochemical production and processing plants into large complexes that would permit integrated production of petroleum products, intermediate petrochemicals, resins and plastics, and synthetic fibers.

Although the Chinese government is liberalizing its control over the petroleum and petrochemical industries in China, significant government regulations that limit the business strategies available to us remain. Central government agencies and their local or provincial level counterparts do not own or directly control our production plants. However, they exercise significant control over the petrochemical industry in areas such as pricing, production quotas, quality standards, allocation of raw materials and finished products, allocation of foreign exchange and Renminbi loans for capital construction projects. The Chinese government s intentions with respect to the development objectives and policies for the petrochemical industry are stated as part of the Five Year Plans for National Economic and Social Development formulated every five years. These plans at both the national and Shanghai municipality level have identified the petrochemical industry as a development industry .

Historically, we were supervised by Sinopec, a ministry-level enterprise under the direct supervision of the State Council, China s highest administrative body. As a result of a governmental restructuring in 1998, we became subject to the administration of the State Bureau of Petroleum and Chemical Industry. After its functions were terminated in March 2001, we became subject to the administration of the State Economic and Trade Commission. The State Economic and Trade Commission was dissolved in March 2003 and its function in directing the reform and management of state-owned enterprises were assumed by the State-owned Assets Supervision and Administration Commission, its function in industry planning and policy making were assumed by NDRC, and its functions in administering domestic trade, coordinating and implementing import and export plans of critical industrial products and raw materials were assumed by the Ministry of Commerce. Since then, we have been subject to the industrial oversight of these three new governmental agencies at the national level.

As part of this restructuring, Sinopec was also restructured in July 1998. The succeeding entity, Sinopec Group, was authorized to conduct a petrochemical business and to control the exploration of crude oil and natural gas and crude oil refining, mainly in the southern and eastern regions of China. China Petroleum and Natural Gas Corporation, another major state-owned petrochemical company, was also restructured, renamed China National Petroleum Corporation and authorized to conduct the same type of business, mainly in the northern and western regions of China. On December 31, 1999, Sinopec Group completed a reorganization pursuant to which certain of its core oil and gas and chemical operations and businesses and related assets and liabilities were transferred to its subsidiary, Sinopec Corp., currently our controlling shareholder.

Business Operations Relating to Iran Threat Reduction and Syria Human Rights Act of 2012

In 2012, we sourced a small amount of crude oil from Iran through a wholly-owned subsidiary of Sinopec Corp., our controlling shareholder, and such amount represented 6.3% of our total purchase volume of crude oil in 2012. Details of our 2012 purchase volume and purchase expenses are provided below:

	Volume (thousand tons)	% of total	Amount (RMB billion)	% of total
Iran	722.2	6.33	3.59	6.05
Others	10,681.0	93.67	55.78	93.95
Total	11,403.2	100.00	59.37	100.00

In addition, based on feedback to our inquiries to Sinopec Group, the controlling shareholder of Sinopec Corp., Sinopec Group, directly or indirectly, engaged in a small amount of business activities in Iran such as providing engineering support and designs. Sales revenue from these business activities accounted for 0.08% of Sinopec Group s total unaudited sales revenue in 2012. No profits were generated from these business activities in 2012.

We have no performance obligations under any contract to continue to purchase crude oil sourced from Iran in 2013.

Table of Contents**C. Organizational Structure.***Our Subsidiaries*

Our significant subsidiaries are listed below. All of the subsidiaries named below are incorporated in China.

Subsidiary Name	Our ownership interest and voting power (%)
Shanghai Petrochemical Investment Development Company Limited	100.00
China Jinshan Associated Trading Corporation	67.33
Shanghai Jinchang Engineering Plastics Company Limited	74.25
Shanghai Golden Phillips Petrochemical Company Limited	60.00
Zhejiang Jin Yong Acrylic Fiber Company Limited	75.00
Shanghai Golden Conti Petrochemical Company Limited	100.00

Sinopec Corp.

We are a member of a group (defined as a parent and all its subsidiaries) for purposes of the disclosure rules of the Securities and Exchange Commission. The parent company of this group is Sinopec Corp., our controlling shareholder. Sinopec Corp. is operated by separate management and from time to time uses its interest as a shareholder to direct our policies and management. We have extracted the following information regarding Sinopec Corp. from its public filings:

Overview

Sinopec Corp. is an integrated petroleum and petrochemical company with upstream, midstream and downstream operations. Based on trading volume in 2012, Sinopec Corp. is one of the largest publicly listed companies in China and one of the largest petroleum and petrochemical companies in both China and Asia. Sinopec Corp. is one of the largest refiners, distributors and marketers of gasoline, diesel, jet fuel and most other major refined products in China and Asia with principal markets in the eastern and southern regions of China. Sinopec Corp. is also a producer and distributor of petrochemicals in China and additionally explores, develops and produces crude oil and natural gas principally to supply its refining and chemical operations.

Subsidiaries

Details of Sinopec Corp.'s principal subsidiaries are given in the table below. Except for Sinopec Kantons Holdings Limited and Sinopec (Hong Kong) Limited, which are incorporated in Bermuda and Hong Kong respectively, all of the below principal subsidiaries are incorporated in China.

Name of Company	Particulars of issued capital (millions)	Type of legal entity	Percentage of equity held by Sinopec Corp. and its subsidiary (%)	Principal activities
China Petrochemical International Company Limited	RMB1,400	Limited company	100.00	Trading of petrochemical products
Sinopec Chemical Commercial Holding Company Limited	RMB1,000	Limited company	100.00	Marketing and distribution of petrochemical products

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Sinopec Qingdao Petrochemical Company Limited	RMB1,595	Limited company	100.00	Manufacturing of intermediate petrochemical products and petroleum products
Sinopec Sales Company Limited	RMB1,700	Limited company	100.00	Marketing and distribution of refined petroleum products
Sinopec Yangzi Petrochemical Company Limited	RMB13,203	Limited company	100.00	Manufacturing of intermediate petrochemical products and petroleum products
Sinopec Zhongyuan Petrochemical Company Limited	RMB2,400	Limited company	93.51	Manufacturing of petrochemical products
Fujian Petrochemical Company Limited	RMB5,019	Limited company	50.00	Manufacturing of plastics, intermediate petrochemical products and petroleum products

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Name of Company	Particulars of issued capital (millions)	Type of legal entity	Percentage of equity held by Sinopec Corp. and its subsidiary (%)	Principal activities
Sinopec Shanghai Petrochemical Company Limited	RMB7,200	Limited company	55.56	Manufacturing of synthetic fibers, resin and plastics, intermediate petrochemical products and petroleum products
Sinopec Kantons Holdings Limited	HK\$207	Limited company	72.34	Trading of crude oil and petroleum products
Sinopec Yizheng Chemical Fiber Company Limited	RMB4,000	Limited company	42.00	Production and sale of polyester chips and polyester fibers
Sinopec International Petroleum Exploration and Production Company Limited	RMB8,000	Limited company	100.00	Investment in exploration, production sales, etc. of petroleum and nature gas
Sinopec Shell (Jiangsu) Petroleum Marketing Company Limited	RMB830	Limited company	60.00	Marketing and distribution of refined petroleum products
BP Sinopec (Zhejiang) Petroleum Company Limited	RMB800	Limited company	60.00	Marketing and distribution of petroleum refined products
Sinopec Qingdao Refining and Chemical Company Limited	RMB5,000	Limited company	85.00	Manufacturing of intermediate petrochemical products and petroleum products
China International United Petroleum & Chemical Co., Ltd.	RMB3,000	Limited company	100.00	Trading of crude oil and petrochemical products
Sinopec Hainan Refining & Chemical Company Limited	RMB3,986	Limited company	75.00	Manufacturing of intermediate petrochemical products and petroleum products
Sinopec (Hong Kong) Limited	HK\$5,477	Limited company	100.00	Trading of crude oil and petrochemical products
Sinopec Senmei (Fujian) Petroleum Ltd.	RMB1,840	Limited Company	55.00	Marketing and distribution of refined petroleum products
Sinopec Fuel Oil Sales Company Limited	RMB2,200	Limited Company	100.00	Marketing and distribution of refined petroleum products

D. Property, Plant and Equipment.*Real Property*

Our corporate headquarters and production facilities, occupying an area of approximately 7.03 square kilometers, are located in Jinshanwei, approximately 75 kilometers from downtown Shanghai. The total gross floor area of all our production and other facilities is approximately 2 million square meters. We own all of the buildings and facilities located at the site. We have the right to use the land upon which our buildings and facilities are located for a term of 50 years beginning in 1993 without the payment of any rent or usage fees other than land use taxes. We also have the right to transfer our land use rights to third parties without any payment to the Chinese government, so long as the use of the land remains the same as when the land use right was granted to us and the terms of the land use right we received will be applicable to any transferees.

Table of Contents*Plants and Facilities*

The following tables set forth the Rated Capacities of our principal production units. The actual production capacity of a production unit can exceed the Rated Capacity and may be further increased without increasing the Rated Capacity through technical improvements or expansion of such unit. The utilization rate of a production unit is based upon the Rated Capacity rather than actual production capacity and may vary with technical enhancements, changes in production management and scheduling of maintenance.

The following table sets forth the Rated Capacities and weighted average utilization rates of our principal production units for petroleum products and intermediate petrochemicals in 2012:

Production Unit (number of units)	Rated Capacity (tons)	Utilization Rate (%)
Crude oil distillation units (2)	14,000,000	79.95
Hydrocracker (2)	3,000,000	89.36
Ethylene units (2)	850,000	108.25
Aromatics unit	835,000	103.74
PTA unit	400,000	95.47
EO/EG unit (2)	525,000	100.88
Acrylonitrile unit	130,000	105.47
*Cracking and catalyzing (2)	4,500,000	86.32
Delayed Coking (2)	2,200,000	105.41
Reforming prehydrogenation unit	750,000	85.71
C5 segregation unit (2)	205,000	121.45

* For cracking and catalyzing units, the utilization rate of 86.32% only applies to one unit. The second unit was launched for operation in the beginning of 2013, as such its utilization rate is not available as the date of this annual report.

Our two crude oil distillation units were designed and built in China. In 2012, the actual quantity of crude oil we processed was approximately 11.1935 million tons. Our hydrocracker uses technology from United Oil Products Corporation of the United States. Our first ethylene unit uses technology from Mitsubishi Petrochemical Corporation of Japan. The second ethylene unit uses technology from ABB Lummus Global Inc. of the United States. The aromatics unit uses technology from Universal Oil Products Corporation of the United States. The PTA unit uses technology from Mitsui Petrochemical Corporation of Japan. The EO/EG unit was constructed using technology from Scientific Design Corporation of the United States.

The following table sets forth the Rated Capacities and weighted average utilization rates of our principal production units for resins and plastics and synthetic fibers in 2012:

Production Unit (number of units)	Rated Capacity (tons)	Utilization Rate (%)
Polyester units (3)	550,000	107.71
Polyester staple units (2)	154,000	42.61
Polyester filament units	21,000	88.87
Acrylic staple fiber units (4)	141,000	117.66
PE units (3)	408,000	109.60
PP units (3)	400,000	108.27
Vinyl acetate unit (2)	102,000	91.33

Our polyester units use technology from Kanebo Corporation of Japan and E.I. DuPont DeNemours & Co. Inc. (DuPont) of the United States. The polyester staple units use technology from Teijin of Japan and Jima of Germany as well as Chinese technology. The polyester filament units use technology from Murata Manufacturing Company Limited and Teijin Corporation of Japan, Barmag AG of Germany and Dupont. We produce polyethylene in three units, two LDPE units which use technology from Mitsubishi Petrochemical Corporation of Japan and BASF LDPE of Germany and one HDPE unit uses the Borstar bimodal polyethylene technology from Northern European Chemical Engineering Company.

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The acrylic fiber units were built domestically, based on the design of equipment which was imported into China in the 1960s and that we substantially improved. In 1996, we acquired two additional acrylic fiber units which use technology from Kawasaki Corporation of Japan. We produce PP in three identical units using technology from Himont Corporation of Italy. The PVA unit uses technology acquired from Kuraray Corporation of Japan.

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Power Facilities

Our electricity requirements are currently supplied by our own 425 megawatt coal-fired power plant and petroleum coke power plant. These power plants are designed to provide sufficient power supply needed by our facilities. We are connected to the Eastern China electricity grid, which provides a back-up source of power in case of a shortfall in our self-generated power supply.

Other Facilities

We also have facilities to produce industrial water, steam, hydrogen, oxygen and nitrogen which we use in our production facilities.

Maintenance

We engage in production stoppages for facility maintenance and repairs and implement our routine monthly maintenance and repair plans according to the needs of our production facilities, our requirements for product quality, and our commitment to security and environmental protection. The technicians in our facility management department have responsibility for the daily management of maintenance and repair work. We also outsource facility maintenance and repair projects to qualified contractors.

In 2012, the Company prioritized the HSE works, and implemented an HSE accountability system at each working level to ensure a sound safety and environment friendly practice. There were no accidents involving serious consequences such as major fires, explosions or environmental pollution during the year. Overall production remained stable. Both the number of times and the duration of unplanned shutdowns of the major production plants decreased by 49.12% and 46.42%, respectively. Important technical and economic indicators were improved, with 62.26% of such indicators reflecting a stronger performance than the previous year, and 33.02% of such indicators reaching the advanced industrial level.

Transportation-Related Fixtures

Crude oil, our principal raw material, is transported by pipeline and oil tanker to a crude oil terminal wharf and storage tanks. Our products leave the factory by water, rail, road and pipeline. In 2012, approximately 54.07% of our products by sales volume were collected by customers from our premises, and we delivered the balance. Our major ethylene customer is supplied via a pipeline. Some of the products collected by customers were also transported using our facilities.

