

SINOPEC SHANGHAI PETROCHEMICAL CO LTD

Form 20-F

April 30, 2014

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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

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

For the fiscal year ended December 31, 2013

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)

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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.

3,495,000,000 H Shares, par value RMB1.00 per Share

7,305,000,000 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):

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:

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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 RMB6.0537 to U.S.\$1.00, the noon buying rate on December 31, 2013 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 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 7,305,000,000 domestic shares of the Company, 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, 2011, 2012 and 2013 and our selected consolidated balance sheets data as of December 31, 2012 and 2013 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, 2009 and 2010 and our consolidated balance sheets data as of December 31, 2009, 2010 and 2011 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,				
	2009 (RMB)	2010 (RMB)	2011 (RMB)	2012 (RMB)	2013 (RMB)
CONSOLIDATED STATEMENTS OF OPERATIONS DATA					
Net sales:					
Synthetic fibers	2,823,663	3,906,636	4,150,231	3,313,318	3,220,466
Resins and plastics	12,263,540	14,900,012	16,418,559	14,706,350	14,268,401
Intermediate petrochemicals	8,421,035	17,206,440	19,023,204	17,993,493	18,430,821
Petroleum products	18,917,890	28,733,890	37,350,244	38,301,388	57,419,833
Trading of petrochemical products	4,623,989	6,565,793	11,616,999	12,020,651	11,157,633
Others	295,147	783,111	950,416	882,074	1,006,024
(Loss)/profit from operations	2,019,978	2,963,594	1,059,824	(1,772,446)	2,192,266
(Loss)/earnings before income tax	2,163,011	3,529,878	1,296,706	(2,016,473)	2,444,653
Net (loss)/income attributable to owners of the Company	1,588,365	2,769,023	956,106	(1,528,397)	2,055,328
Net income attributable to non-controlling interests	64,471	25,358	30,416	23,255	10,174
Basic (loss)/earnings per share(a)	0.15	0.26	0.09	(0.14)	0.19
Basic (loss)/earnings per ADS(a)	14.71	25.64	8.85	(14.15)	19.03

- (a) After the implementation of share capital increase from the capital reserve under the domestic share reform in December 2013, total shares increased from 7,200,000,000 shares to 10,800,000,000 shares. See Item 4. Information on the Company – A. History and Development of the Company – Domestic Share Reform. The calculation of earnings per share is retrospectively restated based on the weighted average

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number of shares outstanding of 10,800,000,000 in each of 2009, 2010, 2011, 2012 and 2013 as if these shares were in issue since 1 January 2009. Earnings per ADS are calculated on the basis that one ADS is equivalent to 100 H Shares.

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	Years Ended December 31,				
	2009 (RMB)	2010 (RMB)	2011 (RMB)	2012 (RMB)	2013 (RMB)
CONSOLIDATED STATEMENTS OF CASH FLOWS DATA					
Net cash (used in)/generated from operating activities	3,346,890	3,973,719	2,219,994	(2,066,385)	5,098,538
Capital expenditure	(2,120,292)	(1,356,845)	(3,481,235)	(4,259,859)	(1,323,137)
Net proceeds/(repayment) related to corporate bonds	1,000,000		(1,000,000)		
Proceeds from borrowings	29,211,434	39,355,780	35,106,127	53,365,372	55,037,612
Repayments of borrowings	(31,849,620)	(42,631,344)	(32,791,261)	(46,779,614)	(59,155,947)

	As of December 31,				
	2009 (RMB)	2010 (RMB)	2011 (RMB)	2012 (RMB)	2013 (RMB)
CONSOLIDATED BALANCE SHEETS DATA					
Current assets	9,061,425	8,531,841	9,665,814	12,891,424	14,486,028
Property, plant and equipment	14,977,205	13,570,559	12,501,980	17,468,748	16,669,479
Total assets	30,039,902	28,697,535	30,718,865	36,462,546	36,636,810
Short term borrowings (a)	7,774,673	4,395,438	5,512,074	11,023,877	7,094,026
Current liabilities	14,304,925	10,573,225	12,271,832	18,927,257	18,017,454
Long term borrowings (excluding current portion)	304,258	175,000	160,050	1,231,340	627,800
Total equity attributable to owners of the Company	15,136,434	17,689,457	17,925,563	16,037,166	17,732,494

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

Dividends

The following table sets forth certain information concerning the dividends of the Company 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

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

Exchange Rates

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
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
2013	6.0537	6.1478	6.2438	6.0537
October 2013	6.0943	6.1032	6.1209	6.0815
November 2013	6.0922	6.0929	6.0993	6.0903
December 2013	6.0537	6.0738	6.0927	6.0537
January 2014	6.0590	6.0509	6.0600	6.0402
February 2014	6.1448	6.0816	6.1448	6.0591
March 2014	6.2164	6.1729	6.2273	6.1183
April 2014 (through April 25)	6.2534	6.2196	6.2534	6.1966

Source: The sources of the exchange rates are 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 gradual relaxation of its

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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.

We consume large amounts of crude oil to manufacture our products of which more than 90% is typically imported. In 2013, crude oil costs accounted for RMB71.59 billion, or 69.36% 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 and results of operations and financial condition.

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Some of our major 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 typically 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 2011, 2012 and 2013, approximately 36.70%, 40.09% and 49.11% of our net sales were from such products subject to price controls. 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 2014 of approximately RMB2 billion (U.S.\$330 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, 2014, we had an aggregate outstanding indebtedness of approximately RMB7.729 billion (U.S.\$1.277 billion). Most of our borrowings 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, 2013 and for the three-month period ended March 31, 2014.

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 borrowings 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, 2014, Sinopec Corp. owned 50.56% 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, they could, in turn, lead Sinopec Corp. to 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 management members, 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. Major Shareholders and Related Party Transactions B. Related Party Transactions. Our business and results of operations could be adversely affected if Sinopec Corp. or Sinopec Group refuses to engage in such transactions or if it seeks 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. In February 2014, the Environmental Protection Bureau of Jinshan District imposed a fine of RMB80,000 on us because we commenced the operation of the environmental protection facility that supports the continuous polyester testing plant of the Polyester Fiber Research Institute under our Polyester Fiber Department without complying with the required inspection and acceptance procedures for the facility after we completed the upgrading of some of its equipment in 2006. See Item 4. Information of the Company B. Business Overview Environmental Protection. 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 us to incur 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 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 commercial insurance companies. 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 operating hazards. Resulting losses required to be compensated or otherwise paid for by us due to such operating hazards that are not fully insured against 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 the 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 the past, we have 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 government 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 these governmental reviews and approvals. If any of our important 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.

We face increasing 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 competition in the domestic petrochemical industry that benefited us in the past. In particular, China:

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

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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 face increasing competition from foreign companies and imports. In 2014, we expect the world economy to recover slowly and the growth in the petrochemical industry to remain sluggish. In addition, competition for our products has increased, as many overseas companies have switched their focus to sales in China. Furthermore, 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;

level of government involvement;

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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 its 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 greater autonomy for state-owned or controlled enterprises, the development of private 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.

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 operating results.

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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.

As most of our revenue is denominated in Renminbi, and most of our purchase of crude oil and some equipment and repayments of certain borrowings 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.

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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 or otherwise undeveloped 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 continuing 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 Association regarding the Company's affairs to arbitration. You will have no legal right to a court proceeding with respect to such disputes.

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 with respect to such disputes.

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.

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 U.S. Securities and Exchange Commission (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.

Our auditor, like other independent registered public accounting firms operating in China, is not permitted to be subject to inspection by the PCAOB and, as such, investors may be deprived of the benefits of such inspection.

Our independent registered public accounting firm that issued the audit reports included in this 20-F, as an auditor of companies that are traded publicly in the United States and a firm registered with the PCAOB, is required by the laws of the United States to undergo regular inspections by the PCAOB to assess its compliance with the laws of the United States and professional standards. Our auditor is located in China, a jurisdiction where the PCAOB is currently unable to conduct inspections without the approval of PRC authorities, and therefore, our auditor, like other independent registered public accounting firms operating in China, is currently not inspected by the PCAOB.

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Inspections of other firms located outside of China that the PCAOB has conducted inspection upon have identified deficiencies in those firms audit procedures and quality control procedures. The inability of the PCAOB to conduct inspections of independent registered public accounting firms operating in China makes it more difficult to evaluate the effectiveness of our auditor's audit procedures or quality control procedures. As a result, investors may be deprived of the benefits of PCAOB inspections and lose confidence in our reported financial information and procedures and the quality of our financial statements.

Proceedings instituted recently by the SEC against five PRC-based accounting firms, including our independent registered public accounting firm, could result in our financial statements being determined to not be in compliance with the requirements of the Exchange Act.

In December 2012, the SEC brought administrative proceedings against five accounting firms, including our independent registered public accounting firm, in China, alleging that they had refused to produce audit work papers and other documents related to certain other China-based companies under investigation by the SEC for potential accounting fraud. On January 22, 2014, an initial administrative law decision was issued, censuring these accounting firms and suspending four of the five firms from practicing before the SEC for a period of six months. The decision is neither final nor legally effective unless and until reviewed and approved by the SEC. The accounting firms have the ability to appeal and the four firms which are subject to the six month suspension from practicing before the SEC have indicated that they will appeal. The sanction will not become effective until after a full appeal process is concluded and a final decision is issued by the SEC. The accounting firms can also further appeal the final decision of the SEC through the federal appellate courts. We are not involved in the proceedings brought by the SEC against the accounting firms. However, our independent registered public accounting firm is one of the four accounting firms subject to the six month suspension from practicing before the SEC in the initial administrative law decision. We may therefore be adversely affected by the outcome of the proceedings, along with other U.S.-listed companies audited by these accounting firms.

On May 24, 2013, the PCAOB announced that it had entered into a Memorandum of Understanding on Enforcement Cooperation with the China Securities Regulatory Commission, or the CSRC, and the Ministry of Finance which establishes a cooperative framework between the parties for the production and exchange of audit documents relevant to investigations in the United States and China. However, it is not clear how these recent developments could affect the SEC's final decision in the case against the five accounting firms or any subsequent appeal to courts that the accounting firms may initiate. Therefore, it is difficult to determine the final outcome of the administrative proceedings and the potential consequences thereof.

If our independent registered public accounting firm were denied, temporarily, the ability to practice before the SEC and we were unable to find another registered public accounting firm in a timely manner to audit and issue an opinion on our financial statements, our financial statements could be determined to not be in compliance with the requirements of the Exchange Act. Such a determination could ultimately lead to delisting of our ADSs from the New York Stock Exchange or deregistration from the SEC, or both, which would substantially reduce or effectively terminate the trading of our ADSs in the United States.

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.

Generally, if, for any taxable year, at least 75% of our gross income is passive income, or at least 50% of the value of our assets are attributable to assets that produce passive income or are held for the production of passive income, we would be characterized as a passive foreign investment company (PFIC) for U.S. federal income tax purposes. We do not expect to be a PFIC for our current taxable year. However, since PFIC status depends on the composition of our income and the composition and value of our assets from time to time, there can be no assurance that we will not be considered a PFIC for any taxable year. If we are characterized as a PFIC, U.S. investors may suffer adverse tax consequences, including increased U.S. tax liabilities and reporting requirements. 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 and other sectors, including the Executive Orders 13622 (effective July 31, 2012), 13628 (effective October 9, 2012), and 13645 (effective July 1, 2013), the Iran Threat Reduction and Syria Human Rights Act of 2012 (ITRSHRA) enacted August 10, 2012 and the Iran Freedom and Counter-Proliferation Act (IFCA) enacted January 2, 2013. 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, and the engagement in transactions with certain Iranian specially designated nationals and blocked persons (SDNs) as identified and published by U.S. Department of the Treasury's Office of Foreign Assets Control, or OFAC, the agency primarily

responsible for administering U.S. sanctions and embargoes.

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We have sourced a small portion of our crude oil from Iran in the past through Sinopec Corp., our current controlling shareholder, and independent third parties, and we may continue to purchase crude oil from Iran. In addition, Sinopec Corp. 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. 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 and transactions related thereto are determined to be sanctionable activities by the U.S. President and/or the relevant U.S. governmental authorities, we may be subject to five or more of the twelve sanctions options available under the Iran Sanctions Act of 1996 (as amended) (ISA) and the ITRSHRA, which include restrictions on bank financing, outright blocking of the Company's property within U.S. jurisdiction, under the control of U.S. persons anywhere in the world, and prohibition of U.S. persons from investing or purchasing a significant amount of equity or debt instruments of the Company. Similar sanctions may also be imposed under the Executive Orders cited above and the IFCA. In addition, many 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. In addition, purchase of crude oil by Sinopec Corp. subsidiaries that supply us with raw materials may from time to time be sourced from National Iranian Oil Company. This entity has been identified by the U.S. government as an SDN and sanctioned under various laws, including for assisting the government of Iran to avoid sanction and for engaging in activities related to nuclear proliferation. Under Executive Order 13645, the U.S. President can sanction non-U.S. companies that engage in transactions with SDNs such as the National Iranian Oil Company. To the extent we indirectly (or directly) purchase raw materials from this entity, we risk potential U.S. government sanctions. Even absent any U.S. government sanctions, we risk adverse publicity in the world markets, which may impair our reputation and business.

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, countries subject to U.S. sanctions and embargoes. 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 U.S. government 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 ISA 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 the ISA. If the U.S. President determines that Sinopec Group or one of its affiliates in fact engaged in the targeted activities, he would be required to impose on Sinopec Group or its affiliates at least five sanctions from among twelve sanctions options available under the ISA, which range from restrictions on U.S. exports or bank financing to outright blocking of Sinopec Group or its affiliate's property within the U.S. or in the possession or control of U.S. persons anywhere in the world. In addition, the IFCA requires the U.S. President to block the property within U.S. jurisdiction or control of U.S. persons he determines, among other things, are engaged in certain transactions involving the energy, shipping or shipbuilding sectors of Iran or with certain SDNs. It also requires the U.S. President to impose five or more sanctions under the ISA on a person that he determines has knowingly, on or after July 1, 2013, sold, supplied or transferred to or from Iran precious metals or certain other materials (including graphite, aluminum, steel, coal and certain software) if used for specified purposes. If the U.S. President 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.

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In addition, pursuant to the IFCA, Executive Order 13645 and other U.S. laws, the U.S. government can sanction financial institutions anywhere in the world that engage in certain Iran related transactions. Such sanctions include prohibiting the financial institution from opening, or imposing strict conditions on maintaining, a correspondent or payable through account in the United States. The potential for financial institutions to be sanctioned for Iran related activities may impact our ability to engage in financial transactions related to our Iran transactions.

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.

Construction Projects

The Complex and we, as its successor, have completed six 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 (the "Phase 6 Project") and completed in December 2012. The key component of the Phase 6 Project was the refinery revamping and expansion project. The Phase 6 Project also included the technology development and fine chemicals projects. The purpose of the Phase 6 Project was to improve the Company's overall industrial structure, core competitiveness and the capability of maintaining sustainable developments. The Phase 6 Project was focused on the objective to achieve intensive utilization of natural resources and the build-up of a complete set of facilities, in accordance with the fundamental industrial model of integrating oil refining and petrochemical production. Through this project, the Company intended to further enhance its oil refining process and strengthen and expand the Company's core businesses while continuing to explore the development of fine chemicals and products with high value added. See [Item 4. Information on the Company](#) [D. Property, Plant and Equipment](#) [Capital Expansion Program](#).

Over the past four decades, the Company has built up an 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 were transferred to us. The Complex then ceased to exist as a legal entity. In 1998, Sinopec was restructured

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into a limited liability company under the name of China Petrochemical Corporation. 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.

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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 domestic 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 domestic shares were included in the Shanghai Stock Exchange Stock Index.

Domestic Share Reform

Pursuant to regulations issued by the CSRC, we were required to obtain shareholder approval for and implement certain share reform. As a result of such share reform, all non-publicly tradable domestic shares of the Company would be converted into publicly tradable domestic shares and may be sold publicly on the Shanghai Stock Exchange subject to any applicable lock-up period.

In connection with the share reform, the Distribution Proposal regarding 2013 Interim Distribution of Cash Dividend and the Conversion of Capital Fund and Surplus Reserve into Shares of the Company (Proposal) was approved at the Company's 2013 First Extraordinary General Meeting, 2013 First A Shareholders Class Meeting and 2013 First H Shareholders Class Meeting held on October 22, 2013. According to the Proposal, based on the Company's total share capital of 7,200,000,000 shares as of June 30, 2013, RMB2,421 million of the capital surplus of the Company from its share premium account will be used to fund the issue of 3.36 new bonus shares with respect to every 10 issued and outstanding shares, and the surplus reserve will be used to fund the issue of 1.64 new bonus shares with respect to every 10 issued and outstanding shares, and an interim cash dividend of RMB0.50 (tax included) for every 10 issued and outstanding shares will be distributed to all shareholders.

In addition, Sinopec Corp. undertakes under the Proposal that it shall not, within 12 months from the date on which Sinopec Corp. becomes entitled to trade, deal in or transfer its non-publicly tradable shares of the Company in the market (meaning the first trading day after the implementation of the Proposal), trade such shares in the market. Also, after the expiration of the aforesaid 12-month term, the amount of existing non-publicly tradable shares to be disposed of by Sinopec Corp. through trading on the stock exchange shall not represent more than 5% of the total number of our shares held by Sinopec Corp. within the next 12 months, and not more than 10% within the next 24 months.

Immediately upon completion of the conversion of capital surplus and surplus reserve into new shares of the Company, the total number of domestic shares of the Company reaches 7,305,000,000, and the total amount of H Shares of the Company reaches 3,495,000,000. Therefore, the Company's total share capital consists of 10,800,000,000 shares. Sinopec Corp., being the controlling shareholders of the Company, holds 5,460,000,000 domestic shares, representing 50.56% of the total share capital of the Company.

The share certificates of new H Shares issued in connection with the share reform have been dispatched and the cash dividend has been paid to the holders of H Shares on December 4, 2013. The dealings in the new H Shares commenced on December 5, 2013.

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.

In 2009, Secco completed the reconstruction and capacity expansion of ethylene cracking and downstream derivatives facilities. The capacity of ethylene cracking facility has been expanded to 1,090,000 tons per year.

To fund Secco's new acrylonitrile plant project with a capacity of 260,000 tons/year, its new ethylene plant with a new supercharger, its new butadiene plant with a capacity of 90,000 tons/year, and its utility facilities upgrading project, the shareholders of Secco agree to increase the registered capital of Secco by U.S.\$150,085,618 according to their respective shares in the equity interests in Secco, of which the Company is obligated to contribute an amount of U.S.\$30,017,124. We will pay such amount in installments with the equivalent value in RMB by January 24, 2016.

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**.

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B. Business Overview

We are one of the largest petrochemical companies in China based on 2013 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.

Based on 2013 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 2011, 2012 and 2013 are summarized as follows:

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%

Table of Contents**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%

Net Sales of RMB105,503.2 million in 2013

Synthetic fibers	3.05%
Resins and plastics	13.52%
Intermediate petrochemicals	17.47%
Petroleum products	54.42%
Trading of petrochemical products	10.58%
Others	0.96%
Total	100.00%

We derive a substantial portion of our revenues from customers in Eastern China (principally 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 growth of economy 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 2011, 2012 and 2013 are as follows:

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

2012 Net Sales by Region (%)

	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

Table of Contents**2013 Net Sales by Region (%)**

	Eastern China	Other parts of China	Exports
Synthetic fibers	86.01	13.92	0.07
Resins and plastics	86.25	13.75	0.00
Intermediate petrochemicals	95.74	2.48	1.78
Petroleum products	98.69	1.31	0.00
Trading of petrochemical products	91.65	7.61	0.74
Total net sales	94.61	4.34	1.05

Business Strategy

In 2014, we expect that our business and operating conditions will remain challenging. We aim to fully exploit the potential of the refinery revamping and expansion project (completed as part of the Phase 6 Project) with the view to further improving the refining and chemical integration of our operations and continuing our efforts to ensure the high safety and environmental protection standards, the stable operation of our facilities and equipment so as to enhance the quality of our products and, the economic return of our development and achieve sustainable growth.

To achieve our business objectives in 2014, we will work diligently to fulfill the following tasks:

(a) Continue to focus on safety and environmental protection and promote energy conservation and emissions reduction

We will continue to implement a strict safety management system, improve our production safety responsibility system and implement the production safety responsibility system at all levels. We plan to launch the health, safety and environmental protection (HSE) information management system. In order to improve our HSE management skills, we will establish a highly-regulated and standardized operation management process, and use quantifiable criteria to evaluate performance and efficiency. We will increase our efforts to improve the environment and control odor. We will also carry out the implementation of our Green Water and Blue Sky project, which was initiated by the Sinopec Group in 2013 as the largest pollution control project ever launched in China's petrochemical industry. As part of this project, we will launch a denitrification project for furnaces No. 1 and 2, an optimization and renovation project for desulfurization facilities at furnaces No. 1 No. 4, as well as a project to improve the sewage treatment efficiency and sewage recycling. We will continue to undertake activities that are in line with and promote the concept of green and low carbon, saving energy and reducing emissions. Such activities include managing energy (e.g., water and steam), continuing to compile statistics on carbon emissions, engaging in carbon trading, and keeping track of power consumption of our electrical equipment. Furthermore, we will accelerate the progress of our work on reducing flare gas emissions, constructing recycling projects and implementing energy-saving technologies.

(b) Continue to optimize our operations so as to enhance economic efficiency

We will continue to strengthen the management of our crude oil procurement, and increase the proportion of high-grade fuel oil products. We will further improve the refining and chemical integration of our operations, and the composition of our refined oil products. We will improve our profit and loss calculation models for major plants, monitor their contribution to our margins and arrange our production operations accordingly so as to achieve greater efficiency. We will optimize the use of raw materials for ethylene cracking and aromatics production, as well as the composition of plastics and synthetic fibers products. We will strive to strengthen and improve our quality control in sales and marketing. We will focus on improving the correlation between production and sales, in particular the correlation among the production, sales, and research and development of new products. In order to reduce the cost of sales, we will further optimize the scope of sales area of our products, our internal operations and the delivery models for our products. We will further improve our budgetary management and improve our asset management over the lifespan of our assets with a view to reducing our financing costs and optimizing our financing structure. Furthermore, we will strengthen our tax planning management on obtaining more preferential tax treatment, as well as other benefits. We will also continue to exercise stringent controls over costs and non-operational expenses.

(c) Strengthen the management of our production and operations to ensure the stable operation of our plants

We will strengthen the management of our production and operations in order to maintain the stable operation of our plants. We intend to achieve this objective by implementing a stricter plant overhaul management scheme. Our new scheme will arrange and coordinate plant productions, create a plant start-up and shut-down scheme, optimize materials mixing, and carry out regular on-site facilities maintenance. We will continue to improve the operational management of our public utilities and other systems in order to safeguard the stable operation of our

production plants. In order to ensure the improvement of the major technical and economic indicators that we monitor and compare annual results of, we will enhance the management of our production procedure and technology and strengthen our efforts on work supervision and assessment. In addition, we will improve our on-site plant management, increase plant utilization and through this we will ensure the continued operation of our plants for a significantly extended period of time.

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(d) Pursue new development projects, technological advancement and the construction and upgrading of our information systems

We will strengthen the research on our development strategy, accelerate our efforts on the adjustment of our business structure, and devote more efforts to production safety, environmental management and technological advancement in order to gradually transform and phase out existing outdated production capacity. We will actively evaluate and implement a new round of development projects to further facilitate the integration of our refining and chemical facilities, produce more light products, establish a more cost-effective operating process, and develop a stronger capacity to address market risks. To develop new products, we will focus on the development and promotion of fine chemical technologies, technologies for the industrialized production of high-performance fiber, technologies for the production of new plastics and unconventional high value added polyester, energy saving and environmental protection technologies. This will also help us adjust the structure of our existing products based on market demand and for the purposes of achieving a higher profit margin. We will also continue to develop, and broaden the application of, our information systems, including commencing the construction of the advanced process control (APC) systems for our No. 3 atmosphere vacuum distillation facility and No. 1 Ethylene glycol facility; constructing and upgrading 15 sets of process simulation systems; constructing a radio frequency identification (RFLD) warehouse management system, completing the development of a comprehensive statistical information system and the expansion and application of a real-time database system.

(e) Improve corporate management to maintain the continuous improvement of our management standards

We will further enhance our focus on the corporate management of our business and adopt appropriate changes in our management procedures, formulate and implement a plan to further strengthen the specialized and centralized management of our electrical system, streamline our operations, secure certifications for our research and development capacities, promote the adoption and use of a more upgraded energy system, continue to improve our performance appraisal system, maintain our focus on performance evaluation for relevant units and other organizations within our Company, improve the correlation between individual performance evaluation and related organizational performance evaluation, conduct a comprehensive evaluation of all of our professional service units so as to improve our specialized management, and continue to improve our operations and management with a view to fostering our staff's enthusiasm for and creativity in work.

