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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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**FORM 20-F**

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☐ **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, 2022

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

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**中国石化上海石油化工股份有限公司**

(Exact name of Registrant as specified in its charter)

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**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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The People's Republic of China  
Tel: +86 (21) 57943143  
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(Name, Telephone, Email and/or Facsimile number and Address of Company Contact Person)

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

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
None	None	None

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.

American Depositary Shares, each representing 100 H Shares, par value RMB1.00 per Share  
(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  
7,328,813,500 A 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, a non-accelerated filer, or an emerging growth company. See definitions of "large accelerated filer," "accelerated filer," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer ☒

Accelerated Filer ☐

Non-Accelerated Filer ☐

Emerging growth company ☐

If an emerging growth company that prepares its financial statements in accordance with U.S.GAAP, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards† provided pursuant to Section 13(a) of the Exchange Act. ☐

The term “new or revised financial accounting standard” refers to any update issued by the Financial Accounting Standards Board to its Accounting Standards Codification after April 5, 2012.

Indicate by check mark whether the registrant has filed a report on and attestation to its management’s assessment of the effectiveness of its internal control over financial reporting under Section 404(b) of the Sarbanes-Oxley Act (15 U.S.C. 7262(b)) by the registered public accounting firm that prepared or issued its audit report. ☒

If securities are registered pursuant to Section 12(b) of the Act, indicate by check mark whether the financial statements of the registrant included in the filing reflect the correction of an error to previously issued financial statements. ☐

Indicate by check mark whether any of those error corrections are restatements that required a recovery analysis of incentive-based compensation received by any of the registrant’s executive officers during the relevant recovery period pursuant to §240.10D-1(b). ☐

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

U.S. GAAP ☐

International Financial Reporting Standards as issued  
by the International Accounting Standards Board ☒

Other ☐

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 ☒

(APPLICABLE ONLY TO ISSUERS INVOLVED IN BANKRUPTCY PROCEEDINGS DURING THE PAST FIVE YEARS)

Indicate by check mark whether the registrant has filed all documents and reports required to be filed by Section 12, 13 or 15(d) of the Securities Exchange Act of 1934 subsequent to the distribution of securities under a plan confirmed by a court. \* Yes ☐ No ☐

\* This requirement does not apply to the registrant in respect of this filing.

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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. These 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;
- changes to environmental and economic regulations;
- 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, including the risks set forth in “[Item 3. Key Information — Risk Factors](#).” 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 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 RMB 6.8972 to U.S. \$1.00, the noon buying rate on December 30, 2022 as set forth in the H.10 statistical release of the U.S. Federal Reserve Board. We do not represent that Renminbi or U.S. Dollar amounts could be converted into U.S. Dollars or Renminbi, as the case may be, at any particular rate.

## **CERTAIN TERMS AND CONVENTIONS**

References to “we” or “us” or “Company” or “Group” 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” or “Sinopec” 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 “ADSs” are references to our American Depositary Shares. Each ADS represents 100 H Shares.

References to our “A Shares” are references to 7,328,813,500 A 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 references to metric tons.

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

## **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. *Reserved***

### **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.

**Risks Related to Doing Business in China**

*The PRC government has significant authority to intervene or influence our operations at any time. If the PRC government exerts more oversight and control over offerings that are conducted overseas and/or foreign investment in China-based issuers and we were to be subject to such oversight and control, it may result in a material adverse change to our business operations, significantly limit or completely hinder our ability to offer or continue to offer securities to investors, and cause our ADSs to significantly decline or loss in value.*

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Our business, prospects, financial condition, and results of operations may be influenced to a significant degree by political, economic, and social conditions in China generally, which could result in a material adverse change to our operations and the value of our securities.

Furthermore, given recent statements by the Chinese government indicating an intent to exert more oversight and control over offerings that are conducted overseas, although we are currently not required to obtain permission from the PRC government and have not received any denial to list on a U.S. exchange, it is uncertain whether or when we might be required to obtain permission from the PRC government to issue securities, to maintain our listing or to list additional securities on a U.S. exchange in the future. Even if such permission is obtained, it is uncertain whether it will be later denied or rescinded, which could significantly limit or completely hinder our ability to offer or continue to offer our securities to investors in the United States and result in a material adverse change to our business operations, and damage our reputation, and therefore causing the value of our ADSs to significantly decline or lose their value.