Wharfs

We own one chemical wharf at Jinshan with five berths of 2,000, 5,000, 8,000, 10,000 and 25,000 tons. We also own a connecting pipeline capable of loading up to approximately 1.4 million tons of chemical products annually onto ocean-going barges and ships. In 2012, products representing 15.17% of total sales volume were shipped from the wharf. We also have a facility to load ships and barges which use the region's inland waterways. In 2012, products representing 2.78% of total sales volume were shipped from these facilities. We believe that we have a competitive advantage because a greater proportion of our products are shipped by water as opposed to rail and truck, which is subject to capacity constraints on China's rail and highway networks. Additionally, we own facilities for receiving crude oil and coal at docks that we own and transporting such materials by pipeline or conveyor to our production facilities.

We own an oil terminal wharf at Chenshan in Zhejiang Province, which is comprised of four berths, among which each of two berths is capable of handling 80,000 ton vessels, one is capable of handling 15,000 ton vessels and the other 50,000 ton vessels. Two 25 kilometer pipelines connect this oil terminal wharf with our facilities.

Rail

We own a railroad loading depot with an annual capacity of 500,000 tons. The depot provides access via a spur line to the Chinese national railway system. In 2012, products representing 1.53% of total sales volume were transported from the factory by rail. Our ability to transport products by rail is limited because of China's overburdened railway system, the allocation of use of which remains strictly controlled by the Chinese government.

Table of Contents*Capital Expansion Program*

Our principal capital expansion projects for the near term are summarized in the table and further described below. In aggregate, we expect that total investment in the projects described will be approximately RMB2.6 billion in 2013. This amount will be funded by our own capital and by bank loans.

Name of Project	Rated Capacity (tons/year)	Start Date	Expected Completion Date	Status
The Carbon Fiber Project with a capacity of 1,500 tons/year	1,500	2010	Phase I 2012	Phase I completed
The No. 2 and No. 3 Aromatics Complexes Energy-saving Up-grade Project	N/A	2012	2014	Under construction
The SL-2 Cracking Furnace of No. 2 Ethylene Unit Transformation for Improving Energy Efficiency	N/A	2012	2013	Under construction
The Transformation for Improving Manufacturing Capacity for Epoxy Ethane	N/A	2012	2013	Under construction

N/A not applicable.

In 2010, 2011 and 2012, we invested RMB1.357 billion, RMB3.225 billion and RMB3.811 billion respectively, in capital expansion projects.

Refining Capacity Expansion

With a view to accommodating the need to adjust our product mixes, we adhere to the direction of purchasing more heavy and low-quality crude oil, improve the overall processing procedures, enhance our reprocessing capacity, and continuously increase the operating adaptability and overall efficiency of our refining facilities. The construction of the Phase 6 Project, which follows the direction of giving considerations to both low cost and product diversity, and to both mass and refined production, emphasizes low cost and mass production in the upstream supply and high added value and refined production in the downstream production, and focuses on the reconstruction of refining facilities, fine chemicals, structure adjustment and system perfection, has been substantially completed. The construction of the Refinery Revamping and Expansion Project was completed and the relevant facilities were put into operation in December 2012.

Expansion of New and Existing Downstream Petrochemical Products

As an integrated petrochemical complex, we produce a wide range of intermediate and downstream petrochemical products. We plan to utilize our currently available resources and develop higher-margin downstream products and fine chemicals, with raw materials including cracking carbon 5, carbon 4, epoxy ethane, vinyl acetate and acrylonitrile. With a view towards enhancing our competitive power and the ability to keep sustainable development, we plan to further increase the overall resource utility rate and adjust and improve our company's industrial structure through the measures discussed below.

To take advantage of our expertise in producing acrylics fiber and to improve our industrial structure and upgrade certain products, we plan to construct a carbon fiber project with a capacity of 1,500 tons/year. Sinopec Corp. approved the basic design for this project in December 2010; pile foundation construction was commenced in December 2010; civil engineering was commenced in February 2011 and one series of facilities under phase I were launched for trial operation in 2012.

We plan to construct a new 100,000t/a EVA production unit with imported technology. The revised feasibility study report for this project was submitted to Sinopec Corp. for approval in September 2011. The construction of this project is scheduled to be commenced in 2013 and completed in 2015.

We plan to adjust the production structure to improve No. 1 glycol unit's capacity of producing epoxyethane by utilizing SD technology. Sinopec Corp. approved the feasibility study report for this project in April 2011. The construction was commenced in August 2012 and is scheduled to be completed in June 2013.

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Other Projects

The basic design for the Up-grading Project for the Optimization of the system and reduction in energy and feedstock consumption of the No.2 PTA Plan was approved by Sinopec Corp. in May 2010. The Company started civil engineering in 2010 and the project was completed and put into operation in 2012. The feasibility study report for No. 2 and No. 3 aromatic hydrocarbon unit transformation for improving energy efficiency was approved by Sinopec Corp. in April 2011; and this project is scheduled to be commenced in 2013 and completed in 2014. The feasibility study report for No. 2 combined heat and power furnace transformation project for the purpose of achieving industrial standards and efficiency improvement was approved by Sinopec Corp. on October 28, 2011. The basic design was approved in July 2012 and the construction was completed in 2012. The feasibility study report for SL-2 cracking furnace of No. 2 ethylene unit transformation for improving energy efficiency was submitted to Sinopec Corp. for approval in July 2011. The construction was commenced in September 2012 and is scheduled to be completed in 2013.

In order to further our capacity of maintaining sustainable development and to echo the government's requirement of protecting the environment, we planned the No.5 and No. 6 Furnace Secondary Desulfurisation Project for Department of Thermoelectric. The basic design of the project was approved by Sinopec Corp. in June 2011. The construction commenced in September 2011 and was completed in June 2012. We also plan to commence the project of dust abatement and denitrification unit construction for No. 3 and No. 4 furnaces. The feasibility study report of the project was submitted to Sinopec Corp. for approval on December 29, 2011. The construction was commenced in December 2012 and is scheduled to be completed in August 2013.

ITEM 4A. UNRESOLVED STAFF COMMENTS.

None.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS.

General

Our financial performance has been affected by factors arising from operating in a planned economy which are beyond our control. However, with China's WTO accession, the impact of these factors has gradually been decreasing.

You should read the following discussion and analysis in conjunction with our audited financial statements and our selected financial data, in each case, together with the accompanying notes included elsewhere in this annual report. Our audited financial statements have been prepared in accordance with IFRS, as issued by the International Accounting Standards Board.

Critical Accounting Policies

The following discussion and analysis of our financial condition and results of operations are based on our consolidated financial statements. The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during 2012. Our financial condition and results of operations are sensitive to accounting methods, assumptions and estimates that underlie the preparation of our financial statements. We based our assumptions and estimates on historical experience and on various other assumptions that we believe to be reasonable and which form the basis for making judgments about matters that are not readily apparent from other sources. On an on-going basis, our management evaluates its estimates. Actual results may differ from those estimates as facts, circumstances and conditions change.

Our principal accounting policies are set forth in Note 2 to our consolidated financial statements included in [Item 17. Financial Statements](#). The selection of critical accounting policies, the judgments and other uncertainties affecting application of those policies and the sensitivity of reported results to changes in conditions and assumptions are factors to be considered when reviewing our financial statements. We believe the following critical accounting policies involve the most significant judgments and estimates used in the preparation of our financial statements.

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Impairments for long-lived assets

If circumstances indicate that the net book value of a long-lived asset may not be recoverable, the asset may be considered impaired, and an impairment loss may be recognized in accordance with International Accounting Standard No. 36 Impairment of Assets. Long-lived assets are reviewed for indication of impairment at the end of each reporting period or whenever events or changes in circumstance have indicated that their carrying amounts may not be recoverable. When such a decline has occurred, the carrying amount is reduced to the recoverable amount. The recoverable amount is the greater of the net selling price and the value in use. It is difficult to precisely estimate selling prices because quoted market prices for our assets or cash-generating units are not readily available. In determining the value in use, expected cash flows generated by the asset or the cash-generating unit are discounted to their present value, which requires significant judgment relating to level of sale volume, selling price and amount of operating costs. We use all readily available information in determining an amount that is a reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of sale volume, selling price and amount of operating costs. During the years ended December 31, 2010, 2011 and 2012, we recognized impairment charges on property, plant and equipment of RMB238 million, RMB11 million and RMB nil, respectively.

Depreciation

Property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives of the assets, after taking into account the estimated residual values. We review the estimated useful lives of the assets annually in order to determine the amount of depreciation expense to be recorded during any reporting period. The useful lives are based on our historical experience with similar assets, taking into account anticipated technological changes. The depreciation expense for future periods is adjusted if there are significant changes from previous estimates. There were no significant changes in these estimates during the years ended December 31, 2010, 2011 and 2012.

Impairment for bad and doubtful debts

We estimate impairment losses for bad and doubtful debts resulting from the inability of the customers to make the required payments. We base the estimates on the aging of the accounts receivable balance, customer credit-worthiness and historical write-off experience. If the financial condition of the customers were to deteriorate, actual impairment losses would be higher than estimated. Impairment provisions for bad and doubtful debts were a reversal of RMB3 million, a reversal of RMB2 million and a provision of RMB0.2 million, during the years ended December 31, 2010, 2011 and 2012, respectively.

Inventory management

At the beginning of every year, the management team determines the appropriate levels of inventories to maintain on the basis of annual production and operating plans, financial budgets and market conditions. Every six months, the management team conducts an inventory status analysis in conjunction with its supply, production, marketing, financial and other departments and develops a plan for keeping inventories at an appropriate level.

Management assesses the realizability of our inventories based on the estimates of the net realizable value of the inventories at the end of each reporting period. Net realizable value represents the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale. We base the estimates on all available information, including the current market prices of the finished goods and raw materials and historical operating costs. Any excess of the cost over the net realizable value of each item of inventories is recognized as a provision for diminution in the value of inventories. If the actual selling prices were to be lower or the costs of completion were to be higher than the estimates, the actual allowance for diminution in value of inventories could be higher than estimated. In addition, management periodically reviews inventory aging information to assess if any obsolete inventories are required to be written down at the period end. Based on our assessments, we recorded write-down of inventories of RMB12 million, RMB110 million and RMB204 million respectively for the years ended December 31, 2010, 2011 and 2012. Barring unforeseeable changes that may occur to the current economic environment in either China or worldwide, our management does not anticipate encountering major difficulties with our attempt to realize by the end of 2013 the bulk of our inventories as of December 31, 2012 after deducting for diminution in values.

Table of Contents***Income tax***

In June 2007, the State Administrative of Taxation issued a tax circular (Circular No.664) to the local tax authorities requesting the relevant local tax authorities to rectify the applicable enterprise income tax (EIT) for nine listed companies, which included us. After the notice was issued, we were required by the relevant tax authority to settle the EIT for 2007 at a rate of 33 percent. To date, we have not been requested by the tax authorities to pay additional EIT in respect of any years prior to 2007. There is no further development of this matter during the year ended December 31, 2012. No provision has been made in the financial statements at December 31, 2012 for this uncertainty because we believe it is not probable that the Company will be required to pay additional EIT for tax years prior to 2007.

Recognition of deferred tax assets

Deferred tax assets are recognized in respect of temporary deductible differences and the carryforward of unused tax losses. We recognize deferred tax assets only to the extent that it is probable that future taxable profit will be available against the assets which can be realized or utilized. At the end of each reporting period, we assess whether previously unrecognized deferred tax assets should be recognized. The Company recognizes a previously unrecognized deferred tax asset to the extent that it is probable that future taxable profit will allow the deferred tax asset to be utilized. In addition, we assess the carrying amount of deferred tax assets that are recognized at the end of each reporting period. The Company reduces the carrying amount of a deferred tax asset to the extent that it is no longer probable that sufficient taxable profit will be available for the deferred tax asset to be utilized.

In making the assessment of whether it is probable the Company will realize or utilize the deferred tax assets, we primarily rely on the generation of future taxable income to support the recognition of deferred tax assets. In order to fully utilize the deferred tax assets recognized at December 31, 2012, the Company would need to generate future taxable income of at least RMB4,210 million, of which RMB1,497 million is required to be generated by 2013 prior to the expiration of the unused tax losses incurred in 2008 and RMB2,260 million is required to be generated by 2017 prior to the expiration of the unused tax losses incurred in the current year.

Management believes that it is probable that the Company will generate sufficient taxable income before the unused tax losses expire. Favorable factors include the enlargement of crude oil refinery capacity of the Company and the new pricing mechanism in the PRC for setting gasoline and diesel prices to more closely track crude oil costs. Uncertainties which could affect the estimated taxable income include various factors such as the volatility of international crude oil prices and the cyclical nature of the petroleum and petrochemical industry. Upon changes in facts and circumstances, management may conclude that deferred tax assets may not be realizable in future periods, resulting in a future reduction in the carrying amount of a deferred tax asset.

Government Policies

The impact of government economic, fiscal, and monetary policies can materially affect our financial condition, results of operations, and cash flows (see [Item 3. Key Information D. Risk Factors](#)).