(f) Strengthen team building and create a stable and harmonious environment for us

We will continue to focus on the development of our human resources. We will increase our human resources pool, bring in new talent and improve the composition of our workforce. In order to improve our employees' skills and performance, we will provide high-quality training to our employees, accelerate the implementation of set of training programs whereby our employees can learn job-related skills in an environment that simulates actual production and operation scenarios, and launch occupational training programs and competitions. In addition, we will broaden the channels for employee development, and focus on the development of talent exchange programs for our employees and the overall optimal deployment of our workforce. We strive to establish a corporate culture which emphasizes on the protection of the legal rights of our employees, and in turn contributes towards the improvement of employee performance. Furthermore, we will continue to promote our worker representatives system, increase the transparency of our governance and policies and engage in fair negotiations on the collective employment contracts with our employees. By doing so, we aim to promote a harmonious employment environment for our staff and maintain the stability of our business.

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 2013, with the completion and launching of the refinery revamping and expansion project as part of the Phase 6 Project, the volume of our physical production increased, with a total volume of products amounting to 15,604,300 tons, representing an increase of 31.75% over the previous year. We continue to produce premium products of a stable quality.

The Company processed 15,667,800 tons of crude oil (including 811,800 tons of crude oil processed on a sub-contract basis), representing an increase of 39.97%.

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Total production output of refined oil, including gasoline, diesel and jet fuel was 9,072,600 tons, representing an increase of 54.33%, among which the Company produced 2,871,500 tons of gasoline, 4,931,200 tons of diesel and 1,269,900 tons of jet fuel, representing an increase of 181.44%, 22.43% and 52.89%, respectively.

The Company produced 953,300 tons of ethylene and 611,800 tons of propylene, representing an increase of 4.22% and 21.29%, respectively.

The Company produced 939,200 tons of paraxylene, representing an increase of 8.43%.

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The Company also produced 1,129,900 tons of plastic, resins and copolymers (excluding polyesters and polyvinyl alcohol), representing an increase of 3.90%; 877,100 tons of raw materials for synthetic fiber, representing a decrease of 13.64%; 523,500 tons of synthetic fiber polymers, representing a decrease of 17.70%; and 252,800 tons of synthetic fibers, representing an increase of 0.48%.

The following table shows our 2013 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	0.53%	Textiles and apparel
Acrylic staple fiber	2.32%	Woven into fabrics or blended with other material fabrics to make fabric or acrylic top
Others	0.20%	
Sub-total	3.05%	
RESINS AND PLASTICS		
Polyester chips	2.97%	Polyester fibers, films and containers
PE pellets	5.64%	Films, ground sheeting, wire and cable compound and other injection molding products such as housewares and toys
PP pellets	4.34%	Extruded films or sheets, injection molded products such as housewares, toys and household electric appliance and automobile parts
PVA	0.26%	PVA fibers, building coating materials and textile starch
Others	0.31%	
Sub-total	13.52%	
INTERMEDIATE PETROCHEMICALS		
Ethylene	1.20%	Feedstock for polyethylene, EG, polyvinyl chloride (PVC) and other intermediate petrochemicals which can be further processed into resins, plastics and synthetic fiber
Ethylene oxide	1.67%	Intermediate products for the chemical and pharmaceutical industry, including dyes, detergents and auxiliary agents
Benzene	3.16%	Intermediate petrochemical products, styrene, plastics, explosives, dyes, detergents, epoxies and nylon
Paraxylene	6.20%	Intermediate petrochemicals and polyester
Butadiene	1.06%	Synthetic rubber and plastics
Ethylene glycol	1.54%	Fine chemicals
Others	2.64%	
Sub-total	17.47%	
PETROLEUM PRODUCTS		
Gasoline	17.34%	Transportation fuels
Diesel	25.06%	Transportation fuels and agricultural fuels
Jet Fuel	4.53%	Transportation fuels
Others	7.49%	
Sub-total	54.42%	
Trading of petrochemical products	10.58%	
Others	0.96%	
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 the 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 the 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) Vacuum Gas Oil (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 will 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 polyvinyl alcohol (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 low-density polyethylene (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

In 2013, we fully exploited the advantage and potential of the refinery revamping and expansion project that was completed as part of the Phase 6 Project. As the newly established refinery facilities enjoyed more adaptability and were built with upgraded materials, we could increase the degree of concentration for crude oil procurement and focus on more ideal sources of crude oil so as to reduce our procurement cost. The shutdown of No.1 delayed coker and the optimization of residual oil processing systems resulted in the optimal efficiency of oil residue processing. By optimizing the composition of refined oil and increasing the proportion of high-grade refined oil products, the ratio of diesel to gasoline decreased from 3.95:1 in 2012 to 1.72:1 in 2013. Production output of No. 95 gasoline or above increased by 109.44% year-on-year, and jet fuel production increased by 52.88%. We fully utilized the SPYRO software, which is Technip's proprietary model for steam-cracking yield prediction and complete furnace simulation of either gas or liquid feedstock, to optimize the structure of ethylene cracking and aromatics

feedstock. The fuel structure was also improved by the replacement of natural gas with by-product plant dry gas. We also continued to optimize the operation of our flare gas recovery system. By properly calculating the economic efficiency of the production facilities, our cost-effective facilities were operated at full capacity while those loss-making facilities were operated with minimal load.

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Crude Oil

Crude oil is our primary raw material and the most significant raw material we purchase from outside sources. In 2013, crude oil accounted for approximately 69.36% 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 2013, 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 Sinopec Group to sell elsewhere.

We have received confirmation from Sinopec Corp. that it will purchase on our behalf 14.5 million tons of domestic offshore crude oil and 0.1 million tons of imported crude oil in 2014. 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 that we will fully utilize our 2014 supply of crude oil. We believe that the mix of crude oil feedstock currently available is satisfactory for our 2014 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 amount of 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.

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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 that as we have been 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 2014 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 supply, we believe that sufficient supplies of crude oil will be available on the domestic or international markets for our 2014 production capacity and goals.

In 2013, our crude oil was sourced as follows:

Domestic offshore crude oil	0.21%
Imported crude oil	99.79%
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 increased use of imported oil will not materially 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 the 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 2013 was RMB4,758.25 (U.S.\$786.01) per ton and RMB5,393.37 (U.S.\$ 890.92) per ton, respectively. In 2013, we processed 15,635,300 tons of imported crude oil and 32,500 tons of domestic offshore crude oil (including 811,800 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 an 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; and (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, the NDRC may issue additional procedural guidelines, such as implementing ad hoc suspension or delay of price adjustment upon the approval by the State Council.

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We purchase crude oil through Sinopec Corp. and its affiliates from the sources selected and in the 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 2013, the trend of the world's oil supply being sufficient to satisfy the world's demand remained unchanged. International crude oil prices fluctuated at a high level primarily due to geopolitical risks in the Middle East and North Africa, global oversupply of crude oil caused by the development of shale oil gas in North America and market speculation. Because U.S. economic growth was stronger than expected, the demand for oil in America increased in contrast with the trend of falling demand over the past several years, new crude oil transmission pipes were used and many speculators took long position which resulted in the price of West Texas Intermediate (WTI) crude oil on the New York Mercantile Exchange increasing as compared with the previous year. In 2013, the average price of WTI crude oil was U.S.\$97.94/barrel, representing an increase of 4.06% from U.S.\$94.12/barrel in 2012. The price of Brent crude oil on the London Intercontinental Exchange decreased as compared with the previous year due to a stagnant European economy, the declining demand and oversupply of crude oil. In 2013, the average price of Brent crude oil was U.S.\$108.64/barrel, representing a decrease of 2.68% from U.S.\$111.63/barrel in 2012. In 2013, the average price of crude oil in Dubai was U.S.\$105.45/barrel, representing a decrease of 3.00% from U.S.\$109.05/barrel in 2012.

For the year ended 31 December 2013 we processed a total of 15,667,800 tons of crude oil (including 811,800 tons of crude oil processed on a sub-contract basis), representing an increase of 4,474,300 tons, or 39.97%, over the previous year. Of the crude oil we processed in 2013, domestic offshore oil accounted for 32,500 tons and imported crude oil accounted for 15,635,300 tons. After the launching of the refinery revamping and expansion project as part of Phase 6 Project in 2012, we enhanced the adaptability of the crude oil and significantly improved the ability to process the relatively low-cost high-sulfur crude oil in 2013. The average unit cost of crude oil processed (by us) was RMB4,819.11/ton (RMB5,224.38/ton in 2012), representing a decrease of 7.76% over the previous year. Our total cost of crude oil processed reached RMB71.593 billion in 2013, representing an increase of 28.91% compared to RMB55.538 billion for the previous year, which represented 69.36% of the total cost of sales.

Coal

Most of the coal used for electricity generation is purchased through a unified system of procurement 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 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 2014 will be approximately 2.14 million tons. In 2013, we consumed approximately 2.11 million tons of coal, an increase from 2012 of 0.015 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 2013, the total cost of these materials accounted for approximately 12.16% 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 2013 that were subject to planned distribution by Sinopec Group, sales by agents and sales based on our own discretion accounted for 58.55%, 39.35% and 2.10%, respectively, of the total products we sold.

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We generally sell our products to larger 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.

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 trading accounts in 2013. In general we managed to maintain a stable correlation between production and sales in 2013.

Product breakdown

Synthetic Fibers In 2013, 9.01% 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 15.37% of our sales of synthetic fibers in 2013.

Resins and Plastics In 2013, approximately 4.51% of our resins and plastics sales were to provincial and municipal government trading companies and approximately 62.75% were sold to industrial users. No single customer accounted for more than 3.16% of our sales of resins and plastics in 2013.

Intermediate Petrochemicals We sell a variety of intermediate petrochemical products, among which the sale volume of petroleum benzene and paraxylene was relatively high in 2013. Secco is the principal outside consumer of our petroleum benzene. In 2013, we sold 178 thousand tons of petroleum benzene to Secco, representing 42.58% of our total 2013 production of such product.

Jiaxing Petrochemical Company Limited and Oriental Petrochemical (Shanghai) Corporation (Oriental) are the principal outside consumers of our paraxylene. In 2013, we sold 338 thousand tons and 150 thousand tons of paraxylene, representing 36.02% and 15.97% of our total 2013 production of such product, to Jiaxing Petrochemical Company Limited and Oriental respectively, at prices mutually agreed upon by the relevant parties.

Petroleum Products In 2013, our primary gasoline and diesel customer was Sinopec Huadong Sales Company Limited.

Trading of Petrochemical Products In 2013, our primary trading customer for petrochemical products 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 2011, 2012 and 2013, approximately 36.70%, 40.09% and 49.11% of our net sales were from products subject to price controls. 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 99.83% of our products in volume were sold in 2013. In addition, the limitation in transportation infrastructure in China and the difficulties involved in transporting petrochemical products force companies to compete primarily on a regional basis. In 2013, 94.61% of our net sales were made to customers in Eastern China.

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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.

We believe that our vertical integration in business model 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. On the other hand, we think that China's WTO entry and increasing foreign investments in China have contributed and will continue to contribute to the growth of investment and business in China, resulting in an 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

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In 2013, we had an approximate 0.85% share of total domestic polyester and acrylic consumption while imports had an approximate 3.18% share.

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The following table summarizes the competitive position of our principal synthetic fibers according to domestic sales in 2013.

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	26.64%	1	Jilin Province	25%	23.87%

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

Resins and Plastics

In 2013, we had an approximate 3.47% share of total domestic resins and plastics consumption while imports had an approximate 34.86% share. The following table summarizes the competitive position of our principal resins and plastics products according to domestic sales in 2013.

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	3.82%	14	Jiangsu Province	8.7%	2.20%
PE	5.59%	12	Guangdong Province	7.4%	45.08%
PP	4.11%	12	Guangdong Province	7.1%	22.32%

Intermediate Petrochemicals

In 2013, we were one of the largest sellers of intermediate petrochemicals in China, holding an approximate 4.65% share of total domestic consumption, while imports had an approximate 25.90% share of domestic consumption. Ethylene glycol, paraxylene, benzene and butadiene are our major intermediate petrochemical products. In 2013, 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 2013.

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	8.58%	2	Zhejiang Province	8.6%	66.10%
Paraxylene	12.04%	2	Jiangsu Province	11%	56.60%
Benzene	5.93%	1	Jiangsu Province	5.5%	11.10%
Butadiene	5.30%	12	Zhejiang Province	5.7%	13.20%

Petroleum Products

In 2013, we had an approximate 3.05% share of total domestic petroleum products market while imports had an approximate 3.54% 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 2013, we sold approximately 98.69% of our petroleum products in Eastern China.

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Investments

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. Secco plans to invest in a new acrylonitrile plant project with a capacity of 260,000 tons/year, a new ethylene plant with a new supercharger, a new butadiene plant with a capacity of 90,000 tons/year, and a utility facilities upgrading project. One third of the investment will be funded by the shareholders of Secco through the increase of Secco's registered capital by U.S.\$150,085,618. The Company is obligated to contribute an amount of U.S.\$30,017,124 prior to January 24, 2016.

In 2013, Secco achieved a sales revenue of RMB29.370 billion (U.S.\$4.852 billion), representing an increase of 8.14% from its sales revenue of RMB27.158 billion (U.S.\$4.486 billion) in 2012. The increase of sales revenue was primarily attributable to the relatively high level of operation loads of the manufacturing facilities in 2013, as a result of which both the volume of production and sales increased. Secco produced 1,166.7 thousand tons of ethylene in 2013, representing an increase of 125.8 thousand tons over the previous year, up by 12.08%. Secco achieved a net profit of RMB199.82 million (U.S.\$33.008 million) in 2013, as compared to a net loss of RMB349.03 million (U.S.\$56.02 million) in 2012. The increase in net profit was primarily due to the fact that although the domestic petrochemicals market continued to be sluggish, Secco was able to generate marginal profit with respect to some of its petrochemical products. In addition, the sales volume increased in 2013. All the above reasons contributed to Secco's net profit in 2013.

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 making such waste substances meet the discharge standards. During 2013, we were assessed a total of RMB38.474 million (U.S.\$6.355 million) in fees for discharges of waste substances.

We completed the upgrading of some equipment of the environmental protection facility that supports the continuous polyester testing plant of the Polyester Fiber Research Institute under our Polyester Fiber Department in the second half of 2006, and then commenced the operation of the facility without complying with the required inspection and acceptance procedures for the facility. As a result, we were in breach of the relevant environment regulations of the PRC, and the Environmental Protection Bureau of Jinshan District imposed a fine of RMB80,000 upon us for such breach.

We believe our environmental protection facilities and systems are adequate for the existing national and local environmental protection regulations. In 2013, 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 2013, the Company's overall energy consumption per RMB10,000 of product value was 0.832 tons of standard coal, representing a decrease of 16.63% compared to 2012. In 2013, the proper disposal ratio of waste water, waste solids and waste gas reached 100%, with a year-on-year decrease of 58.96% in the solid residues disposed of by contractors, a year-on-year decrease of 0.14% in chemical oxygen demand (COD), a year-on-year decrease of 5.25% in the emissions of nitrogen oxides, and a year-on-year decrease of 11.51% in the total emissions of ammonia nitrogen. Despite the full operation of the refinery revamping and expansion project as part of the Phase 6 Project, the total emissions of sulphur dioxide were controlled effectively, with only a slight increase of 9.04%. The compliance rate of the discharge of waste water, the disposal rate of hazardous waste and other indicators, in each case, met the relevant environmental protection requirements. The average heat efficiency of the heating furnaces reached 92.24%, an increase of 0.35% over the previous year. In accordance with the requirements set forth by the Shanghai Municipal Government for eliminating obsolete production capacity, the service of No.1 ethylene cracker was halted in November 2013 ahead of schedule. We actively improved the quality of our refined oil products by upgrading our Shanghai V gasoline and China V diesel and supplied the same to the market. In 2013, the Company actively responded to carbon emission trading, securing carbon emission quotas for 2013 through 2015 and consummating its initial carbon emission trading with a volume of 1,000 tons.

Despite of 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.

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Insurance

We currently participate in a package of insurance coverage plan through Sinopec Group as its controlled subsidiary, which, as of December 31, 2013, was approximately RMB37.215 billion (U.S.\$6.147 billion) on our property and facilities and approximately RMB3.034 billion (U.S.\$0.501 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.

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.

Table of Contents*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 1970s, 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 was assumed by the State-owned Assets Supervision and Administration Commission, its function in industry planning and policy making was assumed by the 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 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 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 and other U.S. Sanctioned Countries

In 2013, 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 7.04% of our total purchase volume of crude oil. Details of the purchase volume and purchase expenses are provided below:

	Volume (thousand tons)	% of total	Amount (RMB billion)	% of total
Iran	1,018.226	7.04	4.873	7.08
Others	13,449.312	92.96	63.968	92.92
Total	14,467.538	100.00	68.841	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 0.0015% of Sinopec Group's total unaudited sales revenue in 2013. No profits were generated from these business activities in 2013.

We have no performance obligations under any contract to continue to purchase crude oil sourced from Iran in 2014.

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 (%)	Our voting power (%)
Shanghai Petrochemical Investment Development Company Limited	100.00	100.00
China Jinshan Associated Trading Corporation	67.33	67.33
Shanghai Jinchang Engineering Plastics Company Limited	74.25	71.43
Shanghai Golden Phillips Petrochemical Company Limited	60.00	60.00
Zhejiang Jin Yong Acrylic Fiber Company Limited	75.00	75.00
Shanghai Golden Conti Petrochemical Company Limited	100.00	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 2013, 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	Trading of petrochemical products
Sinopec Sales Company Limited	RMB1,700	Limited company	100.00	Sale of refined oil
	RMB13,203		100.00	

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Sinopec Yangzi Petrochemical Company Limited		Limited company		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	RMB5,619	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	RMB10,800	Limited company	50.56	Manufacturing of synthetic fibers, synthetic resin, intermediate petrochemical products and petroleum products
Sinopec Kantons Holdings Limited	HK\$248	Limited company	60.34	Trading of crude oil and petroleum products
Sinopec Yizheng Chemical Fiber Company Limited	RMB4,000	Limited company	40.25	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	Sale of refined oil
BP Sinopec (Zhejiang) Petroleum Company Limited	RMB800	Limited company	60.00	Sale of refined oil
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	Sale of refined oil
Sinopec Fuel Oil Sales Company Limited	RMB2,200	Limited Company	100.00	Sale of refined oil

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.

Plants and Facilities

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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.

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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 2013:

Production Unit (number of units)	Rated Capacity (tons)	Utilization Rate (%)
Crude oil distillation units (2)	14,000,000	102.20
Hydrocracker (2)	3,000,000	93.85
Ethylene units (2)	850,000	104.88
Aromatics unit	835,000	124.77
PTA unit	400,000	89.00
EO/EG unit (2)	525,000	94.51
Acrylonitrile unit	130,000	100.37
*Cracking and catalyzing (2)	4,500,000	103.63
Delayed Coking (2)	2,200,000	95.06
Diesel oil hydrogenation unit (3)	5,050,000	84.46
C5 segregation unit (2)	205,000	119.67

* For cracking and catalyzing units, the utilization rate of 86.32% only applies to one unit. The second unit ceased operating in 2013. Our two crude oil distillation units were designed and built in China. In 2013, the actual quantity of crude oil we processed was approximately 15.6678 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 2013:

Production Unit (number of units)	Rated Capacity (tons)	Utilization Rate (%)
Polyester units (3)	550,000	98.97
Polyester staple units (2)	158,000	99.91
Polyester filament units	21,000	88.39
Acrylic staple fiber units (4)	141,000	119.20
PE units (3)	408,000	102.80
PP units (3)	400,000	101.59
Vinyl acetate unit (2)	102,000	91.02

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.

The acrylic fiber units were built domestically, based on a design of equipment which had been imported into China in the 1960s and that we substantially improved. In 1996, we acquired two additional acrylic fiber units which use technology from the 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.

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.

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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 2013, we continued to place emphasis on HSE by implementing an HSE responsibility system at each level to strengthen the safety supervision at our operations and construction sites and to improve the HSE-related performance appraisal. These efforts have resulted in continued improvement in our safety and environmental protection practices. We did not encounter serious accidents involving production safety, environmental pollution or occupational poisoning in 2013. We achieved our goal of creating a safe and environmentally-friendly work environment. Our overall production remained stable and the number and duration of unplanned shutdowns at our major production plants declined by 34.48% and 9.27%, respectively. Among the 109 major indicators that measure technical and economic capacity, 66 exceeded those of the previous year while 38 reached advanced levels in our industry.

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 2013, approximately 42.02% 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 2013, products representing 17.32% 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 2013, products representing 2.23% 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.

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 national Chinese railway system. In 2013, products representing 1.14% 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 billion in 2014. 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
Refining Capacity Expansion				
No. 3 Diesel Hydrogenation Unit Reconstruction and Diesel Quality Upgrading Project	N/A	2014	2014	Basic Design submitted
Expansion of New and Existing Downstream Petrochemical Products				
The Carbon Fiber Project with a Capacity of 1,500 Tons/Year	1,500	2010	Phase I completed in 2012	Phase I completed
Manufacturing Facilities of EVA with a Capacity of 100,000 Tons/Year	100,000	2014	2015	Basic Design complied

N/A not applicable.

In 2011, 2012 and 2013, we invested RMB3.225 billion, RMB3.811 billion and RMB1.317 billion, respectively, in capital expansion projects.

Refining Capacity Expansion

With a view to fulfilling our need to adjust product mixes, we adhere to the operational principle of purchasing and using more heavy and low-quality crude oil. We have made a significant effort to improve the overall processing procedures, enhanced our reprocessing capacity, and continuously increased the operating adaptability and overall efficiency of our refining facilities. The construction of the Phase 6 Project, which was designed based on the considerations of and with emphasis on (i) both low cost and product diversity; (ii) both mass and refined production; and (iii) low cost and mass production in the upstream supply and high value added and refined production in the downstream production, and focuses on the reconstruction of refining facilities, fine chemicals, structure adjustment and system perfection, has basically been completed. The construction of the Refinery Revamping and Expansion Project has been completed. The relevant facilities were put into operation in December 2012.

With a view to complying with the national requirement to improve the quality of refined oil, we launched the No. 3 Diesel Hydrogenation Unit Reconstruction and Diesel Quality Upgrading Project. In July 2013, the feasibility study report for this project was approved by Sinopec Corp. We commenced the procurement process for a diesel hydrofining reactor in 2013. We plan to undertake the project in connection with the replacement and maintenance of the catalyst of our No.3 diesel hydrogenation unit in June 2014.

Expansion of New and Existing Downstream Petrochemical Products

As a fully integrated petrochemical complex, we produce a wide range of intermediate and downstream petrochemical products. We plan to utilize the 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 strength and our ability to maintain sustainable development, we plan to further increase our overall utilization rate of resources and adjust and improve our industrial structure through the measures discussed below. In response to the national requirement for the protection of a green environment and in order to fulfill our development needs, we have improved the environmental protection facilities through technological upgrading.

To take advantage of our specialty 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. The Company will decide on the timing of the construction of the additional phases of the project based on market conditions.

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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 2014 and completed in 2015.

ITEM 4A. UNRESOLVED STAFF COMMENTS.

None.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS.

General

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.

Table of Contents***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 2013. 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. 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.

Impairments for long-lived assets

Assets, that have an indefinite useful life, must be tested annually for impairment. Long term assets that are subject to amortisation are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. In determining the value in use, expected cash flows generated by the asset or the cash-generating unit are discounted to their present value. 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, 2011, 2012 and 2013, we recognized impairment charges on property, plant and equipment of RMB11 million, RMB nil and RMB nil, respectively. As of December 31, 2012 and 2013, the estimated recoverable amounts of its long-lived assets that were subject to impairment testing substantially exceeded their carrying values.

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 value. 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, 2011, 2012 and 2013.

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 RMB2 million, a provision of RMB0.2 million and a provision of RMB0.01 million, during the years ended December 31, 2011, 2012 and 2013, 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 RMB110 million, RMB204 million and RMB40 million respectively for the years ended December 31, 2011, 2012 and 2013. 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 2014 the bulk of our inventories as of December 31, 2013 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, 2013. No provision has been made in the financial statements at December 31, 2013 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

There are many transactions and events for which the ultimate tax determination is uncertain during the ordinary course of business. Significant judgment is required from the Company in determining the provision for income taxes in each of these jurisdictions. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

Deferred tax assets are recognized in respect of temporary deductible differences and the carry forward 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, 2013, the Company would need to generate future taxable income of at least RMB2,739 million, of which RMB2,371 million is required to be generated by 2017 prior to the expiration of the unused tax losses incurred in 2012.

We believe 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 typically 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 2011, 2012 and 2013, approximately 36.70%, 40.09% and 49.11% of our net sales were from such products subject to price controls. 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 repayment of certain borrowings 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)	2011 Net Sales (Millions of RMB)	% of Total Net Sales	Sales Volume (000 tons)	2012 Net Sales (Millions of RMB)	% of Total Net Sales	Sales Volume (000 tons)	2013 Net Sales (Millions of RMB)	% of Total Net Sales
Synthetic fibers	250.9	4,150.2	4.6	253.3	3,313.3	3.8	250.8	3,220.5	3.1
Resins and plastics	1,590.7	16,418.6	18.3	1,582.8	14,706.3	16.9	1,506.7	14,268.4	13.5
Intermediate petrochemicals	2,246.7	19,023.2	21.3	2,209.2	17,993.5	20.6	2,545.0	18,430.8	17.5
Petroleum products	6,968.1	37,350.2	41.7	6,921.0	38,301.4	43.9	10,391.5	57,419.8	54.4
Trading of petrochemical products		11,617.0	13.0		12,020.7	13.8		11,157.6	10.6
Others		950.5	1.1		882.1	1.0		1,006.1	0.9
Total	11,056.4	89,509.7	100.0	10,966.3	87,217.3	100.0	14,694.0	105,503.2	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,					
	2011		2012		2013	
	Millions of RMB	% of Net sales	Millions of RMB	% of Net sales	Millions of RMB	% of Net sales
Synthetic fibers						
Net sales	4,150.2	4.6	3,313.3	3.8	3,220.5	3.1
Operating expenses	(3,848.9)	(4.3)	(3,718.6)	(4.3)	(3,823.4)	(3.6)
Segment profit/(loss)	301.3	0.3	(405.3)	(0.5)	(602.9)	(0.5)
Resins and plastics						
Net sales	16,418.6	18.3	14,706.3	16.9	14,268.4	13.5
Operating expenses	(16,406.6)	(18.3)	(15,997.7)	(18.4)	(15,034.7)	(14.3)
Segment profit/(loss)	12.0	0.0	(1,291.4)	(1.5)	(766.3)	(0.8)
Intermediate petrochemicals						
Net sales	19,023.2	21.3	17,993.5	20.6	18,430.8	17.5
Operating expenses	(17,874.6)	(20.0)	(17,160.8)	(19.6)	(17,366.8)	(16.5)
Segment profit	1,148.6	1.3	832.7	1.0	1,064.0	1.0
Petroleum products						
Net sales	37,350.2	41.7	38,301.4	43.9	57,419.8	54.4
Operating expenses	(37,803.6)	(42.2)	(39,294.4)	(45.0)	(55,242.6)	(52.3)
Segment loss/(profit)	(453.4)	(0.5)	(993.0)	(1.1)	2,177.2	2.1
Trading of petrochemical products						
Net sales	11,617.0	13.0	12,020.7	13.8	11,157.6	10.6
Operating expenses	(11,602.0)	(13.0)	(11,974.3)	(13.7)	(11,052.1)	(10.5)
Segment profit	15.0	0.0	46.4	0.1	105.5	0.1
Others						
Net sales	950.5	1.1	882.1	1.0	1,006.1	0.9
Operating expenses	(914.2)	(1.0)	(843.9)	(1.0)	(791.3)	(0.7)
Segment profit	36.3	0.1	38.2	0.0	214.8	0.2
Total						
Net sales	89,509.7	100.0	87,217.3	100.0	105,503.2	100
Operating expenses	(88,449.9)	(98.8)	(88,989.7)	(102.0)	(103,310.9)	(97.9)
Profit/(loss) from operations	1,059.8	1.2	(1,772.4)	(2.0)	2,192.3	2.1
Net financing income/(costs)	83.5	0.1	(283.3)	(0.3)	121.7	0.1
Investment income	0.7	0.0	6.4	0.0		
Share of profit of associates and jointly controlled entities	152.7	0.1	32.8	0.0	130.7	0.1
Earnings/(loss) before income tax	1,296.7	1.4	(2,016.5)	(2.3)	2,444.7	2.3
Income tax	(310.2)	(0.3)	511.4	0.6	(379.2)	(0.3)
Net income/(loss)	986.5	1.1	(1,505.1)	(1.7)	2,065.5	2.0
Attributable to:						
Equity shareholders of the Company	956.1	1.0	(1,528.4)	(1.8)	2,055.3	1.9
Non-controlling interests	30.4	0.1	23.3	0.1	10.2	0.1
Net income/(loss)	986.5	1.1	(1,505.1)	(1.7)	2,065.5	2.0

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.

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A. Results of Operations

In 2013, we witnessed the sluggish recovery of the global economy, the gradual economic growth in the developed countries, and a slow but steady recovery of the American economy. However, due to insufficient overall demand, the developed countries' demand for imports from developing countries declined significantly. Emerging economies and developing countries struggled to cope with the decrease in capital inflows as well as significant fluctuations in the financial markets which resulted in their economies growing at a much slower pace than they had in previous years. Amid such substantial adjustments and changes, the global economy lacked momentum for growth. The complex and ever-changing global economic environment put further downward pressure on the PRC economy. The PRC government adhered to its strategy of seeking economic development while maintaining stability and managing stable growth, adjusting the country's industrial structure and promoting reforms. The PRC economy showed steady improvement with its annual GDP growth rate at 7.7%, which represented a further slowdown in economic growth as compared with the previous year. The petroleum and petrochemical markets remained sluggish, which was mainly attributable to a variety of factors such as increased downward pressure on the economy, a weak recovery in downstream demand and significant issues with overcapacity.

In 2013, facing complex market conditions, we focused on our target of building up a refining and petrochemical enterprise which is a leader in China and first-class in the world, and improved our quality and efficiency. Adopting a market-orientated approach, we took full advantage of our refinery revamping and expansion project (completed as part of the Phase 6 Project) by improving various aspects of our production, operation and development so as to enhance the level of safety and environmental-friendliness of our plants, and maintain the stability of and further optimize our production and operations. Our major production facilities recorded stable and high volumes of throughput. Significant results were achieved through refined management and we made substantial improvements to our production and operational efficiency.

In 2013, our turnover amounted to RMB115,490.3 million, increasing by 24.17% compared with 2012. Our production/sale ratio was 100.07%, and the trade receivables recovery rate was 100%. Our total amount of import and export was U.S.\$11,256 million, increasing by 24.84% compared with 2012.

Year ended December 31, 2013 compared with year ended December 31, 2012

Net sales

Against the backdrop of the slackened economic growth at home and abroad in 2013, 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 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 2013, our net sales amounted to RMB105,503.2 million, representing an increase of 20.97% from RMB87,217.3 million in 2012. For the year ended December 31, 2013, the weighted average prices (excluding tax) of our synthetic fibers, intermediate petrochemical products and petroleum products decreased by 1.83%, 11.08%, and 0.15%, respectively, over the previous year, while the weighted average price (excluding tax) of resins and plastics increased by 1.92%.

(i) Synthetic fibers

In 2013, the net sales of synthetic fibres amounted to RMB3,220.5 million, representing a decrease of 2.80% compared to RMB3,313.3 million in the previous year. The weighted average sales price of synthetic fibres decreased by 1.83% as compared to the previous year. In particular, the weighted average sales prices of acrylic fiber and polyester fiber, the principal products of synthetic fibres, decreased by 1.15% and 7.15% over the previous year, respectively. The sales of acrylic fiber and polyester fiber accounted for 76.17% and 17.23% of the total sales of synthetic fibres, respectively.

Net sales of synthetic fiber products accounted for 3.1% of total net sales in 2013, representing a decrease of 0.7 percentage points as compared to the previous year.

(ii) Resins and plastics

The net sales of resins and plastics amounted to RMB14,268.4 million in 2013, representing a decrease of 2.98% as compared to RMB14,706.3 million in 2012, with the sales volume decreasing by 4.81% as compared to the previous year while the weighted average sales prices of resins and plastics increased by 1.92% in 2013. Among resins and plastics products, the weighted average sales price of polyethylene for 2013 increased by 4.71%; the weighted average sales price of polypropylene for 2013 increased by 0.38%; the weighted average sales price of polyester pellet for 2013 decreased by 4.75%. The sales of polyethylene, polypropylene and polyester pellet accounted for 41.67%, 32.14% and

22.00% of the total sales of resins and plastics, respectively.

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The net sales of resins and plastics accounted for 13.5% of total net sales in 2013, representing a decrease of 3.4 percentage points as compared to the previous year.

(iii) Intermediate petrochemicals

The net sales of intermediate petrochemical products amounted to RMB18,430.8 million in 2013, representing an increase of 2.43% as compared to RMB17,993.5 million in 2012, with the sales volume increasing by 15.20% as compared to the previous year while the weighted average sales price of intermediate petrochemical products decreased by 11.08% in 2013. The decrease of the weighted average sales prices of intermediate petrochemicals is attributable to the sluggish domestic chemical market, and the relatively large decrease of the average price of the Company's key intermediate petrochemicals.

Among the intermediate petrochemical products, weighted average sales prices of paraxylene, butadiene and ethylene oxide decreased by 3.35%, 45.55% and 8.64%, respectively, while the weighted average sales price of benzene and glycol increased by 7.72% and 0.29%. The sales of paraxylene, butadiene, glycol, ethylene oxide and benzene accounted for 35.47%, 6.05%, 8.81%, 9.54% and 18.09% of the total sales of intermediate petrochemical products, respectively.

The net sales of intermediate petrochemical accounted for 17.5% of total net sales in 2013, representing a decrease of 3.1 percentage points as compared to the previous year.

(iv) Petroleum products

The net sales of petroleum products amounted to RMB57,419.8 million in 2013, representing an increase of 49.92% as compared to RMB38,301.4 million in the previous year, with the sales volume increasing by 50.14% as compared to the previous year while the weighted average sales price decreased by 0.15% in 2013.

The net sales of petroleum products accounted for 54.4% of total net sales in 2013, representing an increase of 10.5 percentage points as compared to the previous year.

(v) Trading of petrochemical products

The net sales of the trading of petroleum products amounted to RMB 11,157.6 million in 2013, representing a decrease of 7.18% as compared to RMB12,020.7 million in the previous year. Such decrease in the net sales was mainly attributable to a slight decrease in the trading volume of petrochemical products as compared to the previous year.

The net sales of trading of petrochemical products accounted for 10.6% of total net sales in 2013, representing a decrease of 3.2 percentage points as compared to the previous year.

(vi) Others

The net sales of others amounted to RMB1,006.1 million in 2013, representing an increase of 14.06% as compared to RMB882.1 million in the previous year. Such increase in the net sales was mainly attributable to an increase of revenues of our business of crude oil processed on a sub-contract basis and the lease of assets.

The net sales of others accounted for 0.9% of the Company's total net sales in 2013, representing a decrease of 0.1% as compared to the previous year.

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 was RMB103,310.9 million in 2013, representing an increase of 16.09% as compared with RMB88,989.7 million in 2012. Our operating expenses of synthetic fibres, intermediate petrochemicals and petroleum products were RMB3,823.4 million, RMB17,366.8 million and RMB55,242.6 million, representing an increase of 2.82%, 1.20% and 40.59% as compared to the previous year, respectively, primarily due to the increase in the sales volume and the launch of the Phase 6 Project.

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Our operating expenses of resins and plastics, others, and the trading of petrochemical products in 2013 amounted to RMB15,034.7 million, RMB11,052.1 million and RMB791.3 million, representing a decrease of 6.02%, 7.70% and 6.23% respectively, as compared to the previous year. This is primarily due to a slight decrease in the sales volume of the relevant products as compared to the previous year.

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Cost of sales

Our cost of sales amounted to RMB103,225.9 million in 2013, increasing by 16.48% from RMB88,617.8 million in 2012. Cost of sales accounted for 97.84% of the net sales for 2013.

Selling and administrative expenses

Our selling and administrative expenses amounted to RMB691 million in 2013, representing an increase of 6.32% as compared to RMB649.9 million in the previous year, mainly due to an increase in the uploading and unloading and transportation fees.

Other operating income

Our other operating income amounted to RMB673.4 million in 2013, representing an increase of 101.74% compared to RMB333.8 million in the previous year, mainly due to a net income of RMB465 million from the asset transfer involving the Chenshan oil depot and our subsidiary China Jinshan Associated Trading Corporation's foreign exchange gains of RMB67.3 million.

Other operating expenses

Our other operating expenses were RMB67.4 million in 2013, basically at par with RMB55.8 million in 2012.

Profit/loss from operations

Our profit from operations amounted to RMB2,192.3 million in 2013, representing an increase in profit of RMB3,964.7 million as compared to the loss from operations of RMB1,772.4 million in the previous year. Below are the major reasons for the profit.

As a result of the completion and commencement of operation of the refinery revamping and expansion project as part of the Phase 6 Project, we improved our ability to process sour crude oil and our production capacity for refined oil. Through this project, we have optimized our product structure creating potential for raw material optimization, significantly improved the quality of the raw materials of ethylene and aromatics, and achieved a substantial reduction in production costs. In 2013, the processing cost of crude oil amounted to RMB4,819.11 per ton, representing a year-on-year decrease of 7.76% as compared to RMB5,224.38 per ton for the previous year.

We improved the structure of our refined oil, leading to a substantial increase in profits for our refining segment. The ratio of diesel sales to gasoline sales was reduced to 1.67:1 in 2013 from 3.69:1 in the previous year, resulting in increased income due to the substantial growth in gasoline sales. As a result of the optimization of our product structure, less petroleum coke and more bitumen were produced, which was demonstrated by a year-on-year decrease of 1.83 in terms of the ratio of petroleum coke to bitumen.

Consequently, our profit increased as the price of bitumen is significantly higher than petroleum coke.

Net financing income/costs

Our net financing income were RMB121.7 million in 2013, while there was a net financing cost of RMB283.3 million in 2012. The change was mainly due to an increase of RMB405 million in net foreign exchange income during the reporting period as compared to the previous year, resulting from the exchange rate depreciation of the U.S.\$ against Renminbi.

Earnings/loss before income tax

Our profit before income tax were RMB2,444.7 million in 2013, representing a significant increase of RMB4,461.2 million compared to the loss of RMB2,016.5 million in the previous year.

Income tax

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Our income tax expense was RMB379.2 million in 2013, while the Company's income tax benefit was RMB511.4 million in the previous year. The change was due to the fact that the Company earned a profit in 2013 and realized part of the deferred income tax assets recognized by the Company in 2008.

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 2013 was 25% (2012: 25%).

Net income/loss

Our net profit was RMB2,065.5 million in 2013, representing an increase of RMB3,570.6 million from the net loss of RMB1,505.1 million in the previous year.

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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 fiber and polyester fiber, the principal products of synthetic fibres, decreased by 23.54% and 16.66% over the previous year, respectively. The sales of acrylic fiber and polyester fiber accounted for 74.66% and 19.01% of the total sales of synthetic fibres, respectively.

Net sales of synthetic fiber 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.

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, with the weighted average sales price increased by 3.24%, while the sales volume decreased by 0.68%.

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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.

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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 was RMB88,989.7 million in 2012, representing a slight increase as compared with 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 is 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 in routine (continuing) connected transactions in line with the decrease in the sales volume.

Other operating income

Our other operating income amounted to RMB333.8 million in 2012, representing an increase of 103.16% 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.

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, representing a decrease in profit of RMB2,832.2 million as compared to the 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 the 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 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 as compared to the previous year because the exchange rate of the U.S. \$ to Renminbi was relatively stable during the reporting period. Furthermore, a substantial amount of new borrowings was made by us, resulting in an increase of RMB140.6 million in interest expenses.

Table of Contents**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 were RMB2,016.5 million in 2012, representing a decrease of RMB3,313.2 million as compared to 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.

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, representing a decrease of RMB2,491.6 million from the net income of RMB986.5 million in the previous year.

B. Liquidity and Capital Resources.

We strive to always have sufficient liquidity 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 borrowings. 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 borrowings 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.

The following table sets forth a condensed summary of our consolidated statement of cash flows for the years ended December 31, 2012 and 2013.

Cash flow data	Year Ended December 31,	
	2012	2013
	(Millions of RMB)	
Net cash (used in)/generated from operating activities	(2,066.4)	5,098.5
Net cash used in investing activities	(4,062.1)	(629.2)
Net cash generated from/(used in) financing activities	6,198.1	(4,496.9)
Net increase/(decrease) in cash and cash equivalents	69.6	(27.6)

Net cash generated from/used in operating activities

The net cash generated from operating activities amounted to RMB5,098.5 million in 2013, representing an increase in cash inflows of RMB7,164.9 million as compared to the net cash outflows of RMB2,066.4 million in the previous year, due to the following reasons: (i) the increase in our profit from operations during the reporting period, with net cash inflows from profit before taxation (net of depreciation and

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impairment losses on property, plant and equipment) amounting to RMB4,554.5 million in 2013, which represented an increase of RMB4,887.9 million of cash inflows as compared to net cash outflows of RMB333.4 million in the previous year; and (ii) our increased inventory balance led to a decrease in operating cash inflow of RMB101.2 million in 2013 (as compared to a decrease in operating cash inflow of RMB3,366.0 million due to increased inventory balance at the end of the previous year).

Table of Contents***Net cash used in investing activities***

Our net cash used in investing activities decreased from RMB4,062.1 million in 2012 to RMB629.2 million in 2013. This was primarily due to (i) a decrease in capital expenditure of RMB2,936.7 million, and (ii) an increase in proceeds received from long-term assets disposal of RMB574.7 million.

Net cash generated from financing activities

Our net cash used in financing activities was RMB4,496.9 million in 2013, while our net cash generated from financing activities was RMB6,198.1 million in 2012. This was primarily due to the increase in cash outflow of RMB12,376.3 million in repayments of borrowings, partially offset by an increase in cash inflow of RMB1,672.2 million in proceeds from borrowings.

Borrowings and banking facilities

Due to the Company's net profit position and the reduced capital expenditure, the Company managed to maintain the balance of cash and cash equivalents at a prudent level with a decrease in the amount of borrowings in 2013. Our total borrowings at the end of 2013 amounted to RMB7,721.8 million, representing a decrease of RMB4,533.4 million as compared to the end of the previous year, of which short term debts decreased by RMB3,929.9 million, and long term borrowings decreased by RMB603.5 million. We have generally been able to arrange short term loans with several PRC financial institutions as and when needed. The debt obligations as of December 31, 2012 and 2013 were as follows.

Debt instruments	Year Ended December 31,	
	2012	2013
	(Millions of RMB)	
Short term bank loans (1)	10,803.9	7,024.0
Short term loans from a related party (2)	220.0	70.0
Long term bank loans (1)	1,231.3	627.8
	12,255.2	7,721.8

- (1) As of December 31, 2013, no 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, 2013, the current liabilities exceeded current assets by RMB3,531.4 million. The liquidity of the Company is primarily dependent on the ability to maintain adequate cash inflow from operations, the renewal of its short-term bank loans and on its ability to obtain adequate external financing to support its working capital and meet its debt obligation when they become due. As of December 31, 2013, we had standby credit facilities of RMB26,106.3 million, of which RMB18,374.3 million was unutilized. We have carried out a detailed review of the cash flow forecast for the 12 months ending 31 December 2014. Based on such forecast, we believe that we will be able to renew these facilities when they expire based on our well-established relationships with various lenders and adequate sources of liquidity exist to fund our working capital and capital expenditure requirements.
- (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 borrowings 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 borrowings 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 obtaining 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 our ability to pay dividends on our shares.

Liability-to-asset ratio

As at December 31, 2013, our liability-to-asset ratio was 50.89% (2012: 55.29%). The ratio is calculated using this formula: total liabilities/total assets.

Capital expenditure

In 2013, our capital expenditure amounted to RMB1,317 million, representing a decrease of 65.44% as compared to RMB3,811 million in capital expenditure in 2012. Major projects include the following:

Project	Total project investment RMB million	Project status as at December 31, 2013
The Refinery Revamping and Expansion Project	6,261.0	Completed
The Transformation for Improving Manufacturing Capacity for Ethylene Oxide	129.0	Completed
Manufacturing Facilities of EVA with a Capacity of 100,000 Tons/Year	1,132.0	Basic Design complied
Dust abatement and denitrification reconstruction of No. 3 and No. 4 furnace of the department of thermoelectric	109.0	Completed
The SL-2 Cracking Furnace of No. 2 Ethylene Unit Transformation for Improving Energy Efficiency	115.0	Completed

Total

7,746.0

Our capital expenditure for 2014 is estimated at approximately RMB2,000 million.

Table of Contents*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 2011, 2012 and 2013 were RMB79.6 million, RMB72.2 million and RMB67.3 million, respectively, all representing approximately 0.1% of the total sales for those years.

In 2013, we carried out the implementation of carbon fiber and other key research projects as well as the development, production and marketing of a number of new products. Phase 1 of the carbon fiber plant operated steadily with significant improvement in product quality and reached the output and other standards after completing a single operating cycle. A new model of PTA pressure filter and a new boiler with enhanced efficiency and other optimized features were developed and put into operation. A number of technology projects, including isopentenyl technology and ethylene glycol silver catalyst, passed their relevant technical appraisals. Following the successful development of various technologies, including ethylidene norbornene, ethoxylates, sodium cyanide and biological fluidized bed sewage treatment technologies, we generated a number of technology packages suitable for their industrial application. A number of new research projects, such as the dual copolymer polypropylene reactor pilot plant and the synthetic fiber processing application center, were commenced. We developed polyethylene for micro fiber, polypropylene for capacitor film, large-diameter low-melt droop polyethylene tube pellets, flexible board polyester, insulating polyester, fine anti-pilling acrylic, acrylic patterned cloth and some other products for industrialized production, resulting in an output of 383,700 tons of new products, with a total product differentiation rate of 62.94%. A total of 50 patent applications were submitted, and 17 patents were granted. We completed the certification procedures for various new products featuring new technologies and our projects relating to special equipment for energy and water saving purposes. We received grants and subsidies of RMB7.742 million in total from the Shanghai Municipal Government for our research and development activities.

We made significant efforts to establish and apply our information systems. We completed the relevant certification procedures for the acceptance of the APC system for Diesel Hydrogenation Plants and other three sets of production facilities. We started the construction of the APC system for No.2 Restructuring Plant and another three sets of production facilities and completed the construction of the process simulation system for eight sets of production facilities. We also upgraded the process simulation system for four sets of production facilities. By improving the assessment and evaluation mechanism for the operation and application of our information systems and clearly defining the responsibilities for broadening and upgrading its applications, we consistently increased the application level of our APC, ERP, HR and other key information systems. In 2013, we were named a National Model Enterprise for the Construction and Industrialization of a High-Level Integrated Information System by the PRC Ministry of Industry and Information Technology and were accredited as a Grade A Petrochemical Enterprise in China in respect of the construction of our information systems for four consecutive years.

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

D. Trend Information

In 2014, the world economy remains complicated. It is still in a process of undergoing various profound adjustments in the aftermath of the global financial crisis. Driven by loosening monetary and other stimulating policies, the economies of various developed countries are expected to continue to improve. The European economy may recover from recession which would improve people's confidence towards the outlook of the global market. The American economy has been experiencing steady recovery, which in turn is a major driver for the growth of the world economy. However, the world economy is still facing many challenges, such as that slow overall growth, an unstable foundation of recovery, and a lack of growth momentum. The gradual withdrawal of the quantitative easing monetary policy of the U.S. Federal Reserve will result in a great impact on the global economy and on global financial markets. Emerging economies and developing countries will face increased volatility and risk in their economic growth. The overall world economy will continue recovering at a slow pace.

China will maintain a proactive fiscal policy and a prudent monetary policy, effectively expand market demands, strengthen the structural adjustments to its economy and endeavor to realize the benefits of its reforms. In the meantime, the issues of the structural imbalance of China's economy and overcapacity remain outstanding, and the foundation of China's economic growth is still unstable.

There does not appear to be any significant tension between supply and demand of crude oil in the international market. The demand of petroleum continues to increase while the supply of crude oil is ample. The price of crude oil is under pressure due to the current oil market conditions. The withdrawal of the quantitative easing monetary policy by the U.S. is expected to have the effect of suppressing the increase of oil price. The influence of the geopolitics in the Middle East area on international oil price will weaken. It is expected that Brent price will be slightly down in 2014.

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The petrochemical industry in China is expected to remain sluggish in 2014. The petrochemical product market is not expected to experience any substantial improvement during the year. As the pricing mechanism for refined oil products continues to be rationalized, resources in the refined oil market are expected to continue to increase. As a result, the imbalance between supply and demand for refined oil products will grow, and we will face more intense competition in the oil refining industry. The chemical product market will remain weak. Because of the addition of new production capacities, the imbalance of supply over demand with respect to chemical products will further increase, and we will continue to be under relatively high pressure for the operation of our chemical products business.

E. Off-balance Sheet Arrangements

As of December 31, 2013, we had no contingent liabilities in respect of guarantees issued to banks in favor of our associated companies and other unlisted investments (December 31, 2012: nil). Other than our capital commitments and contingencies disclosed in Note 29 in our consolidated financial statements included in [Item 17. Financial Statements](#), we do not have any other off-balance sheet arrangements.

F. Contractual Obligations and Commercial Commitments

The following table sets forth our obligations to make future payments under contracts effective as of December 31, 2013.