In particular, we consume large amounts of crude oil to manufacture our products of which more than 90% is imported. We attempt to mitigate the effect of increased costs due to rising crude oil prices. However, our ability to pass on these increased costs to our customers is dependent on government regulations, among other factors. Given that the increase of the sales prices of our products can lag behind the increase of crude oil costs, we sometimes fail to completely cover the increased costs by increasing our sales prices, particularly where government regulations restrict the prices of certain of our fuel products such as gasoline, diesel and jet fuel, and liquefied petroleum gas. In 2010, 2011 and 2012, approximately 34.41%, 36.70% and 40.09% of our net sales were from such products subject to price controls. In 2012, the domestic prices of refined oil products were not brought into line with the prices of crude oil in the international markets in a timely manner due to various policy concerns, e.g., the government's desire to control the high inflation rate in China, which resulted in the decline of RMB539.7 million of the operating profit of our refining business over the previous year. Although the current price-setting mechanism for refined petroleum products in China allows the Chinese government to adjust price in the PRC market when the average international crude oil price fluctuates beyond certain levels within a certain time period (see [Item 4. Information on the Company B. Business Overview Product Pricing](#)), the Chinese government still retains discretion as to whether or when to adjust the prices of the refined oil products. The Chinese government generally exercises certain price control over refined oil products once international crude oil prices experience a sustained rise or become significantly volatile. Moreover, the Chinese government controls the distribution of many fuel products in China. For instance, some of our fuel products are required to be sold to designated distributors (such as the subsidiaries of Sinopec Corp.). Because we cannot freely sell our fuel products to take advantage of opportunities for higher prices we may not be able to fully cover increases in crude oil prices by increases in the sale prices of our products, which has had and will continue to have a material adverse effect on our financial condition, results of operations and cash flows.

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In addition, the exchange rates between the Renminbi and the U.S. Dollar or other foreign currencies are affected by Chinese government policies. In particular, the value of the Renminbi is only permitted to fluctuate within a narrow and managed band against a basket of certain foreign currencies. The Chinese government continues to receive significant international pressure to liberalize its currency policy. Most of our revenue is denominated in Renminbi, and most of our purchase of crude oil and some equipment and certain loan repayments are made in foreign currencies. In general, the trend for appreciation of the Renminbi has been helpful to us since our imported crude oil purchases constitute such a large portion of our total costs. By contrast, any depreciation of the Renminbi would increase our costs and adversely affect our capacity of making profits. In addition, any depreciation of the Renminbi could adversely affect the value of the dividends of our H shares and ADSs, which we pay in foreign currencies. Further appreciation in the value of Renminbi against foreign currencies (including the U.S. Dollar) may cause a decrease in the value of our cash and cash equivalents that are denominated in foreign currencies.

Summary

The following table sets forth our sales volumes and net sales for the years indicated:

	For the year ended December 31,								
	Sales Volume (' 000 tons)	2010 Net Sales (Millions of RMB)	% of Total Net Sales	Sales Volume (' 000 tons)	2011 Net Sales (Millions of RMB)	% of Total Net Sales	Sales Volume (' 000 tons)	2012 Net Sales (Millions of RMB)	% of Total Net Sales
Synthetic fibers	255.9	3,906.6	5.4	250.9	4,150.2	4.6	253.3	3,313.3	3.8
Resins and plastics	1,620.2	14,900.0	20.7	1,590.7	16,418.6	18.3	1,582.8	14,706.3	16.9
Intermediate petrochemicals	2,386.5	17,206.4	23.9	2,246.7	19,023.2	21.3	2,209.2	17,993.5	20.6
Petroleum products	6,342.8	28,733.9	39.9	6,968.1	37,350.2	41.7	6,921.0	38,301.4	43.9
Trading of petrochemical products		6,565.9	9.1		11,617.0	13.0		12,020.7	13.8
Others		783.1	1.0		950.5	1.1		882.1	1.0
Total	10,605.4	72,095.9	100.0	11,056.4	89,509.7	100.0	10,966.3	87,217.3	100.0

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The following table sets forth a summary statement of the Company's consolidated statements of operations for the years indicated:

	For the year ended December 31,					
	2010		2011		2012	
	Millions of RMB	% of Net sales	Millions of RMB	% of Net sales	Millions of RMB	% of Net sales
Synthetic fibers						
Net sales	3,906.6	5.4	4,150.2	4.6	3,313.3	3.8
Operating expenses	(3,471.0)	(4.8)	(3,848.9)	(4.3)	(3,718.6)	(4.3)
Segment profit/(loss)	435.6	0.6	301.3	0.3	(405.3)	(0.5)
Resins and plastics						
Net sales	14,900.0	20.7	16,418.6	18.3	14,706.3	16.9
Operating expenses	(13,908.9)	(19.3)	(16,406.6)	(18.3)	(15,997.7)	(18.4)
Segment profit/(loss)	991.1	1.4	12.0	0.0	(1,291.4)	(1.5)
Intermediate petrochemicals						
Net sales	17,206.4	23.9	19,023.2	21.3	17,993.5	20.6
Operating expenses	(16,841.3)	(23.4)	(17,874.6)	(20.0)	(17,160.8)	(19.6)
Segment profit	365.1	0.5	1,148.6	1.3	832.7	1.0
Petroleum products						
Net sales	28,733.9	39.9	37,350.2	41.7	38,301.4	43.9
Operating expenses	(27,593.6)	(38.3)	(37,803.6)	(42.2)	(39,294.4)	(45.0)
Segment profit/(loss)	1,140.3	1.6	(453.4)	(0.5)	(993.0)	(1.1)
Trading of petrochemical products						
Net sales	6,565.9	9.1	11,617.0	13.0	12,020.7	13.8
Operating expenses	(6,551.8)	(9.1)	(11,602.0)	(13.0)	(11,974.3)	(13.7)
Segment profit	14.1	0.0	15.0	0.0	46.4	0.1
Others						
Net sales	783.1	1.0	950.5	1.1	882.1	1.0
Operating expenses	(765.7)	(1.0)	(914.2)	(1.0)	(843.9)	(1.0)
Segment profit	17.4	0.0	36.3	0.1	38.2	0.0
Total						
Net sales	72,095.9	100.0	89,509.7	100.0	87,217.3	100.0
Operating expenses	(69,132.3)	(95.9)	(88,449.9)	(98.8)	(88,989.7)	(102.0)
Profit/(loss) from operations	2,963.6	4.1	1,059.8	1.2	(1,772.4)	(2.0)
Net financing (costs)/income	(95.2)	(0.1)	83.5	0.1	(283.3)	(0.3)
Investment income	0.2	0.0	0.7	0.0	6.4	0.0
Share of profit of associates and jointly controlled entities	661.3	0.9	152.7	0.1	32.8	0.0
Earnings/(loss) before income tax	3,529.9	4.9	1,296.7	1.4	(2,016.5)	(2.3)
Income tax	(735.5)	(1.0)	(310.2)	(0.3)	511.4	0.6

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Net income/(loss)	2,794.4	3.9	986.5	1.1	(1,505.1)	(1.7)
Attributable to:						
Equity shareholders of the Company	2,769.0	3.8	956.1	1.0	(1,528.4)	(1.8)
Non-controlling interests	25.4	0.1	30.4	0.1	23.3	0.1
Net income/(loss)	2,794.4	3.9	986.5	1.1	(1,505.1)	(1.7)

Net sales represent sales revenue of the respective segments after sales taxes and surcharges. Operating expenses represent cost of sales, selling and administrative expenses and other operating expenses /income, as allocated to respective segments.

Table of Contents***A. Results of Operations***

In 2012, we witnessed a sluggish recovery of the global economy, an economic downturn in the developed countries, a general slowdown of the economic growth in the emerging economies and a significant decline in the growth of international trade. Conditions were further complicated by the severe volatility in the prices of major commodities and ups and downs in the global financial market. The world's petrochemical industry stayed at a relatively low stage of the cycle marked by a slower rate of growth in the demand for petrochemical products and diminishing gross profits in the industry. Economic growth in China was slowing down while remaining stable due to the policy of maintaining growth and adjusting the structure of the economy. China recorded an annual GDP growth of 7.8%, which suggests a further slowdown in the growth of economy. The operation of China's petrochemical industry remained steady in general, albeit with a decline in its growth rate. The overall profitability across the industry declined significantly, due to a number of factors such as increased downward pressure on the economy growth, weakened growth in demand, high business costs, excessive growth of capacity expansion, and intensified competition in the market of homogeneous goods.

In 2012, the international market price of crude oil fluctuated violently at high levels, which resulted in the increase of our operating costs. The Company's oil refining business suffered losses due to the State policy related factors. The prices of petrochemical products fell sharply, and the output decreased due to the maintenance of certain production facilities. The foregoing contributed to a substantial loss of RMB1,528.4 million attributable to our shareholders for 2012.

In 2012, our turnover amounted to RMB93,008.3 million, representing a decrease of 2.63% from 2011. Our production/sale ratio was 100.06%, the receivable recovery rate was 100.05%. Our total amount of import and export was U.S.\$9,016 million, representing an increase of 18.40% from 2011.

Year ended December 31, 2012 compared with year ended December 31, 2011

Net sales

Against the backdrop of the slackened economic growth at home and abroad in 2012, the overall operation of the petrochemical industry tended to decline. The excessively expanded production capacity of bulk petrochemical products and the declined rate of growth in the demand in domestic and international markets led to a more intense market competition and a substantial fall in the market prices of petrochemical products. Domestic oil consumption continued to grow while the supply of refined oil products could easily satisfy the consumption demand. In 2012, our net sales amounted to RMB87,217.3 million, representing a decrease of 2.56% from RMB89,509.7 million in 2011. For the year ended December 31, 2012, the weighted average prices (excluding tax) of our synthetic fibers, resins and plastics, and intermediate petrochemical products decreased by 20.92%, 9.98%, and 3.81%, respectively, over the previous year, while the weighted average price (excluding tax) of petroleum products increased by 3.24%.

(i) Synthetic fibers

In 2012, the net sales of synthetic fibres amounted to RMB3,313.3 million, representing a decrease of 20.17% compared to RMB4,150.2 million in the previous year. The weighted average sales price of synthetic fibres decreased by 20.92% as compared to the previous year. In particular, the weighted average sales prices of acrylic fibre and polyester fibre, the principal products of synthetic fibres, decreased by 23.54% and 16.66% over the previous year, respectively. The sales of acrylic fibre and polyester fibre accounted for 74.66% and 19.01% of the total sales of synthetic fibres, respectively.

Net sales of synthetic fibre products accounted for 3.80% of total net sales in 2012, representing a decrease of 0.80 percentage points as compared to the previous year.

(ii) Resins and plastics

The net sales of resins and plastics amounted to RMB14,706.3 million in 2012, representing a decrease of 10.43% as compared to RMB16,418.6 million in 2011, which is mainly driven by a 9.98% decrease of the weighted average sales prices of resins and plastics in 2012. Among resins and plastics products, the weighted average sales price of polyethylene for 2012 decreased by 6.68%; the weighted average sales price of polypropylene for 2012 decreased by 8.15%; the weighted average sales price of polyester pellet for 2012 decreased by 16.35%. The sales of polyethylene, polypropylene and polyester pellet accounted for 38.01%, 29.29% and 28.57% of the total sales of resins and plastics, respectively.

The net sales of resins and plastics accounted for 16.86% of total net sales in 2012, representing a decrease of 1.44 percentage points as compared to the previous year.

(iii) Intermediate petrochemicals

The net sales of intermediate petrochemical products amounted to RMB17,993.5 million in 2012, representing a decrease of 5.41% as compared to RMB19,023.2 million in 2011, with the weighted average sales price of intermediate petrochemical products decreased by 3.81% as compared to the previous year while the sales volume decreased by 1.67%. Among the intermediate petrochemical products, weighted average sales prices of paraxylene, butadiene and ethylene glycol decreased by 5.25%, 12.22% and 13.90%, respectively, while the weighted average sales price of benzene increased by 10.32%. The sales of paraxylene, butadiene, ethylene glycol and benzene accounted for 32.19%, 11.83%, 10.46% and 16.16% of the total sales of intermediate petrochemical products, respectively.

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The net sales of intermediate petrochemical accounted for 20.63% of total net sales in 2012, representing a decrease of 0.67 percentage points as compared to the previous year.

(iv) Petroleum products

The net sales of petroleum products amounted to RMB38,301.4 million in 2012, representing an increase of 2.55% as compared to RMB37,350.2 million in the previous year. The weighted average sales price increased by 3.24%, while the sales volume decreased by 0.68%.

The net sales of petroleum products accounted for 43.92% of total net sales in 2012, representing an increase of 2.22 percentage points as compared to the previous year.

(v) Trading of petrochemical products

The net sales of the trading of petroleum products amounted to RMB12,020.7 million in 2012, representing an increase of 3.48% as compared to RMB11,617.0 million in the previous year. Such increase in the net sales was mainly attributable to a slight increase in the trading volume of petrochemical products as compared to the previous year.

The net sales of trading of petrochemical products accounted for 13.78% of total net sales in 2012, representing an increase of 0.78 percentage points as compared to the previous year.

(vi) Others

The net sales of others amounted to RMB882.1 million in 2012, representing a decrease of 7.20% as compared to RMB950.5 million in the previous year. Such decrease in the net sales was mainly attributable to a decrease in our business of crude oil processed on a sub-contract basis.

The net sales of others accounted for 1.01% of the Company's total net sales in 2012, basically at par with the previous year.

Operating expenses

Our operating expenses consist of cost of sales, selling and administrative expenses, other operating expenses and other operating income.

Our operating expenses were RMB88,989.7 million in 2012, representing a slight increase as compared to RMB88,449.9 million in 2011. Our operating expenses of petroleum products in 2012 were RMB39,294.4 million, representing an increase of 3.94% as compared to the previous year, primarily due to an increase of 3.56% in the average unit cost of crude oil processed. Our operating expenses of the trading of petrochemical products in 2012 were RMB11,974.3 million, representing an increase of 3.21% as compared to the previous year, primarily due to a slight increase in the trading volume of petrochemical products as compared to the previous year. Our operating expenses of synthetic fibres, resins and plastics, intermediate petrochemicals and others in 2012 amounted to RMB3,718.6 million, RMB15,997.7 million, RMB17,160.8 million, and RMB843.9 million, representing a decrease of 3.39%, 2.49%, 3.99%, and 7.69% as compared to the previous year, respectively, which was primarily due to decreases in both the sales volume and prices of certain petrochemical raw materials.