	As of December 31, 2013/Payment Due by Period				
	Total (RMB 000)	Within 1 year or on demand (RMB 000)	More than 1 year but within 2 years (RMB 000)	More than 2 years but within 5 years (RMB 000)	More than 5 years (RMB 000)
Contractual obligations					
Short term borrowings	7,094,026	7,094,026			
Long term borrowings	627,800			627,800	
Total contractual obligations	7,721,826	7,094,026		627,800	
Estimated future interest payments					
Fixed rate	13,869	13,869			
Variable rate	141,011	67,726	36,339	36,946	
Total estimated future interest payments	154,881	81,595	36,339	36,946	
Investment commitments					
Capital contribution to Secco (Note 26(i))	122,804	122,804			
Other commercial commitments					
Capital commitments (Note 29)	966,750	966,750			

Note: Capital commitments refer to commitments for purchase of property, plant and equipment.

*G. Other Information***Employees**

Our staff costs for 2013 were RMB1,815.3 million.

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As at December 31, 2013, we had 14,127 employees in total, among whom there were 8,224 production staff, 4,432 sales representatives, financial personnel and other personnel and 1,471 administrative staff. 43.25% of our employees had tertiary qualifications or above. The company has 15,455 retired employees who are under retirement insurance plans, details of which are provided under Item 6. D. Employees. During 2013, we terminated employment with 880 persons (including the retired and voluntary leave), accounting for 5.86% of 15,007 employees we had as of January 1, 2013.

Purchase, Sale and Investment

Except as disclosed in this report, during the year ended December 31, 2013, 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, 2013, we have 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)	51	Chairman of the Board of Directors and President
Wu Haijun	51	Vice Chairman of the Board of Directors
Li Honggen	57	Director and Vice President
Zhang Jianping	51	Director and Vice President
Ye Guohua	45	Director and Chief Financial Officer
Lei Dianwu	51	External Director
Xiang Hanyin	59	External Director
Shen Liqiang	57	Independent Director
Jin Mingda	63	Independent Director and Director of the Remuneration and Appraisal Committee
Cai Tingji	59	Independent Director and Director of the Audit Committee
Zhang Yimin	59	Independent Director
<u>Other Executive Officers</u>		
Zhang Zhiliang (2)	60	Vice President
Shi Wei (2)	54	Vice President
Jin Qiang	48	Vice President
Guo Xiaojun	44	Vice President
Zhang Jingming	56	Secretary of the Company and General Legal Counsel
<u>Supervisory Committee</u>		
Zhang Jianbo	51	Chairman of Supervisory Committee
Zuo Qiang	51	Supervisor
Li Xiaoxia	44	Supervisor
Zhai Yalin	49	External Supervisor
Wang Liqun	56	External Supervisor
Chen Xinyuan	49	Independent Supervisor
Zhou Yunnong	71	Independent Supervisor

(1) Mr. Wang Zhiqing was nominated by the board of directors of the Company as the Chairman in the board meeting on April 19, 2013. The nomination was reviewed and approved at the Company's 2012 general shareholders meeting on June 6, 2013.

(2) Pursuant to the resolution of the board meeting on April 28, 2014, the appointment of Mr. Zhang Zhiliang and Mr. Shi Wei as a Vice President of our Company was terminated with immediate effect.

Directors

Wang Zhiqing, 51, is the Chairman, President and Deputy Secretary of the Communist Party Committee of the Company. Mr. Wang began his career in 1983 and has 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 chemical fiber plant, and the Deputy Chief Engineer cum Director of the chemical fiber plant. From June 1999 to December 2001, Mr. Wang was the Chief Engineer of Luoyang Petrochemical Complex. From February 2000 to December 2001, Mr. Wang was the Vice President cum Chief Engineer of Sinopec Corp. Luoyang Branch. From December 2001 to October 2006, Mr. Wang was the Manager of Sinopec Corp. Luoyang Branch. 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 the Manager of Sinopec Corp. Jiujiang Branch. From December 2008 to July 2010, Mr. Wang was the Manager of Sinopec Corp. Jiujiang Branch. Mr. Wang was appointed the President and Deputy Secretary of the Communist Party Committee of the Company in July 2010. Mr. Wang was appointed the Director of the Company in December 2010 and served as the Vice

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Chairman of the Company from December 2010 to June 2013. In February 2011, Mr. Wang was appointed the Director and Chairman of the board of Secco.

In June 2013, Mr. Wang was appointed the Chairman of the board of the Company. Mr. Wang graduated from the East China Petroleum Institute majoring in refinery engineering and obtained a Bachelor of Engineering in 1983. He graduated from China University of Petroleum (East China) majoring in chemical engineering and technology and obtained a Doctorate in Engineering in 2006. In 2001 Mr. Wang also obtained an MBA from Open University of Hong Kong. In 2013, he obtained an MBA from China Europe International Business School. He is a professor-level senior engineer by professional title.

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Wu Haijun, 51, is the Vice Chairman of the Company, Director and Vice President of Secco. Mr. Wu joined the Complex in 1984 and has held various positions including the Deputy Director and Director of the Company's No.2 Chemical Plant as well as the Manager of the Chemical Division. He was the Vice President of the Company from May 1999 to March 2006 and the Director of the Company from June 2004 to June 2006. He was the Manager and Secretary of the Communist Party Committee of Sinopec Corp. Chemical Sales Branch from December 2005 to March 2008. From December 2005 to April 2010, he was the Director of the Chemical Business Department of Sinopec Corp. In April 2010, he was appointed as the Director of Secco. From April 2010 to February 2011, he served as the President of Secco. In June 2010, he was appointed the Director and Vice Chairman of the Company. In February 2011, Mr. Wu was appointed the 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. In 1997, he obtained an MBA from the China Europe International Business School. He is a senior engineer by professional title.

Gao Jinping, 47, is the Executive Director, Secretary of the Communist Party Committee and Vice President of the Company. Mr. Gao joined the Complex in 1990 and has held various positions including the Deputy Secretary of the Communist Youth League Committee of the Company, Deputy Secretary of the Communist Party Committee of the Experimental Plant, Deputy Secretary of the Chemical Division of the Company and Director of the Propaganda Division of the Communist Party Committee of the Company. From May 2003 to March 2013 Mr. Gao served as the Deputy Secretary of the Communist Party Committee of the Company. From May 2003 to November 2013 Mr. Gao served as the Chairman of the Labor Union of the Company. From June 2004 to June 2006 Mr. Gao served as the Director of the Company. From April 2006 to March 2013 Mr. Gao served as the Secretary of the Communist Party Discipline Supervisory Committee of the Company. From June 2006 to April 2013 Mr. Gao served as the Supervisor and Chairman of the Supervisory Committee of the Company. In March 2013 Mr. Gao was appointed the Secretary of the Communist Party Committee of the Company. In April 2013 Mr. Gao was concurrently appointed the Vice President of the Company. In June 2013 Mr. Gao was appointed the Director of the Company. Mr. Gao graduated from the Food Processing Faculty of Shanghai Aquatic Products University majoring in cooling and cold storage technology and obtained a Bachelor of Engineering in 1990. In 2001, he completed his post-graduate studies in business administration focusing on the aspects of industrial economics at Shanghai Academy of Social Sciences. He is a senior specialist technician by professional title.

Li Honggen, 57, is the Executive Director and Vice President of the Company. Mr. Li joined the Complex in 1973 and has held various positions including the Deputy Director of No. 1 Chemical Plant and Deputy Director of the Ethylene Plant of the Complex, 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 the Vice President of Shanghai Chemical Industrial Park Development Company Limited. From August 2002 to January 2006, he served as the Vice President of Secco. In March 2006, he was appointed the Vice President of the Company. In June 2006, he was appointed the Director of the Company. In August 2008, he was concurrently appointed the 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 a senior engineer by professional title.

Zhang Jianping, 51, is the Executive Director and Vice President of the Company. Mr. Zhang joined the Complex in 1987, and has held various positions including the Deputy Chief Engineer of the Aromatics Plant of the Refining and Chemical Division, Deputy Director of the Plastic Plant, Deputy Manager of the Plastics Division of the Company, Director of the Chemical Research Institute, Director of the Production Division of the Company and Assistant to President of the Company cum Director of the Production Division. In June 2004, Mr. Zhang was appointed the Vice President of the Company. In June 2013, he was appointed the Director of the Company. Mr. Zhang graduated in 1984 from the East China Institute of Chemical Technology majoring in petroleum Refinery and received a Master of Petroleum Processing from the same institute in 1987. He is a qualified senior engineer by professional title.

Ye Guohua, 45, is the Executive Director and Chief Financial Officer of the Company. Mr. Ye joined Shanghai Gaoqiao Petrochemical Company in 1991 and has held various positions including the 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 Corp. Shanghai Gaoqiao Branch. In October 2009, Mr. Ye was appointed the Chief Financial Officer of the Company. In June 2011, he was appointed the Director of the Company. Mr. Ye graduated with a major in accounting from the Shanghai University of Finance and Economics in 1991. He is a senior accountant by professional title.

Table of Contents*External Directors*

Lei Dianwu, 51, is the Vice President of Sinopec Corp., Assistant to President and Chief Economist of Sinopec Group. Mr. Lei has been serving as an External Director of the Company since June 2005. Mr. Lei has held various positions including the 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 the Production Division of Yangzi BASF Styrene Company Limited. He acted as the Deputy Manager and Deputy Director of the Joint Venture Office at Yangzi Petrochemical Company, Director of Planning and Development Department of China Dong Lian Petrochemical Limited Liabilities Company, Vice President of Yangzi Petrochemical Limited Liabilities Company and Deputy Director of Development and Planning Division of Sinopec Corp. From March 2001 to August 2013, he served as the Director of Development and Planning Division of Sinopec Corp. He has been serving as the Assistant to President of Sinopec Group since March 2009 and serving as the Vice President of Sinopec Corp since May 2009. In August 2013, Mr. Lei was appointed the Chief Economist of Sinopec Group. Mr. Lei has rich experience in enterprise planning and investment development management. In 1984, Mr. Lei graduated from the East China Petroleum Institute majoring in basic organic chemicals and obtained a Bachelor of Engineering. He is a senior engineer by professional title.

Xiang Hanyin, 59, is the Researcher of the Chemical Division of Sinopec Corp. Mr. Xiang has been serving as an External Director of the Company since June 2005. Mr. Xiang began his career in February 1982 and has held various positions including the Deputy Director of the Chemical Plant of Yizheng Chemical Fiber Company and Director of Chemical Plant of Yizheng Chemical Fiber Co., Ltd. From February 2000 to December 2012, he served as the Deputy Director of the Chemical Division of Sinopec Corp. Mr. Xiang has been serving as a Researcher of Chemical Division of Sinopec Corp. since December 2012. Mr. Xiang has gained a lot experience in production management and operation of chemical enterprises. Mr. Xiang graduated from Nanjing Chemical College majoring in basic organic chemicals and obtained a Bachelor of Engineering in 1982. In 2000, he completed post-graduate studies in enterprise management at Nanjing University. He is a senior engineer by professional title.

Independent Directors

Shen Liqiang, 57, is the President and Secretary of the Communist Party Committee of the Shanghai Branch of the Industrial and Commercial Bank of China (ICBC). Mr. Shen has been serving as an Independent Director of the Company since June 2011. Mr. Shen has been working in the financial industry since December 1976 and has held various positions including the 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 of the Zhejiang Branch of the ICBC cum General Manager and Secretary of the Communist Party Committee of the Banking Department of the Zhejiang Branch of the ICBC. He was the 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 the President and Secretary of the Communist Party Committee of the Hebei Branch of the ICBC from March 2007 to June 2009. He has been the President and Secretary of the Communist Party Committee of the Shanghai Branch of the ICBC since June 2009. Mr. Shen has been working on banking business management for a long period and has both in-depth expertise on finance theory and extensive experience in finance practice. Mr. Shen holds a Master of Economics and is a senior accountant by professional title.

Jin Mingda, 63, is the President of Shanghai Chemical Industry Association. Mr. Jin has been serving as an Independent Director of the Company since June 2011. Mr. Jin began his career in October 1968 and has held various positions including the 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; President cum 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 the 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 until August 2013. He was an Independent Director of Shanghai Electric Power Co., Ltd in November 2009. He has been serving as the President of Shanghai Chemical Industry Association since January 2013. Mr. Jin has extensive experience in business decision-making and management of conglomerates. He has a master degree and is a senior economist by professional title.

Cai Tingji, 59, is a senior 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 has been serving as an Independent Director of the Company since June 2011. Mr. Cai graduated from the Faculty of Accounting of Hong Kong Polytechnic University in 1978. He joined KPMG in the same year and has held various positions, including the 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.

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Zhang Yimin, 59, is a Professor of Economics and Finance, and Director of the Faculty of Accounting and Finance at China Europe International Business School. Mr. Zhang has been serving as an Independent Director of the Company since October 2013. Mr. Zhang obtained a doctorate degree majoring in finance and political studies at the Business School of the University of British Columbia in Canada, and has held various positions including a Post-doctoral Fellow at the Business School of University of British Columbia, an Assistant Professor at University of New Brunswick, and an Associate Professor at City University of Hong Kong. He has been working as a Professor of Economics and Finance at the China Europe International Business School since September 2004. Mr. Zhang's major study areas are business operations, financing and industrial economic studies, and has accumulated abundant expertise and experience in these areas.

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 shareholder's meetings from time to time. The Supervisory Committee currently comprises of seven members, three of whom are employee representatives and four of whom are external supervisors, including two independent supervisors.

Zhang Jianbo, 51, is the Chairman of the Supervisory Committee, Deputy Secretary of the Communist Party Committee, Secretary of the Communist Party Discipline Supervisory Committee and Chairman of the Labor Union of the Company. Mr. Zhang began to work in 1985 and has held various positions including the Deputy Head of the Division of Management for Enterprise's Leaders under the Department of Education for Personnel of Sinopec Group, Deputy Head of the Division of Evaluation and Appointment Management under the Human Resources Department of Sinopec Corp., Head of the Division of Organization and Supervision under the Human Resources Department of Sinopec Group and Sinopec Corp., respectively. In August 2013, Mr. Zhang was appointed the Deputy Secretary of the Communist Party Committee, Secretary of the Communist Party Discipline Supervisory Committee of the Company. In November 2013, Mr. Zhang was appointed the Chairman of the Supervisory Committee and Chairman of the Labor Union of the Company. Mr. Zhang graduated in 1985 from Jiangnan Petroleum Institute majoring in oil recovery engineering and received a Bachelor of Engineering from the same institute. He is a senior specialist technician by professional title.

Zuo Qiang, 51, is the Supervisor, Vice Secretary of the Discipline Supervisory Committee, Director of the Supervisory Office and Director of the Office of the Supervisory Committee of the Company. Mr. Zuo joined the Complex in 1981 and has held various positions, including the archivist of the Command Division for the Construction of No. 1 Chemical Plant Phase II, Head of the Archives Office 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, General Secretary of the Communist Party Committee of Ethylene Plant No. 1 of the Refining and Chemical Division of the Company, Deputy Director of the Supervisory Office, and Secretary of the Discipline Supervisory Committee of the Company. He was appointed the Director of the Supervisory Office of the Company in April 2011. He was appointed the Supervisor of the Company and the Director of the Office of the Supervisory Committee in June 2011. In October 2011, he was appointed the Deputy Secretary of the Discipline Supervisory Committee. Mr. Zuo graduated from the Correspondence College of the Communist Party Committee School of the Central Committee in 1993 with a major in Party & Administrative management. He is a senior specialist technician by professional title.

Li Xiaoxia, 44, is the Supervisor and the Vice Chairman of the Labor Union of the Company. Ms. Li joined the Complex in 1991 and has held various positions, including the 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, General Secretary of the Communist Party of the Labor Union for Staff Exchange and Relocation Centre, and Secretary of the Communist Party Committee and Deputy Manager of the Refining Division of the Company. She was appointed the Supervisor of the Company in June 2011 and Vice Chairman of the Labor Union of the Company in December 2011. Ms. Li graduated from the Liaoning University of Petroleum and Chemical Technology in 1991 majoring in petroleum and natural gas transportation. She is a senior specialist technician by professional title.

Table of Contents*External Supervisors*

Zhai Yalin, 49, is the Deputy Director of the Auditing Bureau of Sinopec Group and Deputy Director of the Auditing Division of Sinopec Corp. and has been serving as an External Supervisor of the Company since June 2008. Mr. Zhai began his career in 1986 and has held various positions including the Deputy Director of the 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 concurrently serving as the Deputy Director of the Auditing Bureau of Sinopec Group and Deputy Director of Auditing Department of Sinopec Corp. Mr. Zhai graduated from the Jilin Siping Normal College in 1986. He is a senior economist by professional title.

Wang Liqun, 56, is the Deputy Chief of the Supervisory Bureau of Sinopec Group and Deputy Director of the Supervisory Department of Sinopec Corp. He has been serving as an External Supervisor of our Company since June 2011. Mr. Wang started his career in 1976 and has held various positions, including the Deputy Director of the Manager's Office of Beijing Yanshan Petrochemical Corporation, Director of the Personnel Department, and 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 the Deputy Chief of the Supervisory Bureau of Sinopec Group and Deputy Director of the Supervisory Department of Sinopec Corp. since April 2010. Mr. Wang graduated from the Beijing Federation of Labor Unions University for Workers and Staff in 1984 with a major in environmental protection (Diploma), and graduated from the 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, 49, is the Dean, Professor and Tutor to doctoral students of the College of Accounting, Shanghai University of Finance and Economics. Mr. Chen has been serving as an Independent Supervisor of the Company since June 2011. Mr. Chen graduated from the Accounting Faculty, Hangzhou College of Commerce in July 1985 in June 2011, before he undertook post-graduate studies at the Accounting Faculty of Shanghai University of Finance and Economics. Mr. Chen then taught at the Accounting Faculty of Shanghai University of Finance and Economics. 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 an Independent Supervisor of the Company. From June 2003 to June 2011, Mr. Chen was an Independent Director of the Company. Mr. Chen used to study in West Germany for one year. Mr. Chen has had many years of experience teaching and studying accountancy, and has notable achievements in accounting research. Mr. Chen is very familiar with financing and accounting business and has extensive experience in business management.

Zhou Yunnong, 71. Mr. Zhou has been serving as an Independent Supervisor of the Company since June 2011. Mr. Zhou joined the Complex in October 1972 and has held various positions including the 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 District Mayor of Jinshan District of Shanghai. From November 1999 to April 2002, he was an Inspector (bureau level) of Shanghai Jinshan District. From June 2003 to June 2005, Mr. Zhou was an Independent Supervisor of the Company. From June 2005 to June 2011, Mr. Zhou was an Independent Director of the Company. Mr. Zhou has extensive experience in business management and public administration management. Mr. Zhou graduated from the East China Normal University in 1964, majoring in radio. He is a senior engineer by professional title.

Senior Management

Zhang Zhiliang, 60, was a Vice President of the Company until April 28, 2014 when his appointment was terminated pursuant to the resolution of the board meeting on April 28, 2014. Mr. Zhang joined the Complex in 1977 and held various positions including the Deputy Director and Director of the No. 1 Chemical Plant of the Complex, as well as an Assistant Manager and Manager of the Company's Refining and Chemical Division. He was the Vice President of the Company from April 1997 to March 2006. He was the Director of the Company from June 1997 to June 2003. He was the Director of Secco from November 2002 to April 2010, and the Vice President of Secco from January 2006 to November 2006. He was the President of Secco from October 2006 to April 2010. In April 2010, he was appointed the Vice President of the Company. Mr. Zhang graduated from Fudan University in 1977, majoring in high molecular chemistry. He graduated from the Shanghai No. 2 Industrial University in 1999, majoring in computer application and management. He is a senior engineer of professorate title.

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Shi Wei, 54, was a Vice President of the Company until April 28, 2014 when his appointment was terminated pursuant to the resolution of the board meeting on April 28, 2014. Mr. Shi joined the Complex in 1982 and has held various positions including the Assistant to the Manager, Deputy Manager of the Refining and Chemical Division, Manager of the Environmental Protection 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 the Vice President of the Company. From June 2005 to June 2013, he served as the Director of the Company. In May 2012, Mr. Shi was appointed the leader of the preparatory group of Guizhou Zhijin coal chemical project of Sinopec Corp. In 1982, Mr. Shi graduated from the East China Institute of Chemical Technology majoring in oil refining engineering and obtained a Bachelor of Engineering. Mr. Shi completed post-graduate studies in business management at the East China University of Science and Technology in 1998. Mr. Shi is a senior engineer by professional title.

Jin Qiang, 48, is a Vice President of the Company. Mr. Jin joined Zhenhai General Petrochemical Works in 1986 and has held various positions including the Deputy Director of the Utilities Department, Deputy Director and Director of the Machinery and Power Division of Sinopec Zhenhai Refining & Chemical Co., Ltd, and Director of the Machinery and Power Division of Sinopec Corp. Zhenghai Refining & Chemical Branch. From March 2007 to October 2011, Mr. Jin served as the Deputy Chief Engineer of Sinopec Corp. Zhenghai Refining & Chemical Branch. Mr. Jin was appointed the Vice President of the Company in October 2011. Mr. Jin graduated in 1986 from East China Institute of Chemical Technology majoring in chemical machinery, and graduated in 2007 from the Graduate School of Central Party School majoring in economic management. He is a senior engineer by profession title.

Guo Xiaojun, 44, is a Vice President of the Company. Mr. Guo joined the Complex in 1991 and has held various positions including the Director of the Polyolefin Integrated Plant in the Plastics Division as well as Deputy Chief Engineer, Assistant to the Manager, Deputy Manager, and Manager cum Deputy Secretary of the Communist Party Committee of the Plastics Division. He served as the Deputy Chief Engineer and Director of the Production Department of the Company from March 2011 to April 2013. In April 2013, he was appointed the Vice President of the Company. He graduated from the East China University of Science and Technology majoring in basic organic chemical engineering in 1991 and obtained a Bachelor of Engineering. Mrs. Guo obtained a Master of Engineering majoring in chemical engineering from the East China University of Science and Technology in 2008. He is a professor-level senior engineer by professional title.

Zhang Jingming, 56, 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 the Project Manager of the International Department, Securities Affairs Representative, Deputy Director of the International Department, in Hong Kong and Deputy Director of the Board Secretariat. Mr. Zhang has been serving as the Secretary to the Board of Directors since June 1999. From June 1999 to June 2011, he concurrently served as the Director of the Board Secretariat. He has been concurrently serving as the Director of the Strategy Research Department of the Company since June 2001. In January 2005, Mr. Zhang was appointed the General Legal Counsel of the Company. In 1987, Mr. Zhang graduated from the Shanghai International Studies University majoring in English. From 1992 until 1993, he completed post-graduate studies in the fourth Sino-British joint MBA program at the Northwestern Polytechnic University. Mr. Zhang then studied in the University of Hull and obtained an MBA degree in July 1995. In 2002, Mr. Zhang completed his post-graduate courses in international economic law at the 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, 2013 was approximately RMB7.198 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 2013.

Name	Position with the Company	Remuneration in 2013 (RMB 000) (before tax)
Wang Zhiqing	Chairman of the Board of Directors and President	673
Wu Haijun	Vice Chairman of the Board of Directors	
Gao Jinping	Director and Vice President	618
Li Honggen	Director and Vice President	590
Zhang Jianping	Director and Vice President	582
Ye Guohua	Director and Chief Financial Officer	584
Lei Dianwu	External Director	
Xiang Hanyin	External Director	
Shen Liqiang	Independent Director	
Jin Mingda	Independent Director and Director of the Remuneration and Appraisal Committee	150
Cai Tingji	Independent Director and Director of the Audit Committee	150
Zhang Yimin	Independent Director	37.5
Zhang Jianbo	Chairman of Supervisory Committee	71
Zuo Qiang	Supervisor	357
Li Xiaoxia	Supervisor	385
Zhai Yalin	External Supervisor	
Wang Liqun	External Supervisor	
Chen Xinyuan	Independent Supervisor	
Zhou Yunnong	Independent Supervisor	
Zhang Zhiliang	Former Vice President	627
Shi Wei	Former Vice President	723
Jin Qiang	Vice President	435
Guo Xiaojun	Vice President	246
Zhang Jingming	Company Secretary and General Legal Counsel	477
Rong Guangdao	Former Chairman of the Board of Directors	417
Wang Yongshou	Former Independent Director and Director of the Remuneration and Appraisal Committee	75

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).

Independent Board Committee

We formed an Independent Board Committee on October 24, 2013, which consists of four independent non-executive directors. The current members are Shen Liqiang, Jin Mingda, Cai Tingji and Zhang Yimin. The Independent Board Committee advised our shareholders other than Sinopec Corp. and its associates in respect of the terms of the continuing connected transactions under the renewed Mutual Product Supply and Sale Services Framework Agreement with Sinopec Group and Sinopec Corp. and the renewed Comprehensive Services Framework Agreement with Sinopec Group and the proposed caps on annual transaction values thereof for the three years ending December 31, 2016.