Cost of sales

Our cost of sales amounted to RMB88,617.8 million in 2012, basically as par with RMB87,881.2 million in 2011. Cost of sales accounted for 101.61% of the net sales for 2012.

Selling and administrative expenses

Our selling and administrative expenses amounted to RMB649.9 million in 2012, representing a decrease of 3.83% as compared to RMB675.8 million in the previous year, mainly due to a decrease in sales agency fees with respect to sales to Sinopec Chemical Commercial Holding Company Limited in line with the decrease in sales volume.

Other operating income

Our other operating income amounted to RMB333.8 million in 2012, representing an increase of 103.16% as compared to RMB164.3 million in the previous year, mainly due to an increase of RMB144.1 million of government grants recognized in profit or loss after fulfilling the conditions in 2012 as compared to the previous year.

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Other operating expenses

Our other operating expenses were RMB55.8 million in 2012, basically at par with RMB57.2 million in 2011.

Profit/loss from operations

Our loss from operations amounted to RMB1,772.4 million in 2012, as compared to profit from operations of RMB1,059.8 million in the previous year. Below are the major reasons for the loss.

In 2012, the domestic prices of refined oil products were not brought into line with the prices of crude oil on the international markets in a timely manner due to various policy concerns, *e.g.*, the government's desire to control the high inflation rate in China, which resulted in a decline of RMB539.7 million of the operating profit of our refining business over the previous year.

The operation of our petrochemical business suffered a loss of RMB864.0 million, representing a decrease in profit of RMB2,325.9 million compared to the previous year. The loss in our petrochemical business was mainly attributable to the slackened growth of domestic demand, the excessive expansion of production capacity, the sluggish market, the further intensified market competition and the substantial fall in the prices of petrochemical products.

Net financing costs/income

Our net financing costs were RMB283.3 million in 2012, while there was a net financing income of RMB83.5 million in 2011. The change was mainly due to a decrease of RMB213.4 million in net foreign exchange income during the reporting period as compared to the previous year resulting from the stability in the US Dollar to Renminbi exchange rate. Furthermore, a substantial amount of new borrowings was made by the Company, resulting in an increase of RMB140.6 million in interest expense.

Share of profit of associates and jointly controlled entities

In 2012, the Company's share of profit of associates and jointly controlled entities amounted to RMB32.8 million (2011: share of profit of RMB152.7 million), representing a decrease of 78.52%, among which, the share of loss of Secco amounted to RMB75.3 million (2011: share of profit of RMB9.8 million).

Earnings/loss before income tax

Our loss before income tax was RMB2,016.5 million in 2012, as compared to earnings before income tax of RMB1,296.7 million in the previous year.

Income tax

Our income tax credit was RMB511.4 million in 2012, while the Company's income tax expense was RMB310.2 million in the previous year. The change was primarily attributable to the deferred assets recognized in respect of the unused tax loss generated by the Company in 2012. The effective tax rate (excluding the share of profit of associates and jointly controlled entities) was 25.0% (2011: 27.1%).

In accordance with the PRC Enterprise Income Tax Law (as amended) which took effect from 1 January 2008, the income tax rate of the Company in 2012 was 25% (2011: 25%).

Net income/loss

Our net loss was RMB1,505.1 million in 2012, as compared to net income of RMB986.5 million in the previous year.

Year ended December 31, 2011 compared with year ended December 31, 2010

Net sales

In 2011, our net sales amounted to RMB89,509.7 million, representing an increase of 24.15% from RMB72,095.9 million in 2010. For the year ended December 31, 2011, the weighted average prices (excluding tax) of our synthetic fibers, resins and plastics, intermediate petrochemical

products and petroleum products increased by 8.35%, 12.23%, 17.44% and 18.32%, respectively, over the previous year. The net sales of the trading of petrochemical products amounted to RMB11,617.0 million in 2011, representing an increase of 76.93% as compared to RMB6,565.9 million in the previous year.

(i) Synthetic fibers

In 2011, the net sales of synthetic fiber products amounted to RMB4,150.2 million, representing a 6.24% increase from RMB3,906.6 million in the previous year. The weighted average price of synthetic fibers increased by 8.35% over the previous year. In particular, the weighted average prices of acrylic fiber and polyester fiber, the principal product of synthetic fiber of the Company, increased by 5.78% and 20.31% over the previous year, respectively. The sales of acrylic fiber and polyester fiber accounted for 74.67% and 19.78% of the total sales of synthetic fibers respectively.

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Net sales of synthetic fiber products accounted for 4.60% of our total net sales in 2011, representing a decrease of 0.80 percentage point as compared to the previous year.

(ii) Resins and plastics

The net sales of resins and plastics amounted to RMB16,418.6 million in 2011, representing an increase of 10.19% from RMB14,900.0 million in 2010. The weighted average price of resins and plastics in 2011 increased by 12.23%, while the sales volume in 2011 decreased by 1.82%. Among resins and plastics products, the weighted average price of polyethylene increased by 7.03% and sales volume decreased by 2.57%, and the weighted average price of polyester pellet for 2011 increased by 22.34% and sales volume decreased by 0.02%. The sales of polypropylene and polyester pellet accounted for 36.02% and 31.49% of the total sales of resins and plastics respectively.

Net sales of resins and plastics accounted for 18.30% of our total net sales in 2011, representing a decrease of 2.40 percentage points as compared to the previous year.

(iii) Intermediate petrochemicals

The net sales of intermediate petrochemical products amounted to RMB19,023.2 million in 2011, representing an increase of 10.56% from RMB17,206.4 million in 2010, with the weighted average price of intermediate petrochemical products increased by 17.44% and sales volume decreased by 5.86% as compared to the previous year. Among the intermediate petrochemical products, the weighted average prices of paraxylene, butadiene and benzene increased by 31.33%, 30.50% and 11.57%, respectively. The sales of paraxylene, butadiene and benzene accounted for 34.70%, 11.74% and 14.28% of the total sales of intermediate petrochemical products, respectively.

Net sales of intermediate petrochemical accounted for 21.30% of our total net sales in 2011, representing a decrease of 2.60 percentage points as compared to the previous year.

(iv) Petroleum products

The net sales of petroleum products amounted to RMB37,350.2 million in 2011, representing an increase of 29.99% from RMB28,733.9 million in the previous year, with the weighted average product prices increased by 18.32% and sales volume increased by 9.86% as compared to 2010. Due to the impact of an increase in demand from the domestic market, the market demand for diesel and gasoline increased as compared to the previous year which led to increases of 13.72% and 2.25% in the Company's sales volume of diesel and gasoline respectively. The increase in our sales in 2011 was also in part due to the production of Shanghai IV refined oil and the introduction of 30,000 tons of Euro V diesel to the Hong Kong market. The sales of diesel and gasoline accounted for 59.90% and 17.78% of the total sales of petroleum products respectively.

Net sales of petroleum products accounted for 41.70% of our total net sales in 2011, representing an increase of 1.80 percentage points as compared to the previous year.

(v) Trading of petrochemical products

The net sales of the trading of petrochemical products amounted to RMB11,617.0 million in 2011, representing an increase of 76.93% as compared to RMB6,565.9 million in the previous year. Such increase in the net sales was mainly attributed to a significant increase in the trading volume of petrochemical products as compared to the previous year.

Net sales of the trading of petrochemical products accounted for 13.00% of our total net sales in 2011, representing an increase of 3.90 percentage points as compared to the previous year.

(vi) Others

The net sales of other activities amounted to RMB950.5 million in 2011, representing an increase of 21.38% as compared to RMB783.1 million in the previous year. Such increase in the net sales was mainly attributed to the expansion in the processing-on-sub-contract business as compared to the previous year.

Net sales of others accounted for 1.10% of our total net sales in 2011, basically at par with the previous year.

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Operating expenses

Our operating expenses are comprised of cost of sales, selling and administrative expenses, other operating expenses and other operating income.

Our operating expenses increased by RMB19,317.6 million, or 27.94%, from RMB69,132.3 million in 2010 to RMB88,449.9 million in 2011. The operating expenses of synthetic fibers, resins and plastics, intermediate petrochemicals, petroleum products, trading of petrochemical products and others amounted to RMB3,848.9 million, RMB16,406.6 million, RMB17,874.6 million, RMB37,803.6 million, RMB11,602.0 million and RMB91,420.0 million, representing an increase of 10.89%, 17.96%, 6.14%, 37.00%, 77.08% and 19.39% as compared to the previous year, respectively.

(i) Synthetic fibers

The operating expenses of synthetic fibers in 2011 increased by RMB377.9 million as compared to the previous year, which was primarily due to increased unit prices for raw materials (*e.g.*, acrylonitrile) for producing synthetic fibers.

(ii) Resins and plastics

Our operating expenses of resins and plastics in 2011 increased by RMB2,497.7 million as compared to the previous year, which was primarily due to increased unit costs for raw materials such as ethylene and propylene.

(iii) Intermediate petrochemicals

The operating expenses of intermediate petrochemicals in 2011 increased by RMB1,033.3 million as compared to the previous year. The significant increase in costs and expenses of intermediate petrochemical products was attributable to the increase in unit cost of intermediate petrochemical products along with the increase in average unit cost of crude oil during 2011.

(iv) Petroleum products

The operating expenses of petroleum products in 2011 increased by RMB10,210.0 million as compared to the previous year, primarily due to the increase in crude oil prices (which was the major raw material of the Company) and increased processing volume.

(v) Trading of petrochemical products

The operating expenses of trading of petrochemical products in 2011 increased by RMB5,050.2 million as compared to the previous year, primarily due to the significant increase in the Company's trading volume of petrochemical products as compared to the previous year.

(vi) Other activities

The operating expenses of other activities in 2011 increased by RMB148.5 million as compared to the previous year, primarily due to an increase in the cost of crude oil processed on a sub-contract basis.

Cost of sales

The cost of sales amounted to RMB87,881.2 million in 2011, representing a significant increase of 28.64% compared to RMB68,317.4 million in 2010. Cost of sales accounted for 98.18% of the net sales for 2011, primarily due to an increase in crude oil prices in 2011 which was the Company's major raw material.

Selling and administrative expenses

Selling and administrative expenses amounted to RMB675.8 million in 2011, representing an increase of 7.47% from RMB628.8 million in the previous year, primarily due to an increase in sales related transportation expenses as a result of increased sales volume of the Company in 2011,

and an increase in agency fees with respect to sales to Sinopec Chemical Commercial Holding Company Limited.

Other operating income

Other operating income amounted to RMB164.3 million in 2011, representing an increase of 49.64% from RMB109.8 million in the previous year, primarily due to an increase of RMB39.8 million in the government subsidies received in 2011 as compared to the previous year.

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Other operating expenses

Other operating expenses decreased from RMB296.0 million in the previous year to RMB57.2 million in 2011, representing a decrease of 80.68%, mainly due to a decrease of RMB227.6 million in the Company's impairment losses of fixed assets in 2011 as compared to the previous year.

Profit from operations

Profit from operations amounted to RMB1,059.8 million in 2011, representing a decrease of RMB1,903.8 million as compared to RMB2,963.6 million in the previous year. In particular, the operating profit of our refining business decreased by RMB1,593.6 million over the previous year, because the domestic prices of refined oil products were not brought into line with the prices of crude oil on the international markets in a timely manner due to various policy concerns, *e.g.*, the high inflation rate in China. In addition, the operating profit of the Company's petrochemical business decreased by RMB329.9 million as compared to the previous year, which is attributable to the decline in the prices of petrochemical products since the fourth quarter of 2011 and the intensifying market competition.

Net financing income

Our net financing income was RMB83.5 million in 2011, while the net financing costs of 2010 amounted to RMB95.2 million. The change was primarily attributable to an increase of RMB58.6 million in net foreign exchange gain of the Company in 2011, a decrease of RMB58.2 million in interest expenses, and an increase of RMB62.0 million in interest income as compared to the previous year.

Investment income

Our investment income was RMB0.7 million in 2011. In 2010 our investment income was RMB0.2 million. Our investment income represents gain on disposal of available-for-sale financial assets.

Earnings before income tax

Our earnings before income tax were RMB1,296.7 million in 2011, representing a decrease of RMB2,233.2 million as compared to RMB3,529.9 million in the previous year.

Income tax

Our income tax expense was RMB310.2 million in 2011, representing a decrease of RMB425.3 million from RMB735.5 million in the previous year. The change was in line with the decrease on taxable income. The effective tax rate (excluding the share of profit of associates and jointly controlled entities) was 27.1% (2010: 25.6%). The difference with the statutory tax rate of 25.0% mainly included permanent tax differences such as the non-deductible staff welfare and entertainment expenses.

In accordance with the PRC Enterprise Income Tax Law (as amended) which took effect from 1 January 2008, the income tax rate of the Company in 2011 was 25% (2010: 25%).

Net income

Our net income was RMB986.5 million in 2011, representing a decrease of RMB1,807.9 million from RMB2,794.4 million in the previous year.

B. Liquidity and Capital Resources.

We strive to have sufficient liquidity at all times to meet our liabilities when due, preparing for both normal and stressed conditions, without incurring unacceptable losses or risking damage to our reputation.

Our primary sources of funding have been cash provided by our operating activities, short term and long term loans. Our primary uses of cash have been for cost of sales, other operating expenses and capital expenditures. We prepare monthly cash flow budgets to ensure that we will always have sufficient liquidity to meet our financial obligations as they become due. We arrange and negotiate financing with financial institutions and maintain a certain level of standby credit facilities to reduce liquidity risk. We believe that our current cash on hand, expected cash flows from operations and available standby credit facilities from financial institutions will be sufficient to meet our working capital requirements and repay our short term debts and obligations when they become due. In addition, we will continue to optimize our fund raising

strategy from short and long term perspectives to take advantage of low interest rates by issuing corporate bonds or debts with low financing costs.