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 seven 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 Jin Mingda. 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 Shen Liqiang, Jing Mingda and Ye Guohua according to the Resolutions of the Fifteenth 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, 2013, we had 14,127 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,		
	2011	2012	2013
Management	1,632	1,617	1,471
Engineers, technicians and factory personnel	8,857	8,689	8,224
Accounting, marketing and others	5,166	4,701	4,432
Total	15,655	15,007	14,127

Approximately 43.25% 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 plans and requirements 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, 2013, 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 2013, we incurred RMB1,815.3 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 safeguard and properly enhance the living level of retired employees and improve the medium 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. We have 15,455 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, 2014. All shares indicated are domestic shares and are directly owned by the relevant persons. In each case, they represent less than 1% of the outstanding domestic shares. As compared to the previous year, the shareholding percentages remained the same in 2013. 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, 2014.

Name	Position	Shares held at March 31, 2014
Wang Zhiqing	Chairman and President	0
Wu Haijun	Vice Chairman	0
Li Honggen	Director and Vice President	0
Zhang Jianping	Director and Vice President	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 and Director of the Remuneration and Appraisal Committee	0
Cai Tingji	Independent Director and Director of the Audit Committee	0
Zhang Yimin	Independent Director	0
Zhang Jianbo	Chairman of the 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	Former Vice President	0
Shi Wei	Former Vice President	0
Jin Qiang	Vice President	0
Guo Xiaojun	Vice President	0
Zhang Jingming	Company Secretary and General Legal Counsel	0
Rong Guangdao	Former Chairman	8,100

We currently have no employee share purchase plan, share option plan or other arrangement to involve employees in our share capital. In connection with our domestic share reform, Sinopec Corp. made an undertaking that, within 12 months from the date on which Sinopec Corp. becomes entitled to trade, deal in or transfer its non-publicly-tradable shares of the Company in the market (meaning the first trading day after the implementation of the Proposal for the share reform), it will request that, subject to the requirements of the State-owned Assets Supervision and Administration Commission and the China Securities Regulatory Commission, the board of directors of the Company propose a share option incentive scheme. Pursuant to Sinopec Corp.'s undertaking, the exercise price for the first batch of share options granted under such share option incentive scheme shall not be less than RMB6.43 per share, being the closing price of the domestic shares on the Shanghai Stock Exchange on May 30, 2013, provided that such exercise price will be subject to adjustments for dividends and certain other standard adjustment events prior

to the announcement of the proposal for the share option incentive scheme. As of the date hereof, the board of directors of the Company has not proposed such share option incentive scheme yet. For more information regarding the domestic share reform, see Item 4. Information on the Company – A. History and Development of the Company – Domestic Share Reform.

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

Sinopec Corp. owns 50.56% 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, 2014 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.	5,460,000,000	50.56%
H Shares	HKSCC nominees Ltd.	3,444,632,653	31.89%
Domestic Shares	Directors and Officers	8,100	less than 1%

As of March 31, 2014, a total of 3,495,000,000 H Shares were outstanding. A total of 7,305,000,000 domestic shares were outstanding on March 31, 2014.

As of March 31, 2014, a total of 2,386,319 ADSs were registered in the name of The Bank of New York Mellon, the depository under our ADS deposit agreement. The Bank of New York Mellon has advised us that, as of March 31, 2014, 2,386,319 ADSs, representing the equivalent of 238,631,900 H Shares, were held of record by 82 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 2013, 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, 2013, we renewed these agreements with Sinopec Corp. and Sinopec Group respectively upon approval and authorization at the 2013 Extraordinary General Meeting held on December 11, 2013. At the 2013 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, 2014, December 31, 2015 and December 31, 2016. The transaction amounts of the relevant connected transactions in 2013 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.

Type of major transactions	Connected parties	Annual cap for 2013	Transaction Amount during The reporting Period	Unit: RMB '000 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	81,000,000	62,127,749	74.91
Sales of petroleum products	Sinopec Corp. and its associates	75,000,000	61,901,684	53.58
Sales of petrochemical products	Sinopec Corp. and its associates	20,900,000	10,708,020	9.27
Property leasing	Sinopec Corp. and its associates	32,000	25,602	49.73
Agency sales of petrochemical	Sinopec Corp. and its associates	390,000	152,331	100.00
Comprehensive Services Framework Agreement				
Construction, installation and engineering design services	Sinopec Group and its associates	420,000	287,988	24.42
Petrochemical industry insurance services	Sinopec Group and its associates	174,000	146,176	83.85
Financial services	Sinopec Group and its associates	308,000	21,705	7.58

Table of Contents*Other related party transactions*

We entered into the Property Right Transaction Agreement with Sinopec Sales Company Limited (Sales Company), a wholly owned subsidiary of Sinopec Corp. on December 5, 2013 in Shanghai, pursuant to which we agreed to dispose of certain assets located in Chenshan Oil Depot Area and the corresponding liabilities to Sales Company at a consideration of RMB594,147,498.73 (U.S.\$ 98,146,174.86). The Sales Company has paid the total consideration in a single payment to us on December 11, 2013. As of December 31, 2012, the net book value of the object of this transaction was RMB152,616,900 (U.S.\$25,210,515.88). Upon the completion of this transaction, we expect to book a profit before tax at approximately RMB440,230,000 (U.S.\$72,720,815.37), and expects all proceeds from this transaction will be used for general working capital purposes of the Company. The board of directors of the Company (excluding directors connected to this transaction) approved this transaction on December 5, 2013 at the eighteenth meeting of the seventh session of the board of directors. The relevant assets were transferred by way of an asset package, which resulted in a reduction in tax expenditures.

To fund Secco's new acrylonitrile plant project with a capacity of 260,000 tons/year, its new ethylene plant with a new supercharger, its new butadiene plant with a capacity of 90,000 tons/year, and its utility facilities upgrading project, the shareholders of Secco agree to increase the registered capital of Secco by U.S.\$150,085,618 according to their respective shares in the equity interests in Secco, of which the Company is obligated to contribute an amount of U.S.\$ 30,017,124, which will be paid in installments with the equivalent value in RMB by January 24, 2016. Sinopec Corp. directly owns 30% of the equity interest in Secco, and therefore is obligated to contribute an amount of U.S.\$45,025,685. The board of directors of the Company (excluding directors connected to this transaction) approved this transaction on December 5, 2013 at the eighteenth meeting of the seventh session of the board of directors.

Equity joint venture

Late in 2001, we established Secco, a Sino-foreign equity joint venture, together with BP and Sinopec Corp. We own a 20% interest in Secco, while BP and Sinopec Corp. own 50% and 30% interests in Secco, respectively. Secco was established to build and operate a 900,000 ton Rated Capacity ethylene petrochemical manufacturing facility 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 total initial registered capital was U.S.\$901,440,964, of which we provided the Renminbi equivalent of U.S.\$180,287,952. To fund Secco's new acrylonitrile plant project with a capacity of 260,000 tons/year, its new ethylene plant with a new supercharger, its new butadiene plant with a capacity of 90,000 tons/year, and its utility facilities upgrading project, the shareholders of Secco agree to increase the registered capital of Secco by U.S.\$150,085,618 according to their respective shares in the equity interests in Secco, of which the Company is obligated to contribute an amount of U.S.\$ 30,017,124, which will be paid in installments with the equivalent value in RMB by January 24, 2016.

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HKSE connected transactions rules

We are required by HKSE listing rules to obtain advance shareholder approval for certain transactions with related parties such as Sinopec Group, Sinopec Corp., or its associates. We comply with such HKSE listing rules by obtaining advance shareholder approval at least every three years for the renewal of our framework agreements (*e.g.*, the Mutual Product Supply and Sales Services Framework Agreement and the Comprehensive Services Framework Agreement) with Sinopec Corp. and Sinopec Group for setting maximum aggregated annual values spent on the supply of products and services under these agreements. The independent non-executive directors will need to confirm each year, upon reviewing our continuing connected transaction, that these transactions are conducted in the ordinary and usual course of our business, on normal commercial terms and in accordance with the terms of these agreements.

C. Interests of Experts and Counsel.

Not applicable.

ITEM 8. FINANCIAL INFORMATION.

A. Consolidated Statements and Other Financial Information.

Please see [Item 17. Financial Statements](#) for our audited consolidated financial statements filed as part of this annual report.

Export Sales

In 2013, export sales accounted for RMB111.19 million (U.S.\$18.367 million) or 1.05% of our total net sales.

Litigation

Neither we nor any of our subsidiaries is a party to, nor is any of our or their property the subject of any legal or arbitration proceedings which may have significant effects on our financial position or profitability. We are not aware of any litigation or arbitration proceedings in which any of our directors, any member of our senior management or any of our affiliates is an adverse party or has a material adverse interest.

Dividend Policy

Our board of directors may propose dividend distributions subject to the approval of the shareholders. The Articles of Association also provide that, the aggregate profits distributed in cash in the recent three years shall not be less than 30% of the average annual distributable profits within such three-year period. Shareholders receive dividends in proportion to their shareholdings.

The Articles of Association require that cash dividends and other distributions in respect of H shares be declared in Renminbi and paid by us in Hong Kong dollars while cash dividends and other distributions in respect of our domestic shares be paid in Renminbi. If we record no profit for the year, we may not distribute dividends in such year.

We expect to continue to pay dividends, although there can be no assurance as to the particular amounts that might be paid from year to year. Payment of future dividends will depend upon our revenue, financial condition, future earnings and other factors. See [Item 5. Operating and Financial Review and Prospects](#) and [Item 3. Key Information A. Selected Financial Data Dividends](#).

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No significant change has occurred since the date of the financial statements included in this annual report.

ITEM 9. THE OFFER AND LISTING.**A. Offer and Listing Details**

Set forth below is certain market information relating to our H Shares, ADSs and domestic shares for the periods indicated.

	The Stock Exchange of Hong Kong		The New York Stock Exchange		The Shanghai Stock Exchange	
	High	Low	High	Low	High	Low
2009	4.13	1.61	52.09	20.75	12.48	5.06
2010	4.11	2.58	52.27	33.13	11.11	7.16
2011	4.98	2.45	63.05	32.24	10.89	5.80
2012	3.20	1.88	41.43	24.64	6.76	4.68
2013	2.500	1.440	48.24	26.98	5.470	2.670
2012						
First Quarter	3.20	2.59	41.43	34.62	6.72	5.72
Second Quarter	2.83	2.13	36.54	27.39	6.76	5.73
Third Quarter	2.43	1.88	30.17	24.64	6.38	5.07
Fourth Quarter	2.77	1.97	36.31	25.29	5.55	4.68
2013						
First Quarter	2.500	1.700	48.24	33.18	4.490	3.360
Second Quarter	2.290	1.440	43.99	28.69	5.470	3.670
Third Quarter	2.060	1.570	39.27	30.62	5.460	2.730
Fourth Quarter	2.440	1.910	45.00	26.98	3.730	2.670
2014						
First Quarter	2.500	1.980	31.500	25.67	4.280	2.810
Most Recent Six Months						
October 2013	2.130	1.910	39.59	36.63	2.910	2.680
November 2013	2.360	1.970	44.38	38.00	2.930	2.670
December 2013	2.440	2.110	45.00	26.98	3.730	2.750
January 2014	2.330	2.040	28.63	26.54	3.140	2.810
February 2014	2.450	2.060	30.55	26.54	4.040	2.890
March 2014	2.500	1.980	31.50	25.67	4.280	3.410

In connection with the domestic share reform, the trading of domestic shares of the Company on the Shanghai Stock Exchange was suspended twice from May 31, 2013 to June 20, 2013 and from June 28, 2013 to August 19, 2013. For more information regarding the domestic share reform, see [Item 4. Information on the Company – A. History and Development of the Company – Domestic Share Reform](#).

B. Plan of Distribution

Not applicable.

C. Markets

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The principal trading market for our H Shares is the HKSE. The ADSs, each representing 100 H Shares, have been issued by The Bank of New York Mellon as a depository under a Deposit Agreement with us and are listed on the NYSE under the symbol SHI. We have also listed our domestic shares on the Shanghai Stock Exchange. Prior to our initial public offering on July 26, 1993 and subsequent listings on the HKSE and NYSE, there was no market for our H Shares or the ADSs. Public trading in our domestic shares commenced on November 8, 1993.

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D. Selling Shareholders

Not applicable.

E. Dilution

Not applicable.

F. Expenses of the Issuer

Not applicable.

ITEM 10. ADDITIONAL INFORMATION.

A. Share Capital

Not applicable.

B. Memorandum and Articles of Association.

The following is a summary based upon provisions of our Articles of Association as currently in effect, the Company Law of the People's Republic of China (1993) (as amended) and other selected laws and regulations applicable to us. You should refer to the text of the Articles of Association and to the texts of applicable laws and regulations for further information.

We are a joint stock limited company established in accordance with the Company Law and certain other laws and regulations of the PRC. We are registered with the Shanghai Administration of Industry and Commerce with business license number 310000000021453. Our Articles of Association provide, at article 11, that our purpose is:

to build and operate a diversified industrial company which will be one of the world's leading petrochemical companies;

to promote the development of the petrochemical industry in China through the production of a broad variety of outstanding products; and

to practice advanced, scientific management and apply flexible business principles, and to develop overseas markets for our products so that we and our shareholders receive reasonable economic benefits.

Our scope of business is limited to matters approved by Chinese authorities. Article 12 provides that our primary business scope includes:

Refining crude oil, petroleum products, petrochemical products, synthetic fibers and monomers, plastic products, raw materials for knitting and textile products, preparation of catalysts and recover waste catalysts, power, heat, water and gas supply, water treatment, railway cargo loading and unloading, inland water transport, wharf operation, warehousing, design, research and development, technology development, transfer, consultancy and other services, property management, lease of self-owned premises, internal staff training, design and fabrication of various advertisements, and release of advertisements on self-owned media (administrative license should be obtained when required). We may adjust these subject to approval by governmental authorities.

The following discussion primarily concerns our shares and the rights of our shareholders. Holders of our ADSs will not be treated as our shareholders and will be required to surrender their ADSs for cancellation and withdrawal from the depository facility in which the H shares are held in order to exercise shareholder rights in respect of H shares.

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Domestic shares and overseas-listed foreign invested H shares are both ordinary shares in our share capital. Domestic shares are shares we issue to domestic Chinese investors for subscription in Renminbi, while H shares are shares we issue for subscription in other currencies to investors from Hong Kong, Macau, Taiwan and outside of China.

Sources of Shareholders' Rights

China's legal system is based on written statutes and is a system in which decided legal cases have little precedent value. China's legal system is similar to civil law systems in this regard. In 1979, China began the process of developing its legal system by undertaking to promulgate a comprehensive system of laws. In December 1993, the Standing Committee of the 8th National People's Congress adopted the Chinese Company Law. Although the Chinese Company Law is expected to serve as the core of a body of regulatory measures, which will impose a uniform standard of corporate behavior on companies and their directors and shareholders, only a limited portion of this body of regulatory measures has so far been promulgated.

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Currently, the primary sources of shareholder rights are the Articles of Association, the Chinese Company Law and the HKSE listing rules, which, among other things, impose standards of conduct, fairness and disclosure on us, our directors and our controlling shareholder. To facilitate the offering and listing of shares of Chinese companies overseas, and to regulate the behavior of companies whose shares are listed overseas, the former State Council Securities Committee and the former State Commission for Restructuring the Economic System issued the Mandatory Provisions for articles of association of Companies Listing Overseas on August 27, 1994. These provisions have been incorporated into our Articles of Association and any amendment to those provisions will only become effective after approval by the companies approval department authorized by the State.

In addition, upon the listing of and for so long as the H shares are listed on the HKSE, we will be subject to those relevant ordinances, rules and regulations applicable to companies listed on the HKSE, the Securities and Futures Ordinance and the Codes on Takeovers and Mergers and Share Repurchases.

Unless otherwise specified, all rights, obligations and protections discussed below derive from our Articles of Association and/or the Chinese Company Law.

Enforceability of Shareholders' Rights

There has not been any public disclosure in relation to the enforcement by holders of H shares of their rights under the charter documents of joint stock limited companies or the Chinese Company Law or in the application or interpretation of the Chinese or Hong Kong regulatory provisions applicable to Chinese joint stock limited companies.

In most states of the United States, shareholders may sue a corporation derivatively. A derivative suit involves the commencement by a shareholder of a corporate cause of action against persons who have allegedly wronged the corporation, where the corporation itself has failed to enforce the claims directly. This would include suits against corporate officers, directors, or controlling shareholders. This type of action is brought based upon a primary right of the corporation, but is asserted by a shareholder on behalf of the corporation. In accordance with the Company Law of the People's Republic of China, if a company incurs losses due to the violation of any provision of laws, administrative regulations or the company's articles of association by any of its directors, supervisors and officers during his/her discharge of duties entrusted by the company, or due to any other person's infringement of the company's legal rights or interests, the shareholders of the company may take legal action before a court under the Company Law of the People's Republic of China.

Our Articles of Association provide that all differences or claims

between a holder of H shares and us;

between a holder of H shares and any of our directors, supervisors, manager or other senior officers; or

between a holder of H shares and a holder of domestic shares, involving any right or obligation provided in the Articles of Association, the Chinese Company Law or any other relevant law or administrative regulation which concerns our affairs must, with certain exceptions, be referred to arbitration at either the China International Economic and Trade Arbitration Commission in China or the Hong Kong International Arbitration Center. Our Articles of Association also provide that the arbitration will be final and conclusive. On June 21, 1999, an arrangement was made between Hong Kong and China for the summary mutual enforcement of each other's arbitration awards in a manner consistent with the United Nations Convention on the Recognition and Enforcement of Foreign Arbitral Awards and practices that occurred before the handover of Hong Kong to China. This arrangement was approved by the Supreme Court of China and the Hong Kong Legislative Council, and became effective on February 1, 2000.

All of our directors and officers reside outside the United States (principally in China) and substantially all of our assets and of those persons are located outside the United States. Therefore, you may not be able to effect service of process within the United States against any of those persons. In addition, China does not have treaties providing for the reciprocal recognition and enforcement of judgments of courts within the United States or most other countries that are members of the Organization for Economic Cooperation and Development. This means that administrative actions brought by regulatory authorities such as the Securities and Exchange Commission, and other actions which result in foreign court judgments could only be enforced in China if the judgments or rulings do not violate the basic principles of the law of China or the

sovereignty, security and social public interest of the society of China, as determined by a People's Court of China which has jurisdiction for recognition and enforcement of judgments. We have been advised by our Chinese counsel, Haiwen & Partners, that there is doubt as to the enforceability in China of any actions to enforce judgments of United States courts arising out of or based on the ownership of our H shares or ADSs, including judgments arising out of or based on the civil liability provisions of United States federal or state securities laws.

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Restrictions on Transferability and the Share Register

All fully paid up H shares will be freely transferable in accordance with the Articles of Association unless otherwise prescribed by law and/or administrative regulations. Under current laws and regulations, H shares may be traded only among investors who are not Chinese persons, and may not be sold to Chinese investors. Consequences under Chinese law of a purported transfer of H shares to Chinese investors are unclear.

As provided in our Articles of Association, we may refuse to register a transfer of H shares without providing any reason unless:

all relevant transfer fees and stamp duties are paid;

the instrument of transfer is accompanied by the share certificates to which it relates and any other evidence reasonably required by our board to prove the transferor's right to make the transfer;

there are no more than four joint holders as transferees; and

the H shares are free from any lien of ours.

Additionally, no transfers of shares may be registered within the 30 days prior to a shareholders' general meeting or within five days before we decide on the distribution of dividends.

We are required to keep a register of our shareholders which shall be comprised of various parts, including one part which is to be maintained in Hong Kong in relation to H shares listed on the HKSE. Shareholders have the right to inspect the share register. For a reasonable fee, shareholders may copy any part of the share register, obtain background information regarding our directors, supervisors, manager and other senior officers, minutes of shareholder general meetings and reports regarding our share capital and any share repurchases in the prior year.

Dividends

Upon approval by ordinary resolution at a shareholders' meeting, our Board of Directors may propose dividend distribution at any time. The Articles of Association permits dividends issued in the form of cash or shares. Special resolution of the shareholders' general meeting is required for dividends issued in the form of shares.

Dividends may only be distributed, however, after allowance has been made for:

recovery of losses, if any;

allocations to the statutory common reserve fund; and

allocations to a discretionary common reserve fund.

The Articles of Association require us to appoint on behalf of the holders of H shares a receiving agent which is registered as a trust corporation under the Trustee Ordinance of Hong Kong to receive dividends we declare in respect of the H shares on behalf of the H shareholders. The Articles of Association require that cash dividends and other distributions in respect of H shares be declared in Renminbi and paid by us in Hong Kong dollars while cash dividends and other distributions of the domestic shares shall be paid in Renminbi.

If we record no profit for the year, we may not normally distribute dividends for the year.

Dividend payments may be subject to Chinese withholding tax. See Item 10. Additional Information E. Taxation.

Voting Rights and Shareholders Meetings

Our board of directors must convene a shareholders annual general meeting once every year within six months from the end of the preceding financial year. Our board must convene an extraordinary general meeting within two months of the occurrence of any one of the following events:

where the number of directors is less than five as required by the Chinese Company Law or two-thirds of the number specified in our Articles of Association;

where our unrecovered losses reach one-third of the total amount of our share capital;

where shareholder(s) holding 10% or more of our issued and outstanding voting shares request(s) in writing; or

whenever our board deems necessary or our Supervisory Committee so requests.

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Meetings of a special class of shareholders must be called in specified situations when the rights of the holders of that class of shares may be varied or abrogated, as discussed below. The Board of Directors, the Supervisory Committee, and shareholders individually or collectively holding 3% or more of our total voting shares are entitled to make written proposals to a shareholders' meeting. Shareholders individually or collectively holding more than 3% of our total shares may submit written interim proposals to the convener of a shareholders' meeting ten days before the meeting.

All shareholders' meetings must be convened by our board by notice given to shareholders by personal service, mail or announcement in the newspaper not less than 45 days before the meeting. Based on the written replies we receive 20 days before a shareholders' meeting, we will calculate the number of voting shares represented by shareholders who have indicated that they intend to attend the meeting. We can convene the shareholders' general meeting if the number of voting shares represented by those shareholders is more than one-half of our total voting shares. Otherwise, we shall, within five days, inform the shareholders again of the motions to be considered and the date and venue of the meeting by way of public announcement. After the announcement is made, the shareholders' meeting may be convened. Our accidental omission to give notice of a meeting to, or the non-receipt of notice of a meeting by, a shareholder will not invalidate the proceedings at that shareholders' meeting. However, an extraordinary shareholders' meeting cannot conduct any business not contained in the notice of meeting.

Shareholders at meetings have the power, among other things, to decide on our operational policies and investment plans, to approve or reject our proposed annual budget, approve our profit distribution plans, an increase or decrease in share capital, the issuance of debentures, our merger or liquidation and any amendment to our Articles of Association. Shareholders also have the right to review any proposals by a shareholder owning 3% or more of our shares.

In general, holders of H shares and domestic shares vote together as a single class at all meetings and on all matters. However, the rights of a class of shareholders may not be varied or abrogated, unless approved by both a special resolution of all shareholders at a general shareholders' meeting and by a special resolution of shareholders of that class of shares at a separate meeting. Our Articles of Association specify, without limitation, that the following amendments would be deemed to be a variation or abrogation of the rights of a class of shareholders:

increasing or decreasing the number of shares of a class or of a class having voting or distribution rights or privileges equal or superior to that class;

removing or reducing rights to receive dividends in a particular currency;

creating shares with voting or distribution rights superior to shares of that class;

restricting or adding restrictions to the transfer of ownership of shares of that class;

allotting and issuing rights to subscribe for, or to convert into, shares of that class or another class;

increasing the rights or privileges of any other class; or

modifying the provision of our Articles of Association that specifies which amendments would be deemed a variation or abrogation of the rights of a class of shareholder.

For votes on any of these matters, or any other matter that would vary or abrogate the rights of the domestic shares or H shares, the holders of domestic shares and H shares are deemed to be separate classes and vote separately. However, Interested Shareholders are not entitled to vote at class meetings. The meaning of Interested Shareholder depends on the proposal to be voted on at the class meeting:

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If the proposal is for us to repurchase our shares either from all shareholders proportionately or by purchasing share on a stock exchange, an Interested Shareholder is our controlling shareholder;

If the proposal is for us to repurchase our shares from a shareholder by a private contract, an Interested Shareholder is the shareholder whose shares would be repurchased;

If the proposal is for our restructuring, an Interested Shareholder is any shareholder that has an interest in the restructuring different from the other shareholders of the class or who bears a burden under the proposed restructuring that is less than proportionate to his shareholdings of the class.

Our Articles of Association specifically provide that an issue of up to 20% of domestic and H shares would not be a variation or abrogation of the rights of domestic shareholders or H shareholders, therefore, separate approval of the domestic shareholders or H Shareholders would not be required.

Each share is entitled to one vote on all matters submitted to a vote of our shareholders at all shareholders meetings, except for meetings of a special class of shareholders where only holders of shares of the affected class are entitled to vote on the basis of one vote per share of the affected class.

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Shareholders are entitled to attend and vote at meetings either in person or by proxy. Proxy authorization forms must be in writing and deposited at our company's principal offices, or at such other place specified in the notice of shareholders meeting not less than 24 hours before the time that such meeting will be held or the time appointed for passing upon the relevant resolutions. If a proxy authorization form is signed by a third party on behalf of the relevant shareholder, then such proxy authorization form must be accompanied by the signature authorization letter or other such document authorizing such third party to sign on behalf of the shareholder.