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The following table sets forth a condensed summary of our consolidated statement of cash flows for the year ended December 31, 2011 and 2012.

Cash flow data	Year Ended December 31,	
	2011	2012
	(Millions of RMB)	
Net cash generated from/(used in) operating activities	2,220.0	(2,066.4)
Net cash used in investing activities	(2,810.2)	(4,062.1)
Net cash generated from financing activities	581.8	6,198.1
Net (decrease)/increase in cash and cash equivalents	(8.4)	69.6

Net cash generated from/used in operating activities

The net cash used in operating activities amounted to RMB2,066.4 million in 2012, representing a decrease in cash inflows of RMB4,286.4 million as compared to the net cash inflows of RMB2,220.0 million in the previous year, due to: (i) affected by the decline in our profit from operations during the reporting period, net cash outflows from loss before taxation (net of depreciation and impairment losses on property, plant and equipment) amounted to RMB333.4 million in 2012, representing a decrease of RMB3,264.4 million of cash inflows compared to net cash inflows of RMB2,931.0 million in the previous year; (ii) our increased inventory balance led to a decrease in operating cash inflow of RMB3,366.0 million in 2012 (as compared to a decrease in operating cash inflow of RMB230.1 million due to increased inventory balance at the end of the previous year); (iii) decreases in the balances of debtors, bills receivable and prepayments led to an increase in operating cash inflow of RMB992.2 million in 2012 (as compared to a decrease in operating cash inflow of RMB1,015.4 million as a result of increases in such year-end balances of the previous year).

Net cash used in investing activities

Our net cash used in investing activities increased from RMB2,810.2 million in 2011 to RMB4,062.1 million in 2012. This was primarily due to (i) an increase in capital expenditure of RMB778.6 million, and (ii) a decrease in dividend income received of RMB521.2 million.

Net cash generated from financing activities

Our net cash generated from financing activities was RMB6,198.1 million in 2012, while our net cash generated from financing activities was RMB581.8 million in 2011. This was primarily due to the increase in cash inflow of RMB18,259.2 million in proceeds from loans and borrowings and a decrease in cash outflow in dividends paid of RMB345.4 million, offset by an increase in cash outflow of RMB12,988.3 million in repayment of loans, borrowing and corporate bonds.

Borrowings and banking facilities

Due to the Company's net loss and the increasing capital expenditure for the implementation of Phase 6 Project, the Company had to take on an increased amount of borrowings in 2012 in order to maintain the balance of cash and cash equivalents at a safe level. Our total borrowing at the end of 2012 amounted to RMB12,255.2 million, representing an increase of RMB6,583.1 million as compared to the end of the previous year, of which short term debts increased by RMB5,511.8 million, and long term debts increased by RMB1,071.3 million. We have generally been able to arrange short term loans with several PRC financial institutions as necessary. The debt obligations, as of December 31, 2011 and 2012 were as follows.

Debt instruments	Year Ended December 31,	
	2011	2012
	(Millions of RMB)	
Short term bank loans (1)	4,852.1	10,803.9
Short term loans from a related party (2)	660.0	220.0
Long term bank loans (1)	160.0	1,231.3
	5,672.1	12,255.2

- (1) As of December 31, 2012, no loans and borrowings were secured by the way of property, plant and equipment. We obtained a credit rating of AA- for financing loans, assessed by Centrus Business Credit Consulting Co., Ltd, a credit rating agency authorized by the People's Bank of China. As of December 31, 2012, we had standby credit facilities of RMB18,196.0 million, which are effective until the end of 2013. Out of the total banking facilities granted, amounts totaling RMB7,850.0 million was unutilized as of December 31, 2012. We believe that we will be able to renew these facilities when they expire based on our well-established relationships with various lenders.
- (2) We borrowed short term loans from a subsidiary of Sinopec Group, Sinopec Finance Company Limited, on terms no less favorable to us than terms available from the other commercial banks in China. We have entered into the Comprehensive Services Framework Agreement with Sinopec Group so as to obtain financial services from Sinopec Finance Company Limited for the three years ending December 31, 2011, 2012 and 2013.

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Our ability to renew our short term loans and obtain additional external financing in the future and the cost of such financing are subject to a variety of uncertainties, including:

the cost of financing and the condition of financial markets;

our future operating performance, financial condition and cash flows; and

potential changes in monetary policy of the Chinese government with respect to bank interest rates and lending practices. If we fail to rollover, extend or refinance our short term debts as necessary in a timely manner, we may be unable to meet our obligations in connection with debt servicing, trade and bills payable and/or other liabilities when they become due. See also Item 3. Key Information D. Risk Factors - Our development and operation plans have significant capital expenditure and financing requirements, which are subject to a number of risks and uncertainties.

In light of our good credit standing and various financing channels, we believe that we will not experience any difficulty in obtain sufficient financing for our operations.

We managed to maintain our asset-liability ratio at a safe level by enhancing controls over both liabilities (including borrowings) and financing risks. We generally do not experience any seasonality in borrowings. However, due to the nature of the capital expenditures plan, long term bank loans can be arranged in advance of expenditures while short term borrowings are used to meet operational needs. The terms of our existing borrowings do not restrict its ability to pay dividends on its shares.

Liability-to-asset ratio

As at December 31, 2012, our liability-to-asset ratio was 55.29% (2011: 40.77%). The ratio is calculated by dividing total liabilities by total assets.

Capital expenditure

In 2012, our capital expenditure amounted to RMB3,811.0 million, representing an increase of 18.17% as compared to RMB3,225.0 million in capital expenditure in 2011. Major projects include the following:

Project	Total project investment RMB million	Project progress as at December 31, 2012
The Refinery Revamping and Expansion Project	6,267.0	Completion and commencement of operation
The Carbon Fiber Project with a capacity of 1,500 tons/year	848.0	Phase I completed and commencement of trial operation
The Up-grading Project for the optimization of the system and reduction in energy and feedstock consumption of the No. 2 PTA Plant	186.0	Completion and commencement of operation
The No.5 and No. 6 Furnace Secondary Desulfurisation Project for Department of Thermoelectric	129.0	Completion and commencement of operation
	954.0	Under construction

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The No. 2 and No. 3 Aromatics Complexes
Energy-saving Up-grade Project

The SL-2 Cracking Furnace of No. 2 Ethylene
Unit Transformation for Improving Energy
Efficiency

115.0

Under construction

Total

8,499.0

Our capital expenditure for 2013 is estimated at approximately RMB2,600.0 million.

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C. Research and Development, Patents and Licenses, etc.

We have a number of technology development units, including the Petrochemical Research Institute, the Plastics Research Institute, the Polyester Fiber Research Institute, the Acrylic Fiber Research Institute and the Environmental Protection Research Institute. These units are charged with various research and development tasks with respect to new technology, new products, new production processes and equipment and environmental protection. Our research and development expenditures in 2010, 2011 and 2012 were RMB58.2 million, RMB79.6 million and RMB72.2 million, respectively, all representing approximately 0.1% of the total sales for each of those years.

In 2012, the Company engaged in the technical development of new products and developed a batch of new products such as polyethylene specialized materials with a high crystallization rate for heat shrinkable films, moisture absorbing and quick-drying polyester, and superfine antipilling acrylic. The Company strived to adjust its product mix and to increase the production of various high value-added products such as ternary random copolypropylene and binary random polypropylene. The high-performance PBO fiber project and industrial tests on the treatment of ethylene glycol wastewater using large biological fluidized bed have passed their examinations. Significant achievements were made in the industrial applications of YS-8810 silver catalysts. A total of 400,900 tons of new products were produced during the year, with a total product differential rate of 59.26%. A total of 44 patent applications were submitted and 10 patent licenses were awarded. Shanghai Municipal Government granted us special financial supports with an aggregate amount of RMB21.4 million with regard to 15 new and high-tech achievement projects.

The Company continued to push forward the construction of its information system and increase the level of informationization. The APC for four plants Coking Plant 2, Acrylonitrile Plant, Polyester Plant 1 and Polyester Plant 2 was completed and put into operation. The establishment of a process simulation system for three plants the residue hydrogenation, catalytic cracking and gasoline adsorptive desulfurization plants was completed. The scope of implementation and application of the ERP system was extended to the whole Company. The application of information systems such as APC, HR and EM was further enhanced. The Company maintains a leadership in the industry in this regard.

We are not, in any material aspect, dependant on any patents, licenses, industrial, commercial or financial contracts, or new production processes.

D. Trend Information

In 2013, the world economy will remain complex and challenging and will face increasing uncertainty, characterized by an obvious emergence in various forms of protectionism, and the increasing pressure of the potential inflation and asset bubbles. The world economy has entered into a period of intensive transformation and adjustment from a period of rapid growth before the world economic recession hits and continues to grow slowly. China's economy is still in an important strategic period with opportunities. China will maintain the general macro-economic control policy featured by promoting growth while ensuring stability, continue to implement the proactive fiscal policy and the prudent monetary policy, and boost the domestic demand. China's economy is expected to maintain a stable growth.

The development landscape of the worldwide petrochemical industry is undergoing major changes as the industry will be greatly affected by the reduction of costs of energy resources and chemical raw materials as a result of the large-scale development of shale gas in North America and the challenges to the traditional petrochemical industry posed by the development of the coal chemical industry. The competition in the petrochemical industry will be further intensified. The outlook of the international crude oil price is uncertain, which is attributable to various factors, including the uncertainties with regard to the international crude oil market and the international economic growth, the change of oil supply pattern, and social and civil unrest in the West Asia and the North Africa. The demand of energy resources may continue to decline due to the European debt crisis and the slow recovery of American economy. The crude oil prices may remain at high levels due to the geopolitical risks in the Middle East intertwine with the worldwide relaxing currency policies. The overall demand and supply structure of the international crude oil market is expected to be stable. Overall, China's domestic consumer market will maintain stable growth. The market demand for energies and major bulk chemicals will increase and the investment in the petrochemical industry will continue to enjoy a fast growth. The operation of the petroleum and chemical industries is expected to maintain stable overall, and will pick up growth momentum as part of a steady and positive development trend.

E. Off-balance Sheet Arrangements

As of December 31, 2012, we had no contingent liabilities in respect of guarantees issued to banks in favor of our associated companies and other unlisted investments (December 31, 2011: nil). Other than our capital commitments and contingencies disclosed in Note 23 in our consolidated financial statements included in Item 17. Financial Statements, we do not have any other off-balance sheet arrangements.

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The following table sets forth our obligations to make future payments under contracts effective as of December 31, 2012.

	As of December 31, 2012 Payment Due by Period				
	Total	Within 1	More than	More than	More than
	(RMB 000)	year or on	1 year but	2 years	5 years
		demand	within 2	but	than
		(RMB 000)	years	within 5	5 years
			(RMB 000)	years	(RMB 000)
				(RMB 000)	(RMB 000)
Contractual obligations					
Short term loans	11,023,877	11,023,877			
Long term loans	1,231,340		370,560	860,780	
Total contractual obligations	12,255,217	11,023,877	370,560	860,780	
Estimated future interest payments					
Fixed rate	57,300	57,300			
Variable rate ⁽¹⁾	201,251	103,554	57,738	39,959	
Total estimated future interest payments	258,551	160,854	57,738	39,959	
Other commercial commitments					
Capital commitments ⁽²⁾	1,485,573	1,485,573			
Total commercial commitments	1,485,573	1,485,573			

(1) The average interest rates for variable rate loans are calculated based on the year end indices.

(2) Capital commitments refer to commitments for purchase of property, plant and equipment.

*G. Other Information***Employees**

Our staff costs for 2012 were RMB1,740.2 million.

As at December 31, 2012, we had 15,007 employees in total, among whom there were 8,689 production staff, 4,701 sales representatives, financial personnel and other personnel and 1,617 administrative staff. 41.33% of our employees had tertiary qualifications or above. The company has 14,910 retired employees who are under retirement insurance plans, details of which are provided under Item 6. D. Employees. As of December 31, 2012, we have terminated employment with 648 persons (including the retired and voluntary leave), accounting for 4.14% of 15,655 employees we had as of January 1, 2012.

Purchase, Sale and Investment

Except as disclosed in this report, during the year ended December 31, 2012, we engaged in no material purchase or sale of our subsidiaries or associated companies or any other material investments.

Pledge of Assets

As of December 31, 2012, we had not pledged any of our property or equipment.

Table of Contents**ITEM 6. DIRECTORS, SENIOR MANAGEMENT AND EMPLOYEES.****A. Directors and Senior Management.**

The following table sets forth certain information concerning our directors, executive officers and members of our supervisory committee (Supervisory Committee). The current term for our directors, executive officers and members of our Supervisory Committee is three years, which term will end in June 2014.

Name	Age	Position
<u>Directors</u>		
Wang Zhiqing (1)	50	Vice Chairman of the Board of Directors and President
Wu Haijun	50	Vice Chairman of the Board of Directors
Li Honggen	56	Director and Vice President
Ye Guohua	44	Director and Chief Financial Officer
Lei Dianwu	50	External Director
Xiang Hanyin	58	External Director
Shen Liqiang	56	Independent Director
Jin Mingda	62	Independent Director
Wang Yongshou	72	Independent Director and Director of the Remuneration and Appraisal Committee
Cai Tingji	58	Independent Director and Director of the Audit Committee
<u>Other Executive Officers</u>		
Shi Wei	53	Vice President
Zhang Zhiliang	59	Vice President
Zhang Jianping	50	Vice President
Jin Qiang	47	Vice President
Gao Jinping	46	Vice President
Guo Xiaojun	43	Vice President
Zhang Jingming	55	Secretary of the Company and General Legal Counsel
<u>Supervisory Committee</u>		
Zuo Qiang	50	Supervisor
Li Xiaoxia	43	Supervisor
Zhai Yalin	48	External Supervisor
Wang Liquan	55	External Supervisor
Chen Xinyuan	48	Independent Supervisor
Zhou Yunnong	70	Independent Supervisor

(1) Mr. Wang Zhiqing was nominated by the board of directors of the Company as the Chairman of the Board of Directors in the board meeting on April 19, 2013. The nomination will need to be reviewed and approved by the Company's 2012 general shareholders meeting on June 6, 2013. Mr. Wang Zhiqing will perform the duties and powers of the Chairman of the Board of Directors before the nomination is approved.