Except for those actions discussed below, which require supermajority votes, or special resolutions, resolutions of the shareholders are passed by a simple majority of the voting shares held by shareholders who are present in person or by proxy. Special resolutions must be passed by more than two-thirds of the voting rights represented by shareholders who are present in person or by proxy.

The following decisions must be adopted by special resolution:

an increase or reduction of our share capital or the issue of shares of any class, warrants and other similar securities;

the issue of our debentures;

our division, merger, dissolution and liquidation;

amendments to our Articles of Association;

significant acquisition or disposal of material assets or provision of guarantees conducted within the period of one year with a value exceeding 30% of our latest audited total assets;

share incentive schemes; and

any other matters considered by the shareholders in a general meeting and which they have resolved by way of an ordinary resolution to be material and should be adopted by special resolution.

All other actions taken by the shareholders, including the appointment and removal of our directors and independent auditors and the declaration of normal dividend payments, will be decided by an ordinary resolution of the shareholders.

Our listing agreement with the HKSE provides that we may not permit amendments to certain sections of our Articles of Association that are subject to the Mandatory Provisions. These sections include provisions relating to (i) varying the rights of existing classes of shares, (ii) voting rights, (iii) our ability to purchase our own shares, (iv) rights of minority shareholders and (v) procedures on liquidation. In addition, certain amendments to the Articles of Association require the approval and assent of Chinese authorities.

Board of Directors

Our Articles of Association authorize up to 12 directors. Directors are elected by shareholders at a general meeting for a three year term from among candidates nominated by the board of directors or by shareholders holding 3% or more of our shares (independent directors may be nominated by shareholders each holding 1% or more of our shares). Because our directors do not serve staggered terms, the entire board of directors will stand for election, and could be replaced, every three years. Our directors are not required to hold any shares in us, and there is no age limit requirement for the retirement or non-retirement of our directors.

In addition to obligations imposed by laws, administrative regulations or the listing rules of the stock exchanges on which our shares are listed, the Articles of Association place on each of our directors, supervisors, manager and any other senior officers a duty to each shareholder, in the exercise of our functions and powers entrusted to them:

not to cause us to exceed the scope of business stipulated in our business license;

to act honestly in what he considers our best interests;

not to expropriate our assets in any way, including (without limitation) usurpation of opportunities which may benefit us; and

not to expropriate the individual rights of shareholders, including (without limitation) rights to distributions and voting rights, except according to a restructuring which has been submitted to the shareholders for their approval in accordance with the Articles of Association.

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Our Articles of Association further place on each of our directors, supervisors, manager and other senior officers:

a duty, in the exercise of their powers and discharge of their duties, to exercise the care, diligence and skill that a reasonably prudent person would exercise in comparable circumstances;

a fiduciary obligation, in the discharge of his duties, not to place himself or herself in a position where his or her interests may conflict with his or her duty to us; and

a duty not to cause a person or an organization related or connected to him or her in specified relationships to do what they are prohibited from doing.

We pay all expenses that our directors incur for their services as directors. Directors also receive compensation for their services under service contracts that are negotiated by the board of directors and approved by the shareholders.

Subject to the stipulations of relevant laws and regulations, the shareholders in a general meeting may by ordinary resolution remove any director before the expiration of his term of office. Except for the restrictions placed on controlling shareholders, discussed below, our shareholders in general meeting have the power to relieve a director or supervisor from liability for specific breaches of duty.

Cumulative voting is required for a meeting of shareholders held for the election of two or more of our directors or supervisors as long as more than 30% of our outstanding shares are held by a single shareholder. Cumulative voting allows shareholders to cast a number of votes for a candidate equal to the number of shares held multiplied by the number of directors being elected at the shareholders' meeting. If a shareholder attempts to cast more votes than he is entitled to under this system, all of the shareholder's votes will be invalid and will be deemed an abstention.

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More than one third of our directors of board must be independent from our shareholders and not hold any office with us (each, Independent Director). At least one Independent Director must be an accounting professional and all Independent Directors must possess a basic knowledge of the operations of a listed company and be familiar with relevant laws and rules and have at least five years working experience in law, economics or other area required for the fulfillment of responsibilities as an Independent Director. Independent Directors may not serve for terms exceeding six years. In addition, there are specific persons who are disqualified from acting as Independent Director. These include:

immediate family members of persons who work for us or our associated entities;

persons or their immediate family who hold one percent or more of our shares or are among our ten largest shareholders;

any persons that satisfied the foregoing conditions within the past one year;

persons providing financial, legal, consultation or other services to us or our associated entities;

persons who already serve as Independent Director for five other listed companies; and

anyone identified by the CSRC as unsuitable for serving as an Independent Director.

If the resignation of an Independent Director would cause our Board of Directors to have less than one third Independent Directors, the resignation will only become effective after a new Independent Director has been appointed.

Our Board will be required to meet at least four times each year. Directors who miss two consecutive Board meetings without appointing an alternate director to attend on their behalf will be proposed for removal at the next shareholders meeting, provided that Independent Directors may miss three consecutive meetings in person before being proposed for removal.

Directors may not vote on any matter in which he has a material interest, nor will he be counted for purposes of forming a quorum on such a matter.

Board resolutions are passed by a simple majority of the Directors except for the following matters which require the consent of more than two thirds of the Directors:

proposals for our financial policies;

the increase or reduction of our registered capital;

the issue of securities of any kind and their listing;

any repurchase of our shares;

significant acquisitions or disposals;

our merger, division or dissolution; and

any amendment to our Articles of Association.

Our Board of Directors or Supervisory Committee may nominate candidates for our Board of Directors and Supervisory Committee. In addition, shareholders holding one percent or more of our shares have the right to nominate candidates for Independent Director or Independent Supervisor and shareholders holding three percent or more of our shares have the right to nominate other candidates for Director or Supervisor. For candidates for Director, the nominator and candidates will be responsible for providing truthful and complete information about the candidate for disclosure. Candidates for Independent Director must publicly declare that there does not exist any relationship between himself and us that may influence his independent, objective judgment. The CSRC may veto any candidate for Independent Director.

Any material connected transactions are subject to prior approval by our Independent Directors. Connected transactions are those defined by the HKSE and by Chinese rules and regulations, but would generally include transactions with any of the following:

any company that, directly or indirectly, controls us or is under common control with us;

any shareholders owning 5% or more of our shares;

our directors, supervisors and other senior management;

any of our key technical personnel or key technology suppliers; and

any close relative or associate of any of the above.

Our independent directors can also propose to the Board of Directors the appointment or removal of our auditors, the convening of a Board meeting, independently appoint external auditors, solicit votes from shareholders and report circumstances directly to shareholders, Chinese securities regulatory authorities or other government departments. Two or more may request that the Board convene an extraordinary meeting of shareholders.

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Our Independent Directors will have to express their opinion on specified matters to the Board or to the shareholders at a shareholders meeting, either by a single unanimous statement or individually. These matters are:

the nomination, removal and remuneration of directors or senior management;

any major loans or financial transactions with our shareholders or related enterprises and whether we have taken adequate steps to ensure repayment;

matters that the Independent Director believes may harm the rights and interests of minority shareholders; and

any other matter that they are required to opine on by applicable law or rules.

These opinions must be expressed as either, agree, qualified agreement, opposition or unable to form an opinion. All but agreement must also be accompanied by a supporting explanation. If public disclosure of the matter is required, we must also disclose the opinions of our Independent Directors.

Any Independent Director may engage independent institutions to provide independent opinions as the basis of their decision. We must arrange the engagement and bear any costs.

Supervisory Committee

The Supervisory Committee is responsible for supervising our directors and senior officers and preventing them from abusing their positions and powers or infringing upon the rights and interests of our company or those of our shareholders and employees. The Supervisory Committee has no power over the decisions or actions of our directors or officers except for requesting the directors or officers to correct any acts that are harmful to our interests. The Supervisory Committee is composed of seven members appointed for a three year term. It has the right to:

attend the meetings of our board of directors;

inspect our financial affairs;

supervise and evaluate the conduct of our directors, general manager and other senior officers in order to determine whether they violate any laws, regulations or the Articles of Association in performing their duties;

require our directors, general manager or other senior officers to correct any act harmful to our interests and those of our shareholders and employees;

verify financial reports, accounting reports, business reports, profit distribution plans and other financial information proposed to be tabled at the shareholders general meeting, and entrust registered accountants and practicing accountants to re-review such documents upon its discovery of any problems;

require the board of directors to convene an extraordinary general meeting of shareholders;

represent us in negotiations with directors or in initiating legal proceedings against a director on our company's behalf;

conduct investigation into any identified irregularities in our operations, and where necessary, to engage accountants, legal advisers or other professionals to assist in the investigation; and

any other matters authorized by the Articles of Association.

One third of our Supervisory Committee members must be employee representatives appointed by our employees. The remaining members are appointed by the shareholders in a general meeting, provided that our directors, general manager and senior officers are not eligible to serve as supervisors. The Supervisory Committee must meet at least four times a year. Decisions of the Supervisory Committee can be passed by the consents of over two thirds of all the supervisors. We will pay all reasonable expenses incurred by the Supervisory Committee in appointing professional advisors, such as lawyers, accountants or auditors.

Liquidation Rights

In the event of our liquidation, payment of borrowings out of our remaining assets will be made in the order of priority prescribed by applicable laws and regulations. After payment of borrowings, we will distribute the remaining property to shareholders according to the class and proportion of their shareholdings. For this purpose, the H shares will rank equally with the domestic shares.

Obligation of Shareholders

Shareholders are not obligated to make any further contributions to our share capital other than as agreed by the subscriber of the relevant shares on subscription. This provision means that holders of ADSs will also not be obligated to make further contributions to our share capital.

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Duration

We are organized as a stock limited company of indefinite duration.

Increase in Share Capital

The Articles of Association require that approval by a resolution of the shareholders be obtained prior to issuing new shares. New issues of shares must also be approved by the relevant Chinese authorities.

Reduction of Share Capital and Purchase by Us of Our Shares

We may reduce our registered share capital only upon obtaining the approval of the shareholders and, when applicable, relevant Chinese authorities. Repurchases may be made either by way of a general offer to all shareholders in proportion to their shareholdings, by purchasing our shares on a stock exchange or by an off-market contract with shareholders.

Restrictions on Large or Controlling Shareholders

Our Articles of Association provide that, in addition to any obligation imposed by laws and administrative regulations or required by the listing rules of the stock exchanges on which our shares are listed, a controlling shareholder cannot exercise voting rights in a manner prejudicial to the interests of the shareholders generally or of some part of the shareholders:

to relieve a director or supervisor from his or her duty to act honestly in our best interest;

to approve the expropriation by a director or supervisor (for his or her own benefit or for the benefit of another person) of our assets in any way, including, without limitation, opportunities which may benefit us; or

to approve the expropriation by a director or supervisor (for his or her own benefit or for the benefit of another person) of the individual rights of other shareholders, including, without limitation, rights to distributions and voting rights (but not according to a restructuring of our company which has been submitted for approval by the shareholders in a general meeting in accordance with our Articles of Association).

A controlling shareholder, however, will not be precluded by our Articles of Association or any laws and administrative regulations or the listing rules of the stock exchanges on which our shares are listed from voting on these matters.

A controlling shareholder is defined by our Articles of Association as any person who, acting alone or together with others:

has the power to elect more than one-half of the board of directors;

has the power to exercise, or to control the exercise of, 30% or more of our voting rights;

holds 30% or more of our issued and outstanding shares; or

has *de facto* control of us in any other way.

Minutes, Accounts and Annual Report

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Our shareholders may inspect copies of the minutes of the shareholders' general meetings during our business hours free of charge. Shareholders are also entitled to receive copies of these minutes within seven days of receipt of the reasonable charges we may require.

Our fiscal year is the calendar year ending December 31. Each fiscal year, we must mail our financial report to shareholders not less than 21 days before the date of the shareholders' annual general meeting. These and any interim financial statements must be prepared in accordance with Chinese accounting standards and, for so long as H shares are listed on the HKSE, must also be prepared in accordance with or reconciled to either Hong Kong accounting standards or international accounting standards. The financial statements must be approved by an ordinary resolution of the shareholders at the annual general meeting.

Independent auditors are appointed each year by the shareholders at the annual meeting.

C. Material Contracts.

We have not entered into any material contracts other than in the ordinary course of business and other than those described in Item 4. Information on the Company or elsewhere in this annual report on Form 20-F.

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D. Exchange Controls.

Our Articles of Association require that cash dividends on our H Shares be declared in Renminbi and paid in HK dollars. The Articles of Association further stipulate that such dividends must be converted to HK dollars at a rate equal to the average of the closing exchange rates for HK dollars as announced by the Chinese Foreign Exchange Trading Center for the calendar week preceding the date on which the dividends are declared.

The Renminbi currently is not a freely convertible currency. The SAFE, under supervision of the People's Bank of China (PBOC) controls the conversion of Renminbi into foreign currency. Although Chinese governmental policies were introduced in 1996 to reduce restrictions on the convertibility of Renminbi into foreign currency for current account items, conversion of Renminbi into foreign exchange for capital items, such as foreign direct investment, loans or securities, requires the approval of SAFE and other relevant authorities. These limitations could affect our ability to obtain foreign exchange through borrowings or equity financing, or to obtain foreign exchange for capital expenditures.

On July 21, 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, but overall has appreciated against the US dollar. Nevertheless, the Chinese government continues to receive significant international pressure to further liberalize its currency policy which could result in a further and more significant appreciation in the value of the Renminbi against the US dollar.

While the impact of the foregoing developments is not entirely clear, it appears that the trend in the Chinese government's foreign exchange policy is toward easier convertibility of the Renminbi.

The holders of the ADSs will receive the HK dollar dividend payments in U.S. Dollars at conversion rates related to market rates and subject to fees as set forth in our Deposit Agreement with The Bank of New York Mellon, as Depositary. The HK dollar is currently linked to and trades within a narrow band against the US dollar at a rate that does not deviate significantly from HK\$7.80 = U.S.\$1.00. The Hong Kong government has stated its intention to maintain such link, although there can be no guarantee that such link will be maintained.

E. Taxation

PRC Taxation

The following is a summary of those taxes, including withholding provisions, to which United States security holders are subject under existing Chinese laws and regulations. The summary is subject to changes in Chinese law, including changes that could have retroactive effect. The summary does not take into account or discuss the tax laws of any country other than China, nor does it take into account the individual circumstances of a security holder. This summary does not purport to be a complete technical analysis or an examination of all potential tax effects under such laws and regulations.

Tax on Dividends

For an Individual Investor

According to the Individual Income Tax Law of the People's Republic of China, as amended on December 29, 2007 (the Individual Income Tax Law) dividends paid by Chinese companies to individual investors are subject to Chinese withholding tax at a flat rate of 20%. As for a foreign individual investor that neither has a domicile nor resides in China, or that has no domicile and has resided in China for no more than one year, the dividends received by such an investor in China are generally subject to a withholding tax at a flat rate of 20% under the individual income tax law, subject to exemption or reduction by an applicable income tax treaty. According to the State Administration of Taxation's tax treatments with regard to the dividends of H shares paid by onshore non-foreign invested enterprises listed in HKEx, we will withhold and pay the individual income tax at the tax rate of 10% for individual shareholders who are residents of Hong Kong, Macau, or countries which have entered into tax treaties with mainland China, which provide for a 10% dividends tax rate, and we will temporarily withhold and pay the individual income tax at the tax rate of 10% for individual shareholders who are residents of countries which have entered into tax treaties with mainland China, which provide for a less than 10% dividends tax rate. Shareholders of H Shares may directly or through our Company apply to the in-charge tax authority for the preferential treatments provided by the relevant tax treaties. Upon the approval by the in-charge tax authority, the excessive amount being paid will be refunded. For individual shareholders who are residents of countries which have entered into tax treaties with mainland China providing for a more than 10% but less than 20% dividends tax rate, we will withhold and pay the individual income tax at the specific tax rate required therein. We will withhold and pay the individual income tax at the dividends tax rate of 20% for individual shareholders who are residents of countries which have not entered into any forms of tax treaties with mainland China or in circumstances other

than above described.

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According to the Enterprise Income Tax Law of the People's Republic of China (Enterprise Income Tax Law) and its implementation rules, effective January 1, 2008, dividends by Chinese resident enterprises to non-resident enterprises are ordinarily subject to a Chinese withholding tax levied at a flat rate of 10%. For purposes of the Enterprise Income Tax Law, a Chinese resident enterprise is an enterprise which is either (i) set up in China in accordance with PRC laws or (ii) set up in accordance with the laws of a foreign country (region) but whose actual administrative headquarters is in China. For purposes of the Enterprise Income Tax Law, a non-resident enterprise is an enterprise which is set up in accordance with the laws of a foreign country (region) and whose actual administrative headquarters is located outside China but which has either (i) set up a legal presence in China or (ii) has income originating from China despite not having formally set up a legal presence in China. The State Administration of Taxation issued a *Circular on Issues Relating to the Withholding of Enterprise Income Tax for Dividends Distributed by Resident Enterprises in China to Non-resident Enterprises Holding H-shares of the Enterprises* (Guo Shui Han [2008] No. 897)(Circular No. 897) on November 6, 2008, which further clarifies that Chinese resident enterprises should, in distributing dividends for 2008 or any year hereafter to non-resident enterprises holding H-shares of the Chinese resident enterprise, withhold enterprise income tax for such dividends at a tax rate of 10%. After receiving dividends, non-resident enterprises holding H-shares of any Chinese resident enterprise can, on their own or through an agent, file an application to the relevant taxation authorities for such dividends to be covered by any applicable tax treaty (or other arrangement). The relevant taxation authorities should, upon reviewing and verifying the application and supporting materials to be correct, refund the difference between the tax levied and the tax payable calculated at a tax rate specified by the applicable tax treaty (or other arrangement).

Capital Gains Tax*For an Individual Investor*

So far as we are aware, in practice, capital gains derived by a foreign individual investor from the sale of overseas-listed shares are temporarily exempted from individual income tax.

For a Corporation

According to the Enterprise Income Tax Law and its implementation rules, a non-resident enterprise is subject to a 10% withholding tax for capital gains derived from the disposal of overseas-listed shares unless such payment is exempted or deducted pursuant to applicable double taxation treaties or otherwise. According to the Circular issued by the State Administration of Taxation on Issues regarding Income Tax Payable by Foreign Invested Enterprises, Foreign Enterprises and Individuals for Capital Gains Derived from the Disposal of Shares (Equity Interests) and Dividends (Guoshuifa [1993] No. 45), capital gains derived by a non-resident enterprise from the disposal of overseas-listed shares are temporarily exempted from withholding tax in China. However, this circular has been revoked in 2011. Therefore, technically, PRC withholding tax should be applied to non-resident enterprises on capital gains derived from the disposal of overseas-listed shares unless it is tax exempted under the applicable double tax treaty. So far as we are aware, practically, there is no consistent enforcement of the collection of such withholding tax in China at current stage. However, we are aware of cases where the PRC tax authorities try to levy PRC withholding tax when they became aware of the disposal of the overseas-listed shares that the profits from the disposal of shares are derived from China.

Tax Treaties

China has an income tax treaty with the United States that currently limits the rate of Chinese withholding tax to 10% for dividends paid to individuals and corporations that qualify for treaty benefits. However, this treaty does not offer reduced tax rates for capital gains.

However, if certain conditions under the double tax treaty are satisfied (*e.g.*, the shareholding in H-shares is less than 25% and the H-share company is not land rich), the capital gains may be exempted from the 10% PRC withholding tax.

Stamp Tax

While no express exemption exists for the imposition of Chinese stamp tax on transfers of Overseas Shares pursuant to the Provisional Regulations of the People's Republic of China Concerning Stamp Tax effective on July 1, 1989, we are not aware of any circumstance under which Chinese stamp tax has actually been imposed on the transfer of Overseas Shares.

Estate or Gift Tax

China does not currently impose any estate or gift tax.

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U.S. Taxation

The following is a summary of the material U.S. federal income tax consequences of the ownership and disposition of H Shares or ADSs. The following discussion is not exhaustive of all possible tax considerations. This summary is based upon the Internal Revenue Code of 1986, as amended (the Code), regulations promulgated under the Code by the U.S. Treasury Department (including proposed and temporary regulations), rulings, current administrative interpretations and official pronouncements of the IRS, and judicial decisions, all as currently available and all of which are subject to differing interpretations or to change, possibly with retroactive effect. Such change could materially and adversely affect the tax consequences described below. No assurance can be given that the IRS will not assert, or that a court will not sustain, a position contrary to any of the tax consequences described below.

This discussion does not address state, local, or foreign tax consequences of the ownership and disposition of H Shares or ADSs. (See PRC Taxation above).

This summary is for general information only and does not address all aspects of U.S. federal income taxation that may be important to a particular holder in light of its investment or tax circumstances or to holders subject to special tax rules, such as: banks; financial institutions; insurance companies; dealers in stocks, securities, or currencies; entities treated as partnerships for U.S. federal income taxes or partners therein; traders in securities that elect to use a mark-to-market method of accounting for their securities holdings; tax-exempt organizations; real estate investment trusts; regulated investment companies; qualified retirement plans, individual retirement accounts, and other tax-deferred accounts; expatriates of the United States; persons subject to the alternative minimum tax; persons holding H Shares or ADSs as part of a straddle, hedge, conversion transaction, or other integrated transaction; persons who acquired H Shares or ADSs pursuant to the exercise of any employee stock option or otherwise as compensation for services; persons actually or constructively holding 10% or more of our voting stock; and U.S. Holders (as defined below) whose functional currency is other than the U.S. dollar.

This discussion is not a comprehensive description of all of the U.S. federal tax consequences that may be relevant with respect to the ownership and disposition of H Shares or ADSs. We urge you to consult your own tax advisor regarding your particular circumstances and the U.S. federal income and estate tax consequences to you of owning and disposing of H Shares or ADSs, as well as any tax consequences arising under the laws of any state, local, or foreign or other tax jurisdiction and the possible effects of changes in U.S. federal or other tax laws.

This summary is directed solely to persons who hold their H Shares or ADSs as capital assets within the meaning of Section 1221 of the Code, which generally means as property held for investment. For purposes of this discussion, the term U.S. Holder means a beneficial owner of H Shares or ADSs that is any of the following:

a citizen or resident of the United States or someone treated as a U.S. citizen or resident for U.S. federal income tax purposes;

a corporation (or other entity taxable as a corporation for U.S. federal income tax purposes) created or organized in or under the laws of the United States, any state thereof, or the District of Columbia;

an estate, the income of which is subject to U.S. federal income taxation regardless of its source;

a trust if a U.S. court can exercise primary supervision over the trust's administration and one or more U.S. persons have the authority to control all substantial decisions of the trust; or

a trust in existence on August 20, 1996 that has a valid election in effect under applicable Treasury Regulations to be treated as a U.S. person.

The term Non-U.S. Holder means a beneficial owner of H Shares or ADSs that is not a U.S. Holder or an entity treated as a partnership for U.S. federal income tax purposes. As described in Taxation of Non-U.S. Holders below, the tax consequences to a Non-U.S. Holder may differ substantially from the tax consequences to a U.S. Holder.

ADSs

As it relates to the ADSs, this discussion is based in part upon the representations of the depositary and the assumption that each obligation in the deposit agreement and any related agreement will be performed in accordance with its terms.

Generally, a holder of ADSs will be treated as the owner of the underlying H Shares represented by those ADSs for U.S. federal income tax purposes. Accordingly, no gain or loss will be recognized if the holder exchanges ADSs for the underlying H Shares represented by those ADSs. The holder's adjusted tax basis in the H Shares will be the same as the adjusted tax basis of the ADSs surrendered in exchange therefor, and the holding period for the H Shares will include the holding period for the surrendered ADSs.

Table of Contents*TAXATION OF U.S. HOLDERS*

The discussion in *Distributions on H Shares or ADSs* and *Dispositions of H Shares or ADSs* below assumes that we will not be treated as a PFIC for U.S. federal income tax purposes. For a discussion of the rules that apply if we are treated as a PFIC, see the discussion in *Passive Foreign Investment Company* below.

Distributions on H Shares or ADSs

General. Subject to the discussion in *Passive Foreign Investment Company* below, if you actually or constructively receive a distribution on H Shares or ADSs, you must include the distribution in gross income as a taxable dividend on the date of your (or in the case of ADSs, the depositary's) receipt of the distribution, but only to the extent of our current or accumulated earnings and profits, as calculated under U.S. federal income tax principles. Such amount must be included without reduction for any foreign taxes withheld. Dividends paid by us will not be eligible for the dividends received deduction allowed to corporations with respect to dividends received from certain domestic corporations. Dividends paid by us may or may not be eligible for preferential rates applicable to qualified dividend income, as described below.

To the extent a distribution exceeds our current and accumulated earnings and profits, it will be treated first as a non-taxable return of capital to the extent of your adjusted tax basis in the H Shares or ADSs, and thereafter as capital gain. Preferential tax rates for long term capital gain may be applicable to non-corporate U.S. Holders.