Directors

Wang Zhiqing, 50, currently Vice Chairman, President and Deputy Secretary of the Communist Party Committee of the Company. Mr. Wang was appointed as a member of and nominated as the Chairman of the board and as the Chairman of the Nomination Committee of the Company in the board meeting on April 19, 2013. His nomination as the Chairman of the board and as the Chairman of the Nomination Committee needs to be reviewed and approved by the Company's 2012 general shareholders meeting on June 6, 2013. Mr. Wang commenced work in 1983 and held various positions including Deputy Leader of preparatory team for the chemical fiber plant of Luoyang Petrochemical Complex, Deputy Chief Engineer of Luoyang Petrochemical Complex cum Officer-in-Charge of the preparatory team for the complex's chemical fiber plant, and then Deputy Chief Engineer of the complex cum Director of the chemical fiber plant. From June 1999 to December 2001, Mr. Wang was Chief Engineer of Luoyang Petrochemical Complex. From February 2000 to December 2001, Mr. Wang was Vice President cum Chief Engineer of Sinopec Luoyang Company. From December 2001 to October 2006, Mr. Wang was President of Sinopec Luoyang Company. From July 2005 to May 2007, Mr. Wang was the Leader of the preparatory team for a Sinopec refinery project in Guangxi. From October 2006 to December 2008, Mr. Wang was President of Sinopec Jiujiang Company. From December 2008 to July 2010, Mr. Wang was President of Sinopec Jiujiang Company. Mr. Wang was appointed President and Deputy Secretary of the Communist Party Committee of the Company in July 2010. Mr. Wang was appointed Director and Vice Chairman of the Company in December 2010. In February 2011, Mr. Wang was appointed the Director and Chairman of the board of Secco. Mr. Wang graduated from the East China Petroleum Institute with a Bachelor of Engineering in

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1983, majoring in refinery engineering, and graduated from China University of Petroleum (East China) with a Doctorate in Engineering in 2006, majoring in chemical engineering and technology. He is a senior engineer by professional title.

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Wu Haijun, 50, currently Vice Chairman of the Company, Director and Vice President of Secco. Mr. Wu joined the Complex in 1984 and held various positions including Deputy Director and Director of the Company's No.2 Chemical Plant as well as manager of the Chemical Division. He was Vice President of the Company from May 1999 to March 2006 and Director of the Company from June 2004 to June 2006. He was manager and Secretary of the Communist Party Committee of the Chemical Sales Branch Office of Sinopec Corp. from December 2005 to March 2008. From December 2005 to April 2010, he was Director of the Chemical Business Department of Sinopec Corp. In April 2010, he was appointed as Director of Secco. From April 2010 to February 2011, he served as the General Manager of Secco. In June 2010, he was appointed Director and Vice Chairman of the Company. In February 2011, Mr. Wu was appointed Vice President of Secco. Mr. Wu graduated from the East China Institute of Chemical Technology in 1984, majoring in chemical engineering, and obtained a Bachelor of Engineering degree. In 1997, he obtained an MBA from the China Europe International Business School. He is a senior engineer by professional title.

Li Honggen, 56, is Executive Director and Vice President of the Company. Mr. Li joined the Complex in 1973 and has held various positions including Deputy Director of No. 1 Chemical Plant of the Complex, Deputy Director and Director of the Ethylene Plant of the Company and Deputy Manager and Manager of the Refining and Chemical Division of the Company. From August 2000 to December 2003, he served as Vice President of Shanghai Chemical Industrial Park Development Company Limited. From August 2002 to January 2006, he served as Vice President of Secco. In March 2006, he was appointed Vice President of the Company. In June 2006, he was appointed Director of the Company. In August 2008, he was concurrently appointed Director of Shanghai Chemical Industrial Park Development Company Limited. Mr. Li graduated from East China Institute of Chemical Technology majoring in engineering management and completed a post-graduate course majoring in engineering management at East China University of Science and Technology in 1998. He is an engineer by professional title.

Shi Wei, 53, is Vice President of the Company and the leader of the preparatory group of Zhijin coal chemical project of Sinopec Corp. in Guizhou. Mr. Shi joined the Complex in 1982 and has held various positions including Assistant to the Manager, Deputy Manager of the Refining and Chemical Division of the Company, Manager of the Environmental Department, Secretary of the Communist Party Committee and manager of the Refining and Chemical Division of the Company. In October 2003, Mr. Shi was appointed Vice President of the Company. In June 2005, he was appointed Director of the Company. In May 2012, Mr. Shi was appointed the leader of the preparatory group of Zhijin coal chemical project of Sinopec Corp. in Guizhou. In 1982, Mr. Shi graduated from East China University of Science and Technology majoring in oil refining engineering and obtained a bachelor's degree in engineering. Mr. Shi completed post-graduate studies in Business Management at East China University of Science and Technology in 1998. Mr. Shi is a senior engineer by professional title.

Ye Guohua, 44, is Chief Financial Officer of the Company. Mr. Ye joined Shanghai Gaoqiao Petrochemical Company in 1991 and has held various positions, including Deputy Chief and Chief of the Cost Accounting Section of the Finance Office, Director of the Finance Office of the Refinery Plant of Shanghai Gaoqiao Petrochemical Company and Deputy Chief Accountant and Director of the Finance Department of Sinopec Shanghai Gaoqiao Company. In October 2009, Mr. Ye was appointed Chief Financial Officer of the Company. Mr. Ye graduated with a major in accounting from the Shanghai University of Finance and Economics in July 1991. He is a senior accountant by professional title.

External Directors

Lei Dianwu, 50, is Assistant to the General Manager of Sinopec Group, Vice President and Director of Development and Planning Division of Sinopec Corp. In June 2005, Mr. Lei was elected External Director of the Company. Mr. Lei has held various positions including Deputy Director of Planning Division of Yangzi Petrochemical Company, Director of the Preparation Office of the Joint Venture of Yangzi Petrochemical Company, Vice President and Manager of production division of Yangzi BASF Styrene Company Limited. He acted as Deputy Manager and Deputy Director of the Joint Venture Office at Yangzi Petrochemical Company, Director of Project Development Department of China Dong Lian Petrochemical Limited Liabilities Company, Deputy General Manager of Yangzi Petrochemical Limited Liabilities Company and Deputy Director of Development and Planning Division of Sinopec Corp. From March 2001, he assumed the current position of Director of Development and Planning Division of Sinopec Corp. From March 2009, he assumed the current position of Assistant to General Manager of Sinopec Corp. From May 2009, he assumed the position of Vice President of Sinopec Corp. Mr. Lei has rich experience in enterprise planning and investment development management. In 1984, Mr. Lei graduated from the East China Petroleum Institute with a major in basic organic chemicals and obtained a bachelor's degree in engineering. He is a senior engineer by professional title.

Xiang Hanyin, 58, is Deputy Director of Chemical Division of Sinopec Corp. In June 2005, Mr. Xiang was elected External Director of the Company. Mr. Xiang commenced work in February 1982 and was Deputy Director of the Chemical Plant of Yizheng Chemical Fiber Company and Director of Chemical Plant of Yizheng Chemical Fiber Co., Ltd. In February 2000, he assumed the current position of Deputy Director of the Chemical Division of Sinopec Corp. Mr. Xiang has rich experience in the management of production and operation of chemical enterprises. Mr. Xiang graduated from Nanjing Chemical College with a major in basic organic chemicals and a bachelor's degree in engineering in 1982. In 2000, he completed post-graduate studies in enterprise management at Nanjing University. He is a senior engineer by professional title.

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Independent Directors

Shen Liqiang, 56, is President and Secretary of the Communist Party Committee of the Shanghai Branch of the Industrial and Commercial Bank of China (ICBC). Mr. Shen was appointed as the Independent Director of the Company in June 2011. Mr. Shen has been engaged in financial business since December 1976, and has held various positions, including Deputy Director and Director of the Hangzhou Business Department of the ICBC; Deputy Director of the Accounting and Cashier Department, Deputy Director and Director of the Savings Department, Director of the Personnel Department and Assistant to the President cum Director of Personnel Department of the Zhejiang Branch of the ICBC; Vice President of the Zhejiang Branch of the ICBC; Vice President cum General Manager and Secretary of the Communist Party Committee of the Banking Department of the Zhejiang Branch of the ICBC. He was Vice President and Deputy Secretary of the Communist Party Committee of the Zhejiang Branch of the ICBC from October 2005 to March 2007, and was appointed President and Secretary of the Communist Party Committee of the Hebei Branch of the ICBC from March 2007 to June 2009. He has been President and Secretary of the Communist Party Committee of the Shanghai Branch of the ICBC since June 2009. Mr. Shen has long been engaged in banking business management and has both in-depth expertise on finance theory and extensive experience in finance practice. Mr. Shen holds a Master's Degree in Economics and is a senior accountant by professional title. His current term of office is from June 2011 to June 2014.

Jin Mingda, 62, is Chairman and Secretary of the Communist Party Committee of Shanghai Huayi (Group) Company. Mr. Jin was appointed as the Independent Director of the Company in June 2011. Mr. Jin started working in October 1968 and has held various positions, including Deputy Secretary of the Communist Party Committee, Deputy Director, Secretary of the Communist Party Committee and Director of Shanghai Power Station Auxiliary Equipment Works Co., Ltd; General Manager and Deputy Secretary of the Communist Party Committee of Shanghai Boiler Works Co., Ltd; Vice President of Shanghai Electric (Group) Corporation; Vice President of Shanghai Electric Group Co., Ltd.; and President and Secretary of the Communist Party Committee of Shanghai Mechanical & Electrical Industry Co., Ltd. He served as Director, President and Deputy Secretary of the Communist Party Committee of Shanghai Huayi (Group) Company from November 2005 to October 2007, and Chairman and Secretary of the Communist Party Committee of Shanghai Huayi (Group) Company from October 2007. He was appointed Independent Director of Shanghai Electric Power Co., Ltd in November 2009. Mr. Jin has extensive experience in business decision-making and management of conglomerates. He possesses postgraduate qualifications and is a senior economist by professional title. His current term of office is from June 2011 to June 2014.

Wang Yongshou, 72. Mr. Wang was appointed as the Independent Director of the Company in June 2011. Mr. Wang started working in September 1964 and has held various positions, including Deputy Secretary of the Communist Party Committee, Deputy Director and Director of Plastics Factory of the Complex; Chief Economist of the Complex and Deputy President of JI. He served as President of Shanghai Jinshan Industrial Investment and Development Co., Ltd. from September 1997 to November 2001. Mr. Wang has extensive experience in corporate operation and management. Mr. Wang graduated from Zhejiang Institute of Chemical Technology in September 1964, and is a senior engineer by professional title. His current term of office is from June 2011 to June 2014.

Cai Tingji, 58, is a Fellow of the Hong Kong Institute of Certified Public Accountants, a member of the Committee of the Chinese People's Political Consultative Conference of Jing'an District, Shanghai, and Honorary Vice-Chairman of the Federation of Returned Overseas Chinese of Jing'an District, Shanghai. Mr. Cai was appointed as the Independent Director of the Company in June 2011. Mr. Cai graduated from the Department of Accounting, Hong Kong Polytechnic University in 1978. He joined KPMG in the same year and has held various positions, including Deputy Manager and Manager of the audit department of KPMG Hong Kong Office, Managing Partner of KPMG Shanghai Office, Senior Partner of KPMG Huazhen Shanghai Office as well as Senior Partner of KPMG Huazhen in Eastern and Western China. Mr. Cai retired from KPMG Huazhen in April 2010. Mr. Cai was responsible for IPO projects for a number of large Chinese domestic enterprises in China, Hong Kong or overseas, as well as for various projects for listed companies. He possesses a wealth of professional knowledge and experience. His current term of office is from June 2011 to June 2014.

Table of Contents*Supervisory Committee*

The Company has a Supervisory Committee whose primary duty is to supervise senior management of the Company that includes the Board of Directors, managers and senior officers. The function of the Supervisory Committee is to ensure that senior management of the Company act in the interests of the Company, its shareholders and employees and in compliance with PRC law. The Supervisory Committee reports to the shareholders in the general meeting. The Articles of Association provide the Supervisory Committee with the right to investigate the business and the financial affairs of the Company and to convene shareholders' meetings from time to time. The Supervisory Committee currently comprises of six members, two of whom are employee representatives and four of whom are external supervisors, including two independent supervisors.

Zuo Qiang, 50, is the Supervisor, Vice Secretary of the Discipline Supervisory Committee, Director of the Supervisory Office, Director of the office of the Supervisory Committee and Secretary of the Discipline Supervisory Committee of the Headquarter of the Company. Mr. Zuo joined the Complex in 1981 and has held various positions, including archivist of the Command Division for the construction of Phase II of No. 1 Chemical Plant, Head of archives of the ethylene plant, Secretary of the Youth League Committee of the ethylene plant, Secretary of the Youth League Committee of the Refining and Chemical Division of the Complex, Secretary of the Youth League Committee of the Refining and Chemical Division, Secretary of General Branch of the Communist Party Committee of Ethylene Plant No. 1 of the Refining and Chemical Division of the Company and Deputy Director of the Supervisory Office of the Company. He was appointed Secretary of the Discipline Supervisory Committee of the Headquarter of the Company in August 2008. He has been serving as Director of the Supervisory Office of the Company since April 2011. Mr. Zuo was appointed Supervisor of the Company and the Director of the office of the Supervisory Committee in June 2011. In October 2011, he was appointed the Vice Secretary of the Discipline Supervisory Committee. Mr. Zuo graduated from the Correspondence College of the Communist Party Committee School of the Central Committee in June 1993 with a major in Party & Administrative management. He is an ideologist by professional title.