We do not intend to calculate our earnings and profits under U.S. federal income tax principles. Therefore, you should expect that a distribution generally will be reported as a dividend even if that distribution would otherwise be treated as a non-taxable return of capital or as capital gain under the rules described above.

Qualified Dividend Income. With respect to non-corporate U.S. Holders (*i.e.*, individuals, trusts, and estates), dividends that are treated as qualified dividend income (QDI) are taxable at a maximum tax rate of 20%. Among other requirements, dividends generally will be treated as QDI if either (i) our H Shares or ADSs are readily tradable on an established securities market in the United States, or (ii) we are eligible for the benefits of a comprehensive income tax treaty with the United States which includes an information exchange program and which is determined to be satisfactory by the U.S. Treasury. It is expected that our ADSs will be readily tradable as a result of being listed on the NYSE.

In addition, for dividends to be treated as QDI, we must not be a PFIC (as discussed below) for either the taxable year in which the dividend was paid or the preceding taxable year. We do not believe that we were a PFIC for the preceding taxable year or will be a PFIC for the current taxable year. However, please see the discussion under *Passive Foreign Investment Company* below. Additionally, in order to qualify for QDI treatment, you generally must have held the H Shares or ADSs for more than 60 days during the 121-day period beginning 60 days prior to the ex-dividend date. However, your holding period will be reduced for any period during which the risk of loss is diminished.

Moreover, a dividend will not be treated as QDI to the extent you are under an obligation (whether pursuant to a short sale or otherwise) to make related payments with respect to positions in substantially similar or related property. Since the QDI rules are complex, you should consult your own tax advisor regarding the availability of the preferential tax rates for dividends paid on H Shares or ADSs.

Foreign Currency Distributions. A dividend paid in foreign currency (*e.g.*, Hong Kong dollars or Chinese Renminbi) must be included in your income as a U.S. dollar amount based on the exchange rate in effect on the date such dividend is received, regardless of whether the payment is in fact converted to U.S. Dollars. If the dividend is converted to U.S. Dollars on the date of receipt, you generally will not recognize a foreign currency gain or loss. However, if you convert the foreign currency to U.S. Dollars on a later date, you must include in income any gain or loss resulting from any exchange rate fluctuations. The gain or loss will be equal to the difference between (i) the U.S. dollar value of the amount you included in income when the dividend was received and (ii) the amount that you receive on the conversion of the foreign currency to U.S. Dollars. Such gain or loss generally will be ordinary income or loss and U.S. source for U.S. foreign tax credit purposes.

Foreign Tax Credits. Subject to certain conditions and limitations, any foreign taxes paid on or withheld from distributions from us and not refundable to you may be credited against your U.S. federal income tax liability or, alternatively, may be deducted from your taxable income. This election is made on a year-by-year basis and applies to all foreign taxes paid by you or withheld from you that year.

Distributions will constitute foreign source income for foreign tax credit limitation purposes. The foreign tax credit limitation is calculated separately with respect to specific classes of income. For this purpose, distributions characterized as dividends distributed by us generally will constitute passive category income or, in the case of certain U.S. Holders, general category income. Special limitations may apply if a dividend is treated as QDI (as defined above).

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Since the rules governing foreign tax credits are complex, you should consult your own tax advisor regarding the availability of foreign tax credits in your particular circumstances.

Dispositions of H Shares or ADSs

Subject to the discussion in *Passive Foreign Investment Company* below, you generally will recognize taxable gain or loss realized on the sale or other taxable disposition of H Shares or ADSs equal to the difference between the U.S. dollar value of (i) the amount realized on the disposition (*i.e.*, the amount of cash plus the fair market value of any property received), and (ii) your adjusted tax basis in the H Shares or ADSs. Such gain or loss will be a capital gain or loss.

If you have held the H Shares or ADSs for more than one year at the time of disposition, such capital gain or loss will be long-term capital gain or loss. Preferential tax rates for long term capital gain (currently with a maximum rate of 20%) will apply to non-corporate U.S. Holders. If you have held the H Shares or ADSs for one year or less, such capital gain or loss will be short term capital gain or loss taxable as ordinary income at your marginal income tax rate. The deductibility of capital losses is subject to limitations.

Generally, any gain or loss recognized will not give rise to foreign source income for U.S. foreign tax credit purposes.

You should consult your own tax advisor regarding the U.S. federal income tax consequences if you receive currency other than U.S. Dollars upon the disposition of H Shares or ADSs.

Passive Foreign Investment Company

We generally will be a PFIC under Section 1297 of the Code if, for a taxable year, either (a) 75% or more of our gross income for such taxable year is passive income (the *income test*) or (b) 50% or more of the average percentage, generally determined by fair market value, of our assets during such taxable year either produce passive income or are held for the production of passive income (the *asset test*). Passive income includes, for example, dividends, interest, certain rents and royalties, certain gains from the sale of stock and securities, and certain gains from commodities transactions.

Certain *look through* rules apply for purposes of the income and asset tests described above. If we own, directly or indirectly, 25% or more of the total value of the outstanding 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. In addition, passive income does not include any interest, dividends, rents, or royalties that are received or accrued by us from a *related person* (as defined in Section 954(d)(3) of the Code), to the extent such items are properly allocable to income of such related person that is not passive income.

Under the income and asset tests, whether or not we are a PFIC will be determined annually based upon the composition of our income and the composition and valuation of our assets, all of which are subject to change. In determining that we are not a PFIC, we are relying on our projected revenues and projected capital expenditures. If our actual revenues and capital expenditures do not match our projections, we may become a PFIC. For example, if we do not spend enough of the cash (a passive asset) we raise from any financing transactions we may undertake, the relative percentage of our passive assets will increase. In addition, our determination is based on a current valuation of our assets. We believe our valuation approach is reasonable. However, it is possible that the IRS will challenge the valuation of our assets, which may result in our being a PFIC.

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.

Default PFIC Rules under Section 1291 of the Code. If we are treated as a PFIC with respect to a U.S. Holder, the U.S. federal income tax consequences to the U.S. Holder of the ownership and disposition of H Shares or ADSs will depend on whether such U.S. Holder makes an election to treat us as a qualified electing fund (*QEF*) under Section 1295 of the Code (a *QEF Election*) or a mark-to-market election under Section 1296 of the Code (a *Mark-to-Market Election*). A U.S. Holder owning H Shares or ADSs while we were or are a PFIC that has not made either a QEF Election or a Mark-to-Market Election will be referred to in this summary as a *Non-Electing U.S. Holder*.

If you are a Non-Electing U.S. Holder, you will be subject to the default tax rules of Section 1291 of the Code with respect to:

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any excess distribution paid on H Shares or ADSs, which means the excess (if any) of the total distributions received by you during the current taxable year over 125% of the average distributions received by you during the three preceding taxable years (or during the portion of your holding period for the H Shares or ADSs prior to the current taxable year, if shorter); and

any gain recognized on the sale or other taxable disposition (including a pledge) of H Shares or ADSs.

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Under these default tax rules:

any excess distribution or gain will be allocated ratably over your holding period for the H Shares or ADSs;

the amount allocated to the current taxable year and any period prior to the first day of the first taxable year in which we were a PFIC will be treated as ordinary income in the current taxable year;

the amount allocated to each of the other years will be treated as ordinary income and taxed at the highest applicable tax rate in effect for that year; and

the resulting tax liability from any such prior years will be subject to the interest charge applicable to underpayments of tax.

In addition, notwithstanding any election you may make, dividends that you receive from us will not be eligible for the preferential tax rates applicable to QDI (as discussed above in "Distributions on H Shares or ADSs") if we are a PFIC either in the taxable year of the distribution or the preceding taxable year, but instead will be taxable at rates applicable to ordinary income.

Special rules for Non-Electing U.S. Holders will apply to determine U.S. foreign tax credits with respect to foreign taxes imposed on distributions on H Shares or ADSs.

If we are a PFIC for any taxable year during which you hold H Shares or ADSs, we will continue to be treated as a PFIC with respect to you for all succeeding years during which you hold H Shares or ADSs, regardless of whether we actually continue to be a PFIC.

QEF Election. We currently do not intend to furnish you annually with certain tax information that would permit you to make a QEF Election to avoid the adverse U.S. tax consequences associated with owning PFIC stock.

Mark-to-Market Election. U.S. Holders may make a Mark-to-Market Election, but only if the H Shares or ADSs are marketable stock. The H Shares or ADSs will be marketable stock as long as they are regularly traded on a qualified exchange. Stock is considered regularly traded for any calendar year during which it is traded (other than in de minimis quantities) on at least 15 days during each calendar quarter. Qualified exchanges include (a) a national securities exchange that is registered with the Securities and Exchange Commission, (b) the national market system established pursuant to section 11A of the Securities and Exchange Act of 1934, and (c) a foreign securities exchange that is regulated or supervised by a governmental authority of the country in which the market is located, provided that (i) such foreign exchange has trading volume, listing, financial disclosure, surveillance, and other requirements and the laws of the country in which such foreign exchange is located, together with the rules of such foreign exchange, ensure that such requirements are actually enforced, and (ii) the rules of such foreign exchange effectively promote active trading of listed stocks.

Since the H Shares are listed on a foreign exchange (*i.e.*, the HKSE Limited) and the IRS has yet to identify specific foreign exchanges that are qualified for this purpose, there can be no assurances that the H Shares will be marketable stock and will be regularly traded. As for the ADSs, they will be marketable stock as long as they remain listed on the NYSE and are regularly traded. There can be no assurances, however, that the ADSs will be treated, or continue to be treated, as regularly traded.

If you own (or owned) H Shares or ADSs while we are (or were) a PFIC and you make a Mark-to-Market Election, you generally will not be subject to the default rules of Section 1291 of the Code discussed above. Rather, you generally will be required to recognize ordinary income for any increase in the fair market value of the ADSs for each taxable year that we are a PFIC. You will also be allowed to deduct as an ordinary loss any decrease in the fair market value to the extent of net marked-to-market gain previously included in prior years. Your adjusted tax basis in the ADSs will be adjusted to reflect the amount included or deducted.

The Mark-to-Market Election will be effective for the taxable year for which the election is made and all subsequent taxable years, unless the ADSs cease to be marketable stock or the IRS consents to the revocation of the election. You should consult your own tax advisor regarding the availability of, and procedure for making, a Mark-to-Market Election.

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Since the PFIC rules are complex, you should consult your own tax advisor regarding them and how they may affect the U.S. federal income tax consequences of the ownership and disposition of H Shares or ADSs.

3.8% Medicare tax on net investment income

Certain U.S. persons, including individuals, estates and trusts, may be required to pay an additional 3.8% Medicare tax on, among other things, dividends and capital gains from the sale or other disposition of H Shares or ADSs. For individuals, the additional Medicare tax applies to the lesser of (i) net investment income or (ii) the excess of modified adjusted gross income over \$200,000 (\$250,000 if married and filing jointly or \$125,000 if married and filing separately). Net investment income generally equals the taxpayer's gross investment income reduced by the deductions that are allocable to such income. U.S. Holders likely will not be able to credit foreign taxes against the 3.8% Medicare tax.

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You should consult your tax advisors regarding the implications of the additional Medicare tax resulting from your ownership and disposition of H Shares or ADSs.

Information reporting regarding PFICs and specified foreign financial assets

If we are a PFIC, all U.S. Holders may be required to file annual tax returns (including on Form 8621) containing such information as the U.S. Treasury requires.

Certain U.S. Holders who are individuals (and under proposed regulations, certain entities) may be required to report information relating to an interest in our H Shares or ADSs, subject to certain exceptions (including an exception for shares held in accounts maintained by U.S. financial institutions). U.S. Holders are urged to consult their tax advisors regarding their information reporting obligations, if any, with respect to their ownership and disposition of our H Shares or ADSs. In the event a U.S. Holder does not file the information reports described above relating to ownership of a PFIC or disclosure of specified foreign financial assets, the statute of limitations on the assessment and collection of U.S. federal income taxes of such U.S. holder for the related tax year will not close before such report is filed.

If you are a U.S. Holder, you are urged to consult with your own tax advisor regarding the application of the PFIC and specified foreign financial assets information reporting requirements and related statute of limitations tolling provisions with respect to our H Shares and ADSs.

Information Reporting and Backup Withholding

Generally, information reporting requirements will apply to distributions on H Shares or ADSs or proceeds from the disposition of H Shares or ADSs paid within the United States (and, in certain cases, outside the United States) to a U.S. Holder unless such U.S. Holder is an exempt recipient, such as a corporation. Furthermore, backup withholding (currently at 28%) may apply to such amounts unless such U.S. Holder (i) is an exempt recipient that, if required, establishes its right to an exemption, or (ii) provides its taxpayer identification number, certifies that it is not currently subject to backup withholding, and complies with other applicable requirements.

A U.S. Holder may generally avoid backup withholding by furnishing a properly completed IRS Form W-9.

Backup withholding is not an additional tax. Rather, amounts withheld under the backup withholding rules may be credited against your U.S. federal income tax liability. Furthermore, you may obtain a refund of any excess amounts withheld by filing an appropriate claim for refund with the IRS and furnishing any required information in a timely manner.

TAXATION OF NON-U.S. HOLDERS

Distributions on H Shares or ADSs

Subject to the discussion in *Information Reporting and Backup Withholding* below, as a Non-U.S. Holder, you generally will not be subject to U.S. federal income tax, including withholding tax, on distributions received on H Shares or ADSs, unless the distributions are effectively connected with a trade or business that you conduct in the United States (and, if an applicable income tax treaty so requires, attributable to a permanent establishment that you maintain in the United States).

If distributions are effectively connected with a U.S. trade or business (and, if applicable, attributable to a U.S. permanent establishment), you generally will be subject to tax on such distributions in the same manner as a U.S. Holder, as described in *Taxation of U.S. Holders Distributions on H Shares or ADSs* above. In addition, any such distributions received by a corporate Non-U.S. Holder may also, under certain circumstances, be subject to an additional *branch profits tax* at a 30% rate or such lower rate as may be specified by an applicable income tax treaty.

Dispositions of H Shares or ADSs

Subject to the discussion in *Information Reporting and Backup Withholding* below, as a Non-U.S. Holder, you generally will not be subject to U.S. federal income tax, including withholding tax, on any gain recognized on a sale or other taxable disposition of H Shares or ADSs, unless (i) the gain is effectively connected with a trade or business that you conduct in the United States (and, if an applicable income tax treaty so requires, attributable to a permanent establishment that you maintain in the United States), or (ii) you are an individual and are present in the United States for at least 183 days in the taxable year of the disposition, and certain other conditions are met.

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If you meet the test in clause (i) above, you generally will be subject to tax on any gain that is effectively connected with your conduct of a trade or business in the United States in the same manner as a U.S. Holder, as described in Taxation of U.S. Holders Dispositions of H Shares or ADSs above. Effectively connected gain realized by a corporate Non-U.S. Holder may also, under certain circumstances, be subject to an additional branch profits tax at a 30% rate or such lower rate as may be specified by an applicable income tax treaty.

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If you meet the test in clause (ii) above, you generally will be subject to tax at a 30% rate on the amount by which your U.S. source capital gain exceeds your U.S. source capital loss during the taxable year.

Information Reporting and Backup Withholding

Payments to Non-U.S. Holders of distributions on, or proceeds from the disposition of, H Shares or ADSs are generally exempt from information reporting and backup withholding. However, a Non-U.S. Holder may be required to establish that exemption by providing certification of non-U.S. status on an appropriate IRS Form W-8.

Backup withholding is not an additional tax. Rather, amounts withheld under the backup withholding rules may be credited against your U.S. federal income tax liability. Furthermore, you may obtain a refund of any excess amounts withheld by filing an appropriate claim for refund with the IRS and furnishing any required information in a timely manner.

F. Dividends and Paying Agents.

Not applicable.

G. Statement by Experts.

Not applicable.

H. Documents on Display.

We are subject to the periodic reporting and other informational requirements of the Securities Exchange Act of 1934, as amended, or the Exchange Act. Under the Exchange Act, we are required to file reports and other information with the Securities and Exchange Commission. Specifically, we are required to file annually a Form 20-F no later than four months after the close of each fiscal year, which is December 31 of each year. Copies of reports and other information, when so filed, may be inspected without charge and may be obtained at prescribed rates at the public reference facilities maintained by the Securities and Exchange Commission at 100 F Street, N.E., Washington, D.C. 20549. You can request copies of these documents upon payment of a duplicating fee, by writing to the SEC. Please call the SEC at 1-800-SEC-0330 for further information on the operation of the public reference rooms. The SEC also maintains a Web site at www.sec.gov that contains reports, proxy and information statements, and other information regarding registrants that make electronic filings with the SEC using its EDGAR system. As a foreign private issuer, we are exempt from the rules under the Exchange Act prescribing the furnishing and content of quarterly reports and proxy statements, and officers, directors and principal shareholders are exempt from the reporting and short-swing profit recovery provisions contained in Section 16 of the Exchange Act.

ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.**Interest Rate Risk**

We are subject to risk resulting from fluctuations in interest rates. Our borrowings are fixed and variable rate bank and other borrowings, with original maturities ranging from 1 to 5 years. Accordingly, fluctuations in interest rates can lead to significant fluctuations in the fair value of such debt instruments. We had no program of interest rate hedging activities and did not engage in any such activities in 2012 or 2013.

The following table provides information, by maturity date, regarding our interest rate sensitive financial instruments, which consist of fixed and variable rate short term and long term debt obligations, as of December 31, 2013 and 2012.

As of December 31, 2013						Total Recorded Amount	Fair Value
2014	2015	2016	2017	2018			
(RMB equivalent in thousands, except interest rates)							

Fixed rate bank and other loans					
In U.S. Dollars					
Average interest rate					
In RMB	603,000			603,000	603,000
Average interest rate ⁽¹⁾	4.52%			4.52%	
Variable rate bank and other loans					
In U.S. Dollars					
In RMB	4,937,026			4,937,026	4,937,026
Average interest rate ⁽¹⁾	1.78%			1.78%	
In RMB	1,554,000	327,800	300,000	2,181,800	2,183,240
Average interest rate ⁽¹⁾	4.83%	5.81%	5.76%	5.11%	

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

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	As of December 31, 2012					Total Recorded Amount	Fair Value
	2013	2014	2015	2016	2017		
(RMB equivalent in thousands, except interest rates)							
Fixed rate bank and other loans							
In U.S. Dollars							
Average interest rate							
In RMB	3,183,998					3,183,998	3,183,998
Average interest rate ⁽¹⁾	4.95%					4.95%	
Variable rate bank and other loans							
In U.S. Dollars	7,839,879					7,839,879	7,839,879
Average interest rate ⁽¹⁾	2.02%					2.02%	
In RMB		370,560	427,020	433,760		1,231,340	1,192,960
Average interest rate ⁽¹⁾		6.01%	6.01%	6.01%		6.01%	

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

Exchange Rate Risk

We are also exposed to foreign currency exchange rate risk as a result of our foreign currency denominated short term borrowing and, to a limited extent, cash and cash equivalents denominated in foreign currencies. The following table provides information, by maturity date, regarding our foreign currency exchange rate sensitive financial instruments, which consist of cash and cash equivalents, short term debt obligations as of December 31, 2013 and 2012.

	As of December 31, 2013						Total Recorded Amount	Fair Value
	2014	2015	2016	2017	2018	Thereafter		
(RMB equivalent in thousands, except interest rates)								
On-balance sheet financial instruments								
Cash and cash equivalents:								
In Hong Kong Dollars	750						750	750
In U.S. Dollars	3,318						3,318	3,318
In Euro								
In Japanese Yen								
In Swiss Frank								
Debt:								
Fixed rate bank and other loans in								
U.S. Dollars								
Average interest rate ⁽¹⁾								
Variable rate bank and other loans in								
In U.S. Dollars	4,937,026						4,937,026	4,937,026
Average interest rate ⁽¹⁾	1.78%						1.78%	

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	As of December 31, 2012					Total Recorded Amount	Fair Value
	2013	2014	2015	2016	2017 Thereafter		
(RMB equivalent in thousands, except interest rates)							
On-balance sheet financial instruments							
Cash and cash equivalents:							
In Hong Kong Dollars	780					780	780
In U.S. Dollars	148					148	148
In Euro							
In Japanese Yen							
In Swiss Frank							
Debt:							
Fixed rate bank and other loans in							
U.S. Dollars							
Average interest rate							
Variable rate bank and other loans in							
U.S. Dollars							
	7,839,879					7,839,879	7,839,879
Average interest rate ⁽¹⁾	2.02%					2.02%	

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

ITEM 12. DESCRIPTION OF SECURITIES OTHER THAN EQUITY SECURITIES.

In connection with our ADS program, a holder of our ADSs may have to pay, either directly or indirectly, certain fees and charges, as described in Item 12.D.3. In addition, we receive fees and other direct and indirect payments from The Bank of New York Mellon that are related to our ADS as described in Item 12.D.4.

12D.3 Fees and Charges that a holder of our ADSs May Have to Pay

The Bank of New York Mellon collects its fees for delivery and surrender of ADSs directly from investors depositing shares or surrendering ADSs for the purpose of withdrawal or from intermediaries acting for them. The Bank of New York Mellon also collects fees for making distributions to investors by deducting those fees from the amounts distributed or by selling a portion of distributable property to pay the fees. The Bank of New York Mellon may collect its annual fee for depositary services by deductions from cash distributions.

Persons depositing or withdrawing shares must pay:

\$5.00 (or less) per 100 ADSs (or portion of 100 ADSs)

A fee equivalent to the fee that would be payable if securities distributed to you had been shares and the shares had been deposited for issuance of ADSs

A fee of \$.05 (or less) per ADS (or portion thereof)

Registration or transfer fees

Expenses of The Bank of New York Mellon

For:

Issuance and withdrawal of ADSs, including issuances resulting from a distribution of shares or rights or other property

Distribution of securities distributed to holders of deposited securities which are distributed by The Bank of New York Mellon to ADS registered holders

Any cash distribution made pursuant to the Deposit Agreement

Transfer and registration of shares on our share register to or from the name of the depositary or its agent when you deposit or withdraw shares

Cable, telex and facsimile transmissions (when expressly provided in the Deposit Agreement);

Converting foreign currency to U.S. Dollars

As necessary

Taxes and other governmental charges The Bank of New York Mellon or the custodian have to pay on any ADS or share underlying an ADS, for example, stock transfer taxes, stamp duty or withholding taxes

Any charges incurred by The Bank of New York Mellon or its agents for servicing the deposited securities As necessary

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12D.4 Fees and Other Payments Made by The Bank of New York Mellon

From January 1, 2013 through March 31, 2014, a total of U.S.\$50,438.61 was paid by The Bank of New York Mellon on our behalf for our ADSs program. Specifically, the following fees were paid on our behalf: U.S.\$860.00 for standard out-of-pocket maintenance costs for the ADSs program (primarily consisting of expenses related to our Annual General Meeting), and U.S.\$49,578.61 for investor relations services from third party vendors.

PART II

ITEM 13. DEFAULTS, DIVIDEND ARREARAGES AND DELINQUENCIES.

None.

ITEM 14. MATERIAL MODIFICATIONS TO THE RIGHTS OF SECURITY HOLDERS AND USE OF PROCEEDS.

On May 11, 2011, we entered into an Amended and Restated Deposit Agreement with The Bank of New York Mellon, as Depositary (the Restated Deposit Agreement), and updated the form of American Depositary Receipt (the ADR) evidencing the ADSs issued under the terms of the Restated Deposit Agreement. The Restated Deposit Agreement restates our original Deposit Agreement with The Bank of New York (the predecessor of The Bank of New York Mellon), dated as of July 23, 1993 (as amended, the 1993 Deposit Agreement), in its entirety.

We and The Bank of New York Mellon entered into the Restated Deposit Agreement to modify the ADSs voting process and to bring our arrangements with The Bank of New York Mellon in line with the current customary market practice regarding depositary arrangements.

By the Restated Deposit Agreement, subject to the Depositary's obligation to notify the owner of ADSs of any meeting of holders of our shares or other deposited securities, and subject further to certain exceptions as provided therein, to the extent that no instructions are received by the Depositary from an owner of ADSs on or before the date established by the Depositary, the Depositary may deem instructions by the owner of the ADS have been given to give a discretionary proxy to a person designated by us to exercise voting rights in the meeting of holders of our shares or other deposited securities.

In addition, the Restated Deposit Agreement amends the 1993 Deposit Agreement, among other things, to (i) provide the American Depositary Shares may be uncertificated securities or certificated securities evidenced by ADRs, and (ii) change the fees and charges of the Depositary, see Item 12D.3 Fees and Charges that a holder of our ADSs May Have to Pay.

The foregoing descriptions of the Restated Deposit Agreement and the ADR do not purport to be complete and are qualified in their entirety by reference to the complete Restated Deposit Agreement and ADR which are incorporated herein by reference to Exhibit 2 and the forms filed on Form F-6 (File number 033-65616) on May 4, 2011.