Li Xiaoxia, 43, is the Supervisor and the Vice President of the Labor Union of the Company. Ms. Lee joined the Complex in 1991 and has held various positions, including Controller of the operation zone of the marine terminal of the Company, Assistant to the Workshop Director, Deputy Workshop Director and Deputy Section Chief of Storage and Transportation Area No. 2 of the Refining and Chemical Division, Deputy Secretary of the Youth League Committee of the Company and Secretary of Chief Branch of Communist Party of the Labor Union for Staff Exchange and Relocation Centre. She was appointed Secretary of the Communist Party Committee and Deputy Manager of the Refining Division of the Company in June 2008. She was appointed Supervisor of the Company in June 2011 and Vice President of the Labor Union of the Company in December 2011. Ms. Li graduated from Liaoning University of Petroleum and Chemical Technology in August 1991 with a major in petroleum and natural gas transportation. She is a senior specialist technician by professional title.

External Supervisors

Zhai Yalin, 48, is Deputy Director of the Auditing Bureau of Sinopec Group and Deputy Director of Auditing Department of Sinopec Corp. and has served as External Supervisors of the Company since June 2008. Mr. Zhai began his career in 1986 and has been successively Deputy Head of the Head Office and Director of the Auditing Department of Qianguo Refinery, Deputy Director of the General Office of Sinopec Huaxia Auditing Company, Deputy Director of the General Administrative Office of the Auditing Bureau of Sinopec Group, Director of the General Administrative Office of the Auditing Bureau of Sinopec Group, and Director of the General Administrative Office of the Auditing Bureau of Sinopec Group (Auditing Department of Sinopec Corp.). Since December 2001, Mr. Zhai has been holding concurrently the positions of Deputy Director of the Auditing Bureau of Sinopec Group and Deputy Director of Auditing Department of Sinopec Corp. Mr. Zhai graduated from Jilin Siping Normal College in 1986 and is a senior economist by professional title.

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Wang Liqun, 55, is Deputy Chief of the Supervisory Bureau of Sinopec and Deputy Director of the Supervisory Department of Sinopec Corp. In June 2011, he was appointed the External Supervisor of our Company. Mr. Wang started working in 1976 and has held various positions, including Deputy Director of the Manager's Office of Beijing Yanshan Petrochemical Corporation, Director of the Personnel Department, Deputy Head and Head of the Department for Cadres of Beijing Yanshan Petrochemical Co., Ltd. He served as a member of the Standing Committee of the Communist Party Committee and Chairman of the Labor Union of Beijing Yanshan Petrochemical Co., Ltd. from August 2008 to April 2010. He has been serving as Deputy Chief of the Supervisory Bureau of Sinopec and Deputy Director of the Supervisory Department of Sinopec Corp. from April 2010. Mr. Wang graduated from Beijing Federation of Labor Unions University for Workers and Staff in 1984 with a major in environmental protection (Diploma), and graduated from Beijing University of Technology in 1997 with a major in business management (Bachelor). He is a senior economist by professional title.

Independent Supervisors

Chen Xinyuan, 48, is Dean, Professor and Tutor to doctoral students of the College of Accounting, Shanghai University of Finance and Economics. Mr. Chen was appointed the Independent Supervisor of the Company in June 2011. After graduation from the Accounting Faculty, Hangzhou College of Commerce in July 1985, Mr. Chen undertook post-graduate studies at the Accounting Faculty of Shanghai University of Finance and Economics and continued as a lecturer. He commenced his doctoral studies in accounting while teaching and received his doctorate in June 1994. He has been a tutor to doctoral students since December 1998. From June 2000 to June 2003, Mr. Chen was Independent Supervisor of the Company. From June 2003 to June 2011 Mr. Chen was appointed Independent Non-executive Director of the Company. Mr. Chen has also studied in West Germany for one year. He is an expert in financial reporting and accounting, given his experience in the academic aspects of accounting and notable achievements in accounting research. He is also experienced in business management.

Zhou Yunnong, 70. Mr. Zhou was appointed Independent Supervisor of the Company in June 2011. Mr. Zhou joined the Complex in October 1972 and held various positions including Deputy President of the Complex, Deputy Director of the Human Resource Department of Sinopec Group, Deputy Secretary of Communist Party Committee of the Complex, Vice President of the Company, Secretary of the Communist Party Committee of Sinopec Jinshan Industrial Company and the Governor of Jinshan District of Shanghai. From November 1999 to April 2002 he was a Senior Advisor to Shanghai Jinshan District. From June 2003 to June 2005, Mr. Zhou was Independent Supervisor of the Company. From June 2005 to June 2011, Mr. Zhou was Independent Non-executive Director of the Company. Mr. Zhou has extensive experience in business management and public administration management. Mr. Zhou graduated from East China Normal University in August 1964, majoring in radio. He is a senior engineer by professional title.

Senior Management

Zhang Zhiliang, 59, is a Vice President of the Company. Mr. Zhang joined the Complex in 1977 and held various positions including Deputy Director and Director of the No. 1 Chemical Plant of the Complex, as well as assistant manager and manager of the Company's Refining and Chemical Division. He was Vice President of the Company from April 1997 to March 2006. He was Director of the Company from June 1997 to June 2003. He was Director of Secco from November 2002 to April 2010, and Vice President of Secco from January 2006 to November 2006. He was President of Secco from November 2006 to April 2010. In April 2010, he was appointed as a Vice President of the Company. Mr. Zhang graduated from Fudan University in 1977, majoring in high molecular chemistry. He graduated from Shanghai No. 2 Industrial University in 1999, majoring in Applied Computer Management. He is a senior cadre of professorate rank.

Zhang Jianping, 50, is a Vice President of the Company. Mr. Zhang was nominated as the director of the Company in the board meeting on April 19, 2013. His nomination as the director of the Company needs to be reviewed and approved by the Company's 2012 general shareholders meeting on June 6, 2013. He joined the Complex in 1987, and successively held the positions of Deputy Chief Engineer of the Aromatics Plant of the Refining and Chemical Division, Deputy Director of the Plastic Plant, Deputy Manager of Plastics Division of the Company, Director of the Petrochemical Research Institute, Director of the Production Division of the Company, Assistant to President of the Company and Director of the Production Division. In July 2004, he was appointed Vice President of our Company. Mr. Zhang graduated in 1984 from East China Institute of Chemical Technology specializing in Petroleum Refinery and received a Master's Degree in Petroleum Processing from the same institute in 1987. He is a qualified senior engineer by professional title.

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Jin Qiang, 47, is Vice President of the Company. Mr. Jin joined Zhenhai General Petrochemical Works in 1986 and held various positions including Deputy Chief of the atmosphere and vacuum distillation unit and Deputy Chief of the heavy oil catalytic cracking plant. He then became Deputy Head and Head of the Machinery and Power Section of the Refinery Plant of Zhenhai Refining & Chemical Co., Ltd. He was appointed Deputy Director of the Utilities Department of Sinopec Zhenhai Refining & Chemical Co., Ltd (ZRCC) from June 2002 to April 2004, Deputy Director of the Machinery and Power Division of ZRCC from April 2004 to July 2005, Director of the Machinery and Power Division of ZRCC from July 2005 to October 2006, Director of the Machinery and Power Division of Zhenghai Refining & Chemical branch of Sinopec Corp. from October 2006 to March 2007 and Deputy Chief Engineer of Zhenghai Refining & Chemical branch of Sinopec Corp. from March 2007 to November 2011. Mr. Jin was appointed as the Vice President of the Company in November 2011. Mr. Jin graduated in July 1986 from the East China Institute of Chemical Technology specializing in chemical machinery, and graduated in July 2007 from the Graduate School of Central Party School specializing in economic management. He is a senior engineer by profession title.

Gao Jinping, 46, is the Vice President, Deputy Secretary of the Communist Party Committee, Secretary of the Communist Party Discipline Supervisory Committee of the Company and Chairman of the Labor Union of the Company. Mr. Gao was nominated as the director of the Company in the board meeting on April 19, 2013. His nomination as the director of the Company needs to be reviewed and approved by the Company's 2012 general shareholders meeting on June 6, 2013. Mr. Gao joined the Complex in 1990 and has held various positions including Deputy Secretary of the Communist Youth League of the Company, Deputy Secretary of the Communist Party Committee of the Experimental Plant and Chemical Division of the Company and Director of the Propaganda Division of the Company. In May 2003, Mr. Gao was appointed Deputy Secretary of the Communist Party Committee of the Company and Chairman of the Labor Union of the Company. From June 2004 to June 2006, Mr. Gao served as Director of the Company. In April 2006, Mr. Gao was appointed Secretary of the Communist Party Discipline Supervisory Committee of the Company. In June 2006, Mr. Gao was appointed Supervisor and Chairman of the Supervisory Committee of the Company. He rendered his resignation as the supervisor and Chairman of the Supervisory Committee with effect as of April 18, 2013. Mr. Gao graduated from the Food Processing Faculty of Shanghai Aquatic Products University with a major in cooling and cold storage technology and obtained a bachelor's degree in engineering in July 1990. In 2001, he completed his post-graduate studies in business administration in the aspect of industrial economics at Shanghai Academy of Social Sciences. He has senior professional title.

Guo Xiaojun, 43, is the Vice President, the Deputy Chief Engineer and Director of the Production Department of the Company. He joined the Company in 1991 and has held various positions, including Deputy Director of the Polypropylene Workshop in the Plastics Plant of the Company, Deputy Director of the Polypropylene Plant and Director of the Polyolefin Integrated Plant in the Plastics Division as well as Deputy Chief Engineer and Assistant to the Manager of the Plastics Division. He was Deputy Manager of the Company's Plastics Division from July 2008 to July 2009, Manager and Deputy Secretary of the Communist Party Committee of the Company's Plastics Division from July 2009 to March 2011, and has been serving as the Deputy Chief Engineer and Director of the Production Department of the Company since March 2011. He graduated with a major in basic organic chemical engineering from the East China University of Science and Technology in July 1991, and obtained a master's degree majoring in chemical engineering from the East China University of Science and Technology in April 2008. He is a senior engineer by professional title.

Zhang Jingming (FCIS, FCS), 55, is the Secretary of the Board of Directors, General Legal Counsel and Director of the Strategy Office of the Company. Mr. Zhang joined the Complex in 1978 and has held various positions including Project Manager and Deputy Director of the International Department, Securities Affairs Representative in Hong Kong and Deputy Director of the Board Secretariat. In June 1999, Mr. Zhang was appointed as Secretary to the Board of Directors. From June 1999 to June 2011, he concurrently served as Director of the Board Secretariat. In June 2001, Mr. Zhang was appointed Director of Strategy Research Department of the Company. In January 2005, Mr. Zhang was appointed General Counsel of the Company. In 1987, Mr. Zhang graduated from the Shanghai International Studies University majoring in English. During the period from 1992 to 1993, he was enrolled in graduate courses for the fourth Sino-British joint MBA program at Northwestern Polytechnic University and later on, Mr. Zhang went to the University of Hull in the United Kingdom for further study to earn an MBA degree and was granted the degree by the University of Hull in the United Kingdom in July 1995. In 2002, Mr. Zhang completed his graduate courses in international economic law at East China University of Political Science and Law. He is a senior economist by professional title.

B. Compensation.

The aggregate amount of cash compensation we paid to our directors, supervisors and executive officers during the year ended December 31, 2012 was approximately RMB7.598 million. In addition, directors and supervisors who are also officers or employees receive certain other benefits-in-kind, such as subsidized or free health care services, housing and transportation, which large Chinese enterprises customarily provide to their employees. No benefits are payable to members of the board or the Supervisory Committee or the executive officers upon termination of their relationship with us.

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The following table sets forth the compensation on an individual basis for our directors, supervisors and executive officers who received compensation from us in 2012.

Name	Position with the Company	Remuneration in 2012 (RMB 000) (before tax)
Rong Guangdao (1)	Former Chairman of the Board of Directors	688
Wang Zhiqing	Vice Chairman of the Board of Directors and President	688
Wu Haijun	Vice Chairman of the Board of Directors	
Li Honggen	Director and Vice President	602
Shi Wei	Vice President and Former Director	645
Ye Guohua	Director and Chief Financial Officer	586
Lei Dianwu	External Director	
Xiang Hanyin	External Director	
Shen Liqiang	Independent Director	
Jin Mingda	Independent Director	150
Wang Yongshou	Independent Director and Director of the Remuneration and Appraisal Committee	150
Cai Tingji	Independent Director and Director of the Audit Committee	150
Gao Jinping (2)	Vice President	586
Zuo Qiang	Supervisor	358
Li Xiaoxia	Supervisor	365
Zhai Yalin	External Supervisor	
Wang Liquan	External Supervisor	
Chen Xinyuan	Independent Supervisor	
Zhou Yunnong	Independent Supervisor	
Zhang Zhiliang	Vice President	631
Zhang Jianping	Vice President	586
Tang Chengjian (3)	Former Vice President	392
Jin Qiang	Vice President	586
Zhang Jingming	Company Secretary and General Legal Counsel	437

- (1) Rong Guangdao received compensation as Chairman of the Company in 2012 but no longer serves that position as the date of this annual report.
- (2) Gao Jinping received compensation as the supervisor and the Chairman of the Supervisory Committee of the Company in 2012 but no longer serves those positions as the date of this annual report.
- (3) Tang Chengjian received compensations as a Vice President of the Company in 2012 but no longer serves that position as the date of this annual report.