ITEM 15. CONTROLS AND PROCEDURES.

A. Evaluation of disclosure controls and procedures.

The term disclosure controls and procedures is defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act. These rules refer to the controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files under the Exchange Act is recorded, processed, summarized and reported within required time periods. This includes controls and procedures designed to ensure that information required to be disclosed is accumulated and communicated to our management, including our principal executive officer or officers and principal financial officer or officers, to allow timely decisions regarding required disclosure.

We maintain a written policy adopted by our board of directors that governs the collection, coordination and disclosure of information to our shareholders, the public and to governmental and other regulatory bodies. All such disclosures are coordinated by the Secretary to our Board of Directors and subject to execution by either the Chairman of our Board of Directors or, for disclosures by our Supervisory Board, the Chairman of the Supervisory Board. Under the policy, all material issues must be disclosed and our disclosures must be true, accurate, complete and timely without any false or misleading statements. Each of our departments and subsidiaries has their own supplemental policies which may be both

written and unwritten.

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) of the Securities Exchange Act of 1934) as of the end of the fiscal year covered by this annual report. Based on this evaluation, our Chief Executive Officer and Chief Financial Officer have concluded that, as of the end of the fiscal year covered by this annual report, our disclosure controls and procedures were effective to ensure that information required to be disclosed in the reports we file under the Exchange Act is accumulated and communicated to the management to allow timely decisions to be made regarding required disclosures, and is recorded, processed, summarized and reported as and when required.

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B. Management's assessment report on the internal control

Our management is accountable for establishing and maintaining effective internal control over financial reporting (as defined in Rules 13a-15(f) of the Securities Exchange Act of 1934). The Company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

Because of its inherent limitations, internal control over financial reporting cannot provide absolute assurance of achieving financial reporting objectives and may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become ineffective because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Our management assessed the effectiveness of our internal control over financial reporting based upon the criteria established in *Internal Control-Integrated Framework (1992)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) as of December 31, 2013. Based on that evaluation, our management has concluded that our internal control over financial reporting was effective as of December 31, 2013 based on these criteria.

PwC, an independent registered public accounting firm, has audited the consolidated financial statements included in this annual report on Form 20-F and, as part of the audit, has issued a report, included herein, on the effectiveness of our internal control over financial reporting.

C. Report of Independent Registered Public Accounting Firm.

Our independent auditors have issued an audit report on the effectiveness of our internal control over financial reporting. This report appears on page F-2.

D. Changes in internal control over financial reporting.

For the year ended December 31, 2013, there have been no significant changes to our internal controls over financial reporting that have materially affected, or are reasonably likely to materially affect our internal control over financial reporting.

ITEM 16A. AUDIT COMMITTEE FINANCIAL EXPERT.

We currently have an audit committee financial expert, Cai Tingji, serving on our audit committee and he is an independent director as defined in 17 CFR 240.10A-3.

ITEM 16B. CODE OF ETHICS.

We have not adopted a code of ethics as defined by the applicable U.S. securities regulations that applies to our principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions since it is not a customary practice for a PRC company to adopt such code of ethics.

ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES.

The following table summarizes the fees charged by PwC, our principal accountant, for certain services rendered to us during 2013, and the fees charged by KPMG, our former principal accountant, for certain services rendered to us during 2012.

**For the year ended
December 31,
(in thousands of RMB)**

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	2012	2013
Audit fees (1)	8,850	7,800
Audit-related fees (2)		
Tax fees (3)		
All other fees (4)		
Total	8,850	7,800

- (1) Audit fees means the aggregate fees billed in each of the fiscal years listed for professional services rendered by our principal auditors for the audit of our annual financial statements.

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- (2) Audit-related fees means the aggregate fees billed in each of the fiscal years listed for assurance and related services rendered by our principal auditors for the audit of our financial information.
- (3) Tax fees means the aggregate fees billed in each of the fiscal years listed for professional services rendered by our principal auditors for tax compliance, tax advice and tax planning.
- (4) All other fees means the aggregate fees billed in each of the fiscal years listed for products and services provided by the our principal accountant, other than the services reported under audit fees, audit-related fees and tax fees.

Audit Committee Pre-approval Policies and Procedures

Our audit committee has adopted procedures which set forth the manner in which the committee will review and approve all audit and non-audit services to be provided by PwC. The pre-approval procedures are as follows:

Any audit or non-audit service to be provided to us by the independent accountant must be (i) pre-approved by the audit committee; or (ii) pre-approved by one or several committee members designated by the committee and rectified by the audit committee.

ITEM 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES.

We have not been granted an exemption from the applicable listing standards for the audit committee of our board of directors.

ITEM 16E. PURCHASES OF EQUITY SECURITIES BY THE ISSUER AND AFFILIATED PURCHASERS.

None.

ITEM 16F. CHANGE IN REGISTRANT S CERTIFYING ACCOUNTANT.

As previously reported in our annual report on Form 20-F filed with the SEC on April 30, 2013, on March 27, 2013, our board of directors approved the proposed change of our independent registered public accounting firm, KPMG, after the completion of the audit of our consolidated financial statements for the year ended December 31, 2012 and the effectiveness of our internal control over financial reporting as of December 31, 2012, based on recommendation from our audit committee. Such change in our principal accountants was due to the relevant regulations issued by the Ministry of Finance and the State-owned Assets Supervision and Administration Commission of the PRC. According to the relevant regulations, there are certain limits to the number of years for which an auditor may continuously undertake financial auditing work in respect of a state-owned enterprise and its subsidiaries. As a result, we were required not to re-appoint KPMG as our principal accountant for the year 2013.

The audit reports of KPMG on our consolidated financial statements as of and for the fiscal years ended December 31, 2011 and 2012 contain no adverse opinion or disclaimer of opinion, and were not qualified or modified as to uncertainty, audit scope, or accounting principles.

During the two fiscal years ended December 31, 2011 and 2012 and through April 30, 2013, there were no disagreements with KPMG on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, which disagreements if not resolved to the satisfaction of KPMG, would have caused them to make reference to the subject matter of the disagreement in connection with their report, nor were there any reportable events (as defined in Item 16F(a)(1)(v) of Form 20-F). We provided a copy of the foregoing disclosure to KPMG and requested that KPMG furnish a letter addressed to the SEC stating whether or not KPMG agreed with such disclosure. A copy of the letter from KPMG addressed to the SEC, dated April 30, 2013, was filed as Exhibit 15.1 to our annual report on Form 20-F filed with the SEC on April 30, 2013.

In addition, as previously reported in our annual report on Form 20-F filed with the SEC on April 30, 2013, with the approvals of our board and the audit committee, we resolved to appoint PricewaterhouseCoopers and PricewaterhouseCoopers Zhong Tian CPAs Limited Company (the name has been changed to PricewaterhouseCoopers Zhong Tian LLP), or PwC, as our principal independent registered public accounting firm for the year 2013. PwC's appointment was further approved by our shareholders at our 2012 annual general meeting.

During the two fiscal years ended December 31, 2011 and 2012 and through April 30, 2013, neither we nor anyone on our behalf consulted PwC regarding either (i) the application of accounting principles to a specified transaction, either completed or proposed; or the type of audit opinion

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that might be rendered on the registrant's financial statements, or (ii) any matter that was either the subject of a disagreement (as defined in Item 16F(a)(1)(iv) of Form 20-F and related instructions to Item 16-F of Form 20-F) with PwC or a reportable event (as described in Item 16F(a)(1)(v) of Form 20-F). Also, during the two fiscal years ended December 31, 2011 and 2012 and through April 30, 2013, we did not obtain any written report or oral advice that PwC concluded was an important factor considered by us in reaching a decision as to the accounting, auditing or financial reporting issue.

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ITEM 16G. CORPORATE GOVERNANCE.

Set forth below is a summary of the significant differences between the corporate governance rules of the NYSE and those of the People's Republic of China for listed companies:

	NYSE Corporate Governance Rules	The Company's Corporate Governance Practices
Director Independence	A listed company must have a majority of independent directors on its board of directors. The board of directors needs to affirmatively determine that the director has no material relationship with the listed company (either directly or as a partner, shareholder or officer of an organization that has a relationship with the company). In addition, a director must meet certain standards to be deemed independent.	<p>(which conform with the corporate governance rules for companies organized and listed in the People's Republic of China)</p> <p>It is required in China that no less than 1/3rd of the board members of any listed company must be independent directors, and the listed company must set forth specific requirements for the qualification and election of independent directors in compliance with PRC laws. For example, an independent director shall not hold any other position in the listed company other than being a director and shall not be influenced by the main shareholders or the controlling persons of the listed company, or by any other entities or persons with whom the listed company has a significant relationship.</p>
Nominating/Corporate Governance Committee	<p>The non-management directors of each listed company must meet at regularly scheduled executive sessions without management.</p> <p>Listed companies must have a nominating/corporate governance committee composed entirely of independent directors.</p>	<p>The Company has complied with the relevant Chinese corporate governance rules and has implemented internal rules governing the independence and responsibilities of independent directors. The Company determines the independence of independent directors every year.</p> <p>No similar requirements.</p> <p>The board of directors can establish a nominating committee if the shareholders pass resolutions to establish such a committee. A majority of the directors on the committee shall be independent directors, who shall act as the convener. The board of directors, which formulates relevant written guidelines with respect to the nomination of directors, has established a nominating committee with a majority of the members being independent directors.</p>

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	<p>The nominating/corporate governance committee must have a written charter that addresses:</p> <p>(i) the committee's purpose and responsibilities - which, at minimum, must be to: identify individuals qualified to become board members, consistent with criteria approved by the board, and to select, or to recommend that the board select, the director nominees for the next annual meeting of shareholders; develop and recommend to the board a set of corporate governance guidelines applicable to the corporation; and oversee the evaluation of the board and management; and</p> <p>(ii) an annual performance evaluation of the committee.</p>	<p>Relevant responsibilities of the nominating committee are similar to those stipulated by the NYSE rules, but the main responsibilities do not include the research and recommendation of corporate governance guidelines, the supervision of the evaluation of the board of directors and management, or the annual evaluation of the committee.</p>
<p>Compensation Committee</p>	<p>Listed companies must have a compensation committee composed entirely of independent directors.</p> <p>The purposes and responsibilities of the compensation committee stated in its charter must include:</p> <p>(1) reviewing and approving the corporate goals and objectives associated with the CEO's compensation, evaluate the performance of the CEO in fulfilling these goals and objectives, and, either as a committee or together with the other independent directors (as directed by the board), determine and approve the CEO's compensation level based on such evaluation;</p> <p>(2) making recommendations to the board with respect to non-CEO executive officer compensation, and incentive-compensation and equity-based plans that are subject to board approval; and</p> <p>(3) producing a committee report on executive compensation as required by the SEC to be included in the annual proxy statement or annual report filed with the SEC.</p> <p>The charter must also include the requirement for an annual performance evaluation of the compensation committee.</p>	<p>The board of directors can establish a compensation and assessment committee if the shareholders pass resolutions to establish such a committee. A majority of the directors on the committee shall be independent directors, who shall act as the convener.</p> <p>The responsibilities of the compensation and assessment committee include:</p> <p>(1) reviewing the standards for the evaluation of directors and management, evaluate directors and management and report the results of such evaluation to the board of directors; and</p> <p>(2) reviewing compensation policies and benefit plans for directors and executive officers.</p> <p>Unlike the NYSE rules, the PRC rules do not require the committee to produce a report on the executive compensation or make an annual performance evaluation of the committee. In addition, the compensation committee evaluates and reviews the compensation of directors as well as executive officers.</p> <p>The board of directors of the Company has established a compensation evaluation committee with a majority of the members being independent directors who act as the convener, and the committee has established a written charter complying with the</p>

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Audit Committee	<p>Listed companies must have an audit committee that satisfies the requirements of Rule 10A-3 of the Securities Exchange Act of 1934, as amended (the Exchange Act). It must have a minimum of three members, and all audit committee members must satisfy the requirements for independence set forth in Section 303A.02 of the NYSE Corporate Governance Rules and , in the absence of an applicable exemption, Rule 10A-3b(1) of the Exchange Act.</p> <p>The written charter of the audit committee must specify that the purpose of the audit committee is to assist the board oversight of the integrity of financial statements, the company s compliance with legal and regulatory requirements, the qualifications and independence of the independent auditors, the performance of the listed company s internal audit function and independent auditors.</p> <p>The written charter must also require the audit committee to prepare an audit committee report as required by the SEC to be included in the listed company s annual proxy statement as well as an annual performance evaluation of the audit committee.</p> <p>The written charter must also address the duties and responsibilities of the audit committee as required under Section 303A.07 of the NYSE Corporate Governance Rules. Each listed company must maintain an internal audit function to provide management and the audit committee with ongoing assessments of the listed company s risk management processes and system of internal controls.</p>	<p>The board of directors of a listed company can, through the resolution of the shareholders meeting, establish an audit committee composed entirely of directors, of which the independent directors are the majority and act as the convener, and, at minimum, one independent director is an accounting professional.</p> <p>The purpose, authority and responsibilities of the audit committee are similar to those stipulated by the NYSE rules, but according to customary practices in China, the Company is not required to make an annual performance evaluation of the audit committee, and the audit committee is not required to prepare an audit report to be included in the Company s annual proxy statement. The board of directors of the Company has established an audit committee that satisfies Rule 10A-3 under the Securities Exchange Act of 1934, as amended and relevant domestic requirements. The audit committee has a written charter.</p> <p>China has a similar regulatory provision, and the Company has an internal audit department.</p>
Equity Compensation	<p>Shareholders must be given the opportunity to vote on all equity compensation plans and material revisions thereto, except for employment inducement awards, certain grants, plans and amendments in the context of mergers and acquisitions, and certain specific types of plans as described under Section 303A.08 of the NYSE Corporate Governance Rules.</p>	<p>The relevant regulations of China require the board of directors propose plans on the amount and types of director compensation for the shareholders meeting to approve. The compensation plan of executive officers shall be approved by the board and announced at the shareholders meeting and disclosed to the public upon the approval of the board of directors.</p>

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Corporate Governance Guidelines	Listed companies must adopt and disclose corporate governance guidelines involving director qualification standards, director responsibilities, director compensation, director access to management and, as necessary and appropriate, independent advisors, director orientation and continuing education and management succession. The board should conduct a self-evaluation at least annually to determine whether it and its committees are functioning effectively.	The CSRC has issued the Corporate Governance Rules, prescribing detailed guidelines on directors of the listed companies, including director selection, the structure of the board of directors and director performance evaluation. The Company has complied with the above mentioned rules.
Code of Ethics for Directors, Officers and Employees	A listed company must make its corporate governance guidelines available on or through its website. Listed companies must adopt and disclose a code of business conduct and ethics for directors, officers and employees, and promptly disclose any waivers of the code for directors or executive officers. Each listed company may determine its own policies, but all listed companies should address the most important topics, including, among others, conflicts of interest, corporate opportunities, confidentiality, fair dealing, protection and proper use of listed company assets, compliance with laws, rules and regulations (including insider trading laws), and encouraging the reporting of any illegal or unethical behavior. Each listed company CEO must certify to the NYSE each year that he or she is not aware of any violation by the company of NYSE corporate governance listing standards and he or she must promptly notify the NYSE in writing of any non-compliance with any applicable provisions of Section 303A.	There is no such requirement for a code for ethics in China. As the directors and officers of the Company have all signed a Director Service Agreement, however, they are bound by their fiduciary duties to the Company. In addition, the directors and officers must perform their legal duties in accordance with the Company Law of the PRC, relevant requirements of CSRC and Mandatory Provisions to the Charter of Companies Listed Overseas. No similar requirements.

ITEM 16H. MINE SAFETY DISCLOSURE.
Not applicable.

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PART III

ITEM 17. FINANCIAL STATEMENTS.

See pages F-1 to F-72.

ITEM 18. FINANCIAL STATEMENTS.

We have elected to provide the financial statements and related information specified in Item 17 in lieu of the information called for by this Item 18.

ITEM 19. EXHIBITS

No.	Exhibit
1.1	Translation of the amended and restated Articles of Association of Sinopec Shanghai Petrochemical Company Limited as approved in the Second Extraordinary General Meeting of Sinopec Shanghai Petrochemical Company Limited for 2013 on December 11, 2013
2.	Amended and Restated Deposit Agreement between Sinopec Shanghai Petrochemical Company Limited and The Bank of New York Mellon dated May 11, 2011 (incorporated by reference to Exhibit 2 of our annual report on Form 20-F (File No. 001-12158) filed with the Commission on April 30, 2012).
4.1	Translation of the renewed Product Supply and Sales Services Framework Agreement between Sinopec Shanghai Petrochemical Company Limited and China Petroleum & Chemical Corporation as approved in the Second Extraordinary General Meeting of Sinopec Shanghai Petrochemical Company Limited for 2013 on December 11, 2013.
4.2	Translation of the renewed Comprehensive Services Framework Agreement between Sinopec Shanghai Petrochemical Company Limited and China Petrochemical Corporation as approved in the Second Extraordinary General Meeting of Sinopec Shanghai Petrochemical Company Limited for 2013 on December 11, 2013.
4.3	Translation of the Property Right Transaction Agreement with Sinopec Sales Company Limited as approved in the eighteenth meeting of the seventh session of the board of directors of Sinopec Shanghai Petrochemical Company Limited on December 5, 2013.
8	A list of subsidiaries of Sinopec Shanghai Petrochemical Company Limited.
12.1	Certification of President Required by Rule 13a-14(a).
12.2	Certification of Chief Financial Officer Required by Rule 13a-14(a).
13.1	Certification of President Required by Rule 13a-14(b) and Section 1350 of Chapter 63 of Title 18 of the United States Code.
13.2	Certification of Chief Financial Officer Required by Rule 13a-14(b) and Section 1350 of Chapter 63 of Title 18 of the United States Code.
15.1	Letter from KPMG regarding Item 16F of this annual report (incorporated by reference to Exhibit 15.1 of our annual report on Form 20-F (File No. 001-12158) filed with the Commission on April 30, 2013).

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SIGNATURES

The registrant hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this annual report on its behalf.

SINOPEC SHANGHAI PETROCHEMICAL

COMPANY LIMITED

Date: April 30, 2014

/s/ WANG ZHIQING
Wang Zhiqing, President

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Sinopec Shanghai Petrochemical Company Limited

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders of

Sinopec Shanghai Petrochemical Company Limited,

In our opinion, the accompanying consolidated balance sheet and the related consolidated statement of income, comprehensive income, changes in equity and cash flows present fairly, in all material respects, the financial position of Sinopec Shanghai Petrochemical Company Limited (the Company) and its subsidiaries (collectively referred to as the Group) at December 31, 2013, and the results of their operations and their cash flows for the year then ended in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board. Also in our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2013, based on criteria established in *Internal Control - Integrated Framework* (1992) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO). The Company's management is responsible for these financial statements, for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting, included in the Management's Report on Internal Control over Financial Reporting appearing under Item 15. Our responsibility is to express an opinion on these financial statements and on the Company's internal control over financial reporting based on our integrated audit. We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement and whether effective internal control over financial reporting was maintained in all material respects. Our audit of the financial statements included examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, and evaluating the overall financial statement presentation. Our audit of internal control over financial reporting included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, and testing and evaluating the design and operating effectiveness of internal control based on the assessed risk. Our audit also included performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ PricewaterhouseCoopers Zhong Tian LLP

Shanghai, the People's Republic of China

April 28, 2014

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Board of Directors and Shareholders of

Sinopec Shanghai Petrochemical Company Limited:

We have audited the accompanying consolidated balance sheet of Sinopec Shanghai Petrochemical Company Limited and its subsidiaries (the Group) as of December 31, 2012, and the related consolidated statements of income, comprehensive income, changes in equity and cash flows for each of the years in the two-year period ended December 31, 2012. These consolidated financial statements are the responsibility of the Group s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Sinopec Shanghai Petrochemical Company Limited and its subsidiaries as of December 31, 2012, and the results of their operations and their cash flows for each of the years in the two-year period ended December 31, 2012 in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board.

/s/ KPMG

Hong Kong, China

March 27, 2013, except note 12,

which is as of April 28, 2014

Table of Contents**Sinopec Shanghai Petrochemical Company Limited****Consolidated Income Statement****For the year ended 31 December 2013**

	Note	Year ended 31 December		
		2011 RMB 000	2012 RMB 000	2013 RMB 000
Revenue	5	95,518,856	93,008,338	115,490,326
Sales taxes and surcharges		(6,009,203)	(5,791,064)	(9,987,148)
Net Sales		89,509,653	87,217,274	105,503,178
Cost of sales	9	(87,881,160)	(88,617,789)	(103,225,914)
Gross profit/(loss)		1,628,493	(1,400,515)	2,277,264
Selling and administrative expenses	9	(675,771)	(649,906)	(691,020)
Other operating income	6	164,286	333,754	673,384
Other operating expenses	7	(57,184)	(55,779)	(67,362)
Operating profit/(loss)		1,059,824	(1,772,446)	2,192,266
Finance income	8	299,036	86,545	498,416
Finance expenses	8	(215,494)	(369,802)	(376,696)
Finance income /(expenses) net		83,542	(283,257)	121,720
Investment income		685	6,446	
Share of profit of investments accounted for using the equity method	18	152,655	32,784	130,667
Profit/(loss) before income tax		1,296,706	(2,016,473)	2,444,653
Income tax (expense)/benefit	11	(310,184)	511,331	(379,151)
Profit/(loss) for the year		986,522	(1,505,142)	2,065,502
Profit/(loss) attributable to:				
-Owners of the Company		956,106	(1,528,397)	2,055,328
-Non-controlling interests		30,416	23,255	10,174
		986,522	(1,505,142)	2,065,502

Earnings/(loss) per share attributable to owners of the Company for the year (expressed in RMB per share)

Basic earnings / (loss) per share	12	RMB	0.089	RMB	(0.142)	RMB	0.190
Diluted earnings / (loss) per share	12	RMB	0.089	RMB	(0.142)	RMB	0.190

The notes on pages F-11 to F-72 are an integral part of these consolidated financial statements.

	Year ended 31 December		
	2011 RMB 000	2012 RMB 000	2013 RMB 000
Dividends distributed within the year: RMB 0.05(2012: RMB 0.05; 2011: RMB 0.10) per ordinary share	27	720,000	360,000
Proposed annual dividend: RMB 0.05(2012: nil; 2011: RMB 0.05) per ordinary share	27	360,000	540,000
		1,080,000	360,000
			900,000

Wang Zhiqing
Chairman and General
Manager

Ye Guohua
Director and Chief Financial Officer

Table of Contents**Sinopec Shanghai Petrochemical Company Limited****Consolidated Statement of Comprehensive Income****For the year ended 31 December 2013**

	Year ended 31 December			
	Note	2011 RMB 000	2012 RMB 000	2013 RMB 000
Profit/(loss) for the year		986,522	(1,505,142)	2,065,502
Other comprehensive income for the year-net of tax				
Total comprehensive income/(loss) for the year		986,522	(1,505,142)	2,065,502
Attributable to:				
Owners of the Company		956,106	(1,528,397)	2,055,328
Non-controlling interests		30,416	23,255	10,174
Total comprehensive income/(loss) for the year		986,522	(1,505,142)	2,065,502

The notes on pages F-11 to F-72 are an integral part of these consolidated financial statements.

Wang Zhiqing
Chairman and General
Manager

Ye Guohua
Director and Chief Financial Officer

Table of Contents**Sinopec Shanghai Petrochemical Company Limited****Consolidated Balance Sheet****As At 31 December 2013**

		As at 31 December	
	Note	2012	2013
		RMB 000	RMB 000
Assets			
Non-current assets			
Lease prepayment and other assets	13	1,131,123	916,995
Property, plant and equipment	14	17,468,748	16,669,479
Investment properties	15	439,137	429,292
Construction in progress	16	612,388	456,823
Investments accounted for using the equity method	18	2,867,153	2,993,594
Deferred income tax assets	11	1,052,573	684,599
		23,571,122	22,150,782
Current assets			
Inventories	19	8,938,077	9,039,239
Trade receivables	20	93,484	147,807
Bills receivable	20	2,046,657	2,688,897
Other receivables and prepayments	20	599,402	345,696
Amounts due from related parties	20,26(d)	1,052,842	2,131,133
Cash and cash equivalents	21	160,962	133,256
		12,891,424	14,486,028
Total assets		36,462,546	36,636,810
Equity and liabilities			
Equity attributable to owners of the Company			
Share capital	22	7,200,000	10,800,000
Reserves	23	8,837,166	6,932,494
		16,037,166	17,732,494
Non-controlling interests		266,783	259,062
Total equity		16,303,949	17,991,556

Table of Contents**Sinopec Shanghai Petrochemical Company Limited****Consolidated Balance Sheet (Continued)****As At 31 December 2013**

		As at 31 December	
		2012	2013
	Note	RMB 000	RMB 000
Liabilities			
Non-current liabilities			
Borrowings	24	1,231,340	627,800
Current liabilities			
Borrowings	24	11,023,877	7,094,026
Trade payables	25	2,886,616	2,739,953
Bills payable	25		