C. Board Practices.*Board of Directors*

Our board of directors consists of twelve members. Our directors are elected at meetings of our shareholders, and, unless they resign at an earlier date, are deceased or removed, will serve three-year terms. The directors shall be eligible for reelection upon expiry of their terms of office, however, the combined tenure of an independent director may not exceed a total of six years. The term of our current board of directors will expire in 2014. None of our directors have entered into any service contracts with us or any of our subsidiaries providing for benefits upon termination of appointment or employment (with the exception of compensation required by Chinese labor law).

Supervisory Committee

The Supervisory Committee is responsible for ensuring that our directors and senior officers act in the interests of our company or those of our shareholders or employees and that they do not abuse their positions and powers. The Supervisory Committee has no power to overturn the

decisions or actions of our directors or officers and may only recommend that they correct any acts that are harmful to our interests or the interests of our shareholders or employees. The Supervisory Committee is currently composed of six members appointed for a three year term. The term of the current members will expire in June 2014. Supervisory Committee members have the right to attend meetings of our board of directors, inspect our financial affairs and perform other supervisory functions.

Table of Contents*Audit Committee*

Pursuant to Paragraph 14 of the Code of Best Practices set out in Appendix 14 of the Rules Governing the Listing of Securities on The HKSE, we formed an audit committee on June 15, 1999 which consists of three directors. The current members are Cai Tingji, Shen Liqiang and Wang Yongshou according to the Resolutions of the First Meeting of the Seventh Session of the Board of Directors. The principal duty of the audit committee is to review and supervise our financial reporting process and internal controls. The members of the audit committee will hold office for the same term as their directorships which will expire in 2014.

Remuneration Committee

We formed a remuneration committee on December 25, 2001 which consists of three directors. The current members are Wang Yongshou, Jing Mingda and Ye Guohua according to the Resolutions of the First Meeting of the Seventh Session of the Board of Directors. The key responsibility of the Remuneration Committee is to formulate and review the remuneration policy and plan for the directors and executive officers, formulate the standards for evaluation of the directors and executive officers and conduct such evaluations.

Summary Corporate Governance Differences

There are significant differences between our corporate governance practices and those of U.S. issuers listed on the NYSE. Pursuant to Section 303A.11 of the NYSE listing Manual, we have disclosed certain of these differences on our website at www.spc.com.cn/enspc/spc/newsroomlook.php?Did=1650&cid=69dD1ev=5.

D. Employees.

As of December 31, 2012, we had 15,007 employees.

The following table shows the approximate number of employees we had at the end of our last three years by the principal business function they performed:

	December 31,		
	2010	2011	2012
Management	1,332	1,632	1,617
Engineers, technicians and factory personnel	9,023	8,857	8,689
Accounting, marketing and others	6,014	5,166	4,701
Total	16,369	15,655	15,007

Approximately 41.33% of our work force are graduates with a tertiary degree or higher. In addition, we offer our employees opportunities for education and training based upon our development and the individual performance of each employee.

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A system of labor contracts has been adopted in our company. The contract system imposes discipline, provides incentives to adopt better work habits and gives us greater management control over our work force. We believe that by linking remuneration to productivity, the contract system has also improved employee morale. As of December 31, 2012, almost all of the work force was employed pursuant to labor contracts which specify the employee's position, responsibilities, remuneration and grounds for termination. The contracts generally have short terms of one to five years and may be renewed with the agreement of both parties. The remaining personnel are employed for an indefinite term.

We have a labor union that protects employees' rights, aims to assist in the fulfillment of our economic objectives, encourages employee participation in management decisions and assists in mediating disputes between us and union members. We have not been subject to any strikes or other labor disturbances which have interfered with our operations, and we believe that our relations with our employees are good.

Total remuneration of our employees includes salary and bonuses. Employees also receive certain benefits in terms of housing, education and health services that we subsidize, and other miscellaneous subsidies. In 2012, we incurred RMB1,740.2 million in employment costs.

In compliance with Shanghai regulations, we and our employees participate in a defined contribution government pension scheme under which all employees upon retirement are entitled to receive pensions. In order to protect and properly enhance the living level of retired employees and improve the middle and long term incentive system, the company established an enterprise annuity plan. According to the plan, to the extent that the employees volunteer for the related payments and have been with the Company for one year or more, such employees are entitled to participate in the enterprise annuity plan. We will make payments to match the payments made by the employees after giving considerations to our profitability, the employee's work responsibilities, contributions, and treatments post retirement based on the principle of universal benefits. The company has 14,910 retired employees under the above retirement insurance plans.

In addition to the pension benefits, pursuant to the relevant laws and regulations of the PRC, we and our employees participate in defined social security contributions for employees, such as a housing fund, basic medical insurance, supplementary medical insurance, unemployment insurance, injury insurance and maternity insurance.

Table of Contents***E. Share Ownership.***

The following table shows the ownership interests of our Directors, Supervisors and senior officers in our shares as of March 31, 2013. All shares indicated are A shares and are directly owned by the relevant persons. In each case, they represent less than 1% of the outstanding A shares. No change in shareholdings occurred. Except as disclosed below, none of the Directors, Supervisors or senior officers or their affiliates had any other beneficial interest in our issued share capital as of March 31, 2013.

Name	Position	Shares held at March 31, 2013
Rong Guangdao	Former Chairman	3,600
Wang Zhiqing	Vice Chairman and President	0
Wu Haijun	Vice Chairman	0
Li Honggen	Director and Vice President	0
Shi Wei	Vice President and Former Director	0
Ye Guohua	Director and Chief Financial Officer	0
Lei Dianwu	External Director	0
Xiang Hanyin	External Director	0
Shen Liqiang	Independent Director	0
Jin Mingda	Independent Director	0
Wang Yongshou	Independent Director and Director of the Remuneration and Appraisal Committee	3,600
Cai Tingji	Independent Director and Director of the Audit Committee	0
Gao Jinping	Former Chairman of Supervisory Committee	0
Zuo Qiang	Supervisor	0
Li Xiaoxia	Supervisor	0
Zhai Yalin	External Supervisor	0
Wang Liqun	External Supervisor	0
Chen Xinyuan	Independent Supervisor	0
Zhou Yunnong	Independent Supervisor	0
Zhang Zhiliang	Vice President	0
Zhang Jianping	Vice President	0
Jin Qiang	Vice President	0
Zhang Jingming	Company Secretary and General Legal Counsel	0

We have no employee share purchase plan, share option plan or other arrangement that involves employees in our share capital.

Table of Contents**ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS.****A. Major Shareholders.**

Sinopec Corp. owns 55.56% of our share capital and is able to exercise all the rights of a controlling shareholder, including the election of directors and voting on amendments to our Articles of Association.

The table below sets forth information regarding ownership of our capital stock as of March 31, 2013 by (i) all persons who we know own more than five percent of our capital stock and (ii) our officers and directors as a group. We are not aware that any such shareholders have voting rights different from those of our other shareholders.

Title of Class	Identity of Person or Group	Number of Shares Held	Percent of Total Share Capital
Domestic Shares	Sinopec Corp.	4,000,000,000	55.56%
H Shares	HKSCC nominees Ltd.	2,294,740,101	31.87%
A Shares	Directors and Officers	7,200	less than 1%

As of March 31, 2013, a total of 2,330,000,000 H Shares were outstanding. A total of 720,000,000 circulating A Shares were outstanding on March 31, 2013.

As of March 31, 2013 a total of 1,798,984 ADSs were registered in the name of The Bank of New York Mellon, the depositary under our ADS deposit agreement. The Bank of New York Mellon has advised us that, as of March 31, 2013, 1,798,984 ADSs, representing the equivalent of 179,898,400 H Shares, were held of record by 89 other registered shareholders domiciles in and outside of the United States. We have no further information as to our shares held, or beneficially owned, by U.S. persons.

To the best of our knowledge, except as disclosed above, we are not directly or indirectly controlled by another corporation, any foreign government, or any other natural or legal person, severally or jointly.

We are not aware of any arrangement that may at a subsequent date result in a change of control of our company.

B. Related Party Transactions.*Intercompany service agreements and business-related dealings*

During 2012, pursuant to the Mutual Product Supply and Sales Service Framework Agreement entered into by the Company and Sinopec Corp., we purchased raw materials from, and sold petroleum products and petrochemicals as well as leased properties to, Sinopec Corp. and its associates, and Sinopec Corp. and its associates acted as sales agents for our petrochemical products. Under the Comprehensive Services Framework Agreement entered into by the Company and Sinopec Group, we accepted construction and installation, engineering design, insurance agency and financial services relating to the petrochemical industry provided by Sinopec Group and its associates. The relevant connected transactions were conducted in accordance with the terms of the Mutual Product Supply and Sales Services Framework Agreement and the Comprehensive Services Framework Agreement. As the Mutual Product Supply and Sales Service Framework Agreement and the Comprehensive Services Framework Agreement were set to expire on December 31, 2010, we renewed these agreements with Sinopec Corp. and Sinopec Group respectively upon approval and authorization at the 2010 Extraordinary General Meeting held on December 28, 2010. At the 2010 Extraordinary General Meeting, our shareholders also approved certain caps on the annual transaction values of certain ongoing continuing connected transactions for the years ending December 31, 2011, December 31, 2012 and December 31, 2013. The transaction amounts of the relevant connected transactions in 2012 did not exceed such caps.

The purchases by us of crude oil and related materials from, and sales of petroleum products by us to, Sinopec Corp. and its associates were conducted in accordance with the State's relevant policy and applicable State tariffs or State guidance prices. As long as the State does not lift its control over purchases of crude oil, sales of petroleum products and pricing thereof, such connected transactions will continue to occur. We sell petrochemicals to Sinopec Corp. and its associates and Sinopec Corp. and its associates act as agents for the sales of petrochemicals in order to reduce our inventories, expand their trading, distribution and sales networks and improve our bargaining power with our customers. We lease part of the properties to Sinopec Corp. and its associates in consideration of their good financial background and credit standing. We accept

construction and installation, engineering design, insurance agency and financial services relating to the petrochemical industry from Sinopec Group and its associates in order to secure steady and reliable services at reasonable prices.

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The prices of the continuing connected (i.e., related-party) transactions conducted between the Company and Sinopec Group, Sinopec Corp. and its associates are determined by the parties involved after consultation pursuant to (1) the fixed price of the state; or (2) the guiding price of the state; or (3) market prices, and the conclusion of agreements for the connected transactions are in compliance with the needs of the Company's production and operation. Therefore the above continuing connected transactions do not cause a material impact on the Company's independence.

				Unit: RMB 000
Type of major transactions	Connected parties	Annual cap for 2012	Transaction Amount during The reporting Period	Percentage Of the total Amount of the same type of transaction (%)
Mutual Product Supply and Sales Services Framework Agreement				
Purchases of raw materials	Sinopec Corp. and its associates	57,700,000	52,230,820	63.30
Sales of petroleum products	Sinopec Corp. and its associates	52,000,000	37,618,198	40.42
Sales of petrochemical products	Sinopec Corp. and its associates	17,400,000	13,722,908	14.74
Property leasing	Sinopec Corp. and its associates	31,000	23,976	51.66
Agency sales of petrochemical products	Sinopec Corp. and its associates	310,000	160,903	100.00
Comprehensive Services Framework Agreement				
Construction, installation and engineering design services	Sinopec Group and its associates	640,000	436,082	38.88
Petrochemical industry insurance services	Sinopec Group and its associates	141,000	115,918	65.92
Financial services	Sinopec Group and its associates	229,000	29,761	6.37

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Other related party transactions

We transferred to Sinopec Corp. an 81.97% equity interest owned by our wholly owned subsidiary Shanghai Petrochemical Investment Development Company Limited in Shanghai Jin Hua Industrial Company Limited for a consideration of RMB61,600,400. The relevant transfer agreement was entered into on February 8, 2006. The transaction generated a gain of RMB24,307,946 in 2006. The pricing principle was determined on the basis of a valuation report prepared by a qualified asset valuation company independent of the Company and Sinopec Corp. and upon arm's length negotiations between the parties. On the asset disposal date, the book value of the assets was RMB37,292,454, while the appraised value of the assets was RMB53,600,422 as at March 31, 2005.

We entered into equity transfer agreements with Sinopec Finance Company Limited to transfer our respective equity interests in China Everbright Bank and Bank of Shanghai to Sinopec Finance Company Limited. The considerations for the China Everbright Bank transfer and Bank of Shanghai transfer were RMB66,993,800 and RMB14,729,600, respectively. The relevant transfer agreements were entered into on December 7, 2006. As at the asset appraisal date, the book value of the equity interests held by the respective parties in China Everbright Bank and Bank of Shanghai totaled RMB55,449,641. The increase in the fair value of those equity interests of RMB26,228,500 as a result of the above transaction was recognized in the reserve, net of deferred tax, in 2006. The transaction prices were determined by way of a bidding process on the China Beijing Equity Exchange. The transfer of equity interest in China Everbright Bank was completed in April 2007. The transfer of equity interest in Bank of Shanghai was completed in July 2007.

We signed an agreement on December 30, 2005 to transfer our 2% equity interest in Sinopec Finance Company Limited to Sinopec Corp. for a purchase price of RMB82,000,000. In accordance with the payment terms of the agreement, we were paid the consideration on February 28, 2006.

We paid an amount of RMB164,763,000 to Sinopec Corp. and its subsidiary which consisted of equipment pre-payments and progress payments for the 380,000 tons per year glycol project and the long-cycle facility.