*Changes in government regulations and legislation may limit our activities and affect our business operations and the price of our ADSs, and result in risks that affect our future financing plans and securities offerings, the liquidity of our investors, and the enforcement of court judgments and shareholders' rights.*

We are a joint stock limited company incorporated in China, and our controlling shareholder is China Petroleum & Chemical Corporation (a.k.a., Sinopec Corp.), which is in turn controlled by China Petrochemical Corporation. The controlling shareholder of China Petrochemical Corporation is Sinopec Group, which is in turn controlled by the State-owned Assets Supervision and Administration Commission of the State Council of China. Our management makes decisions with respect to our business strategies and operations in accordance with applicable laws and regulations, listing rules, and industrial policies based on procedures stipulated in our articles of association and other corporate governance documents and policies. All major corporate matters relating to our business operations are (i) submitted for the approval of our board of directors, which is required to review and approve certain operational matters, to convene general meetings of shareholders and to present certain matters to the shareholders for their approval, in each case in accordance with our articles of association, (ii) approved by resolutions adopted by our board of directors and/or shareholders, as appropriate, and (iii) carried out under the supervision of our board of supervisors. Because our business strategies are formulated, and our business operations are conducted, based on and pursuant to applicable laws and regulations and industrial policies, any changes thereto that bear on our business operations will likely have an impact on our business and our results of operations.

As an integrated petroleum and petrochemical company operating in China, our business operations may be directly affected by new laws and regulations covering our industries that are enacted by the PRC government or through the exercise of its supervisory power over our industries. The PRC government continues to exercise certain controls over the petroleum and petrochemical industry in China. These control mechanisms include setting periodically the upper limit of the retail prices for gasoline and diesel, collecting special oil income levies, deciding import and export quotas and procedures, setting safety, environmental and quality standards, and formulating policies to save energy and reduce emission.

In addition, the PRC government may continue to make and adopt changes to its existing macroeconomic and industry policies for the petroleum and petrochemical industry, including further reforming and improvement of the pricing mechanisms of refined oil products and natural gas, which could impact the development of the petroleum and petrochemical industry in China and the production and operations of the market players in such industry. Our board of directors and management, when developing and formulating our business plan and operating strategies, are required to take into consideration of those control mechanisms and industry policies, some of which may impose constraints and limitations on our business planning and strategy-making, and we cannot assure you there will not be material adverse effects on our operations and profitability. The Special Administrative Measures for Foreign Investment Access (Negative List) (2021 Version) currently in effect (the "Negative List"), while requiring enterprises incorporated in China and operating in industries that are subject to a foreign investment prohibition to obtain approval from relevant competent government authorities for their overseas securities offerings and listings, does not prohibit or impose restrictions on foreign investments in the petroleum and petrochemical industries. However, we cannot rule out the possibility that the PRC government may in the future amend and revise PRC laws and regulations in this area to advance new energy security policies.

In addition, the Measures for the Security Review of Foreign Investments ("Security Review Measures"), which were issued by the PRC government and came into effect on January 18, 2021, provide that a foreign investor must seek the approval of the competent PRC regulatory authorities prior to investing in key energy and resources sectors that have national security implications where such investment will result in such investor obtaining actual control over the invested enterprises. The Security Review Measures also provide that PRC regulatory

authorities should enact implementing rules applicable to the acquisition by foreign investors of publicly-traded securities of listed companies that have or may have national security consequences, and pending the enactment of such implementing rules, there are uncertainties as to whether there are restrictions on open-market purchases of our ADSs by foreign investors under those measures. Given that Sinopec Corp., our controlling shareholder, and its concert parties currently hold approximately 50.55% of our outstanding shares, we do not expect any foreign investor will be able to obtain control over us by investing in our publicly-traded H shares or ADSs.

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The PRC government imposes controls on the convertibility of the Renminbi into foreign currencies and, in certain cases, the remittance of currency out of China. We receive substantially all of our revenues in Renminbi. Under existing PRC foreign exchange regulations, payments of current account items, including profit distributions, interest payments and trade and service-related foreign exchange transactions, can be made in foreign currencies without prior approval of the State Administration of Foreign Exchange ("SAFE") by complying with certain procedural requirements. Specifically, under the existing exchange restrictions, without prior approval of SAFE, cash generated from the operations of our PRC subsidiaries in China may be used to pay dividends to our company. However, approval from or registration with appropriate government authorities is required where Renminbi is to be converted into foreign currency and remitted out of China to pay capital expenses such as the repayment of loans denominated in foreign currencies. As a result, we need to obtain SAFE approval to use cash generated from the operations of our PRC subsidiaries to pay off their respective debt in a currency other than Renminbi (if any) owed to entities outside China, or to make other capital expenditure payments outside China in a currency other than Renminbi.

Meanwhile, other than approvals and filing processes required under prevailing PRC laws and regulations, our ability to transfer money or other assets out of China or enter into business transactions with non-Chinese parties in the ordinary course of our business have not been substantively affected by the Security Review Measures. If the PRC government, in keeping with its national security policy, promulgates new laws and regulations in the future to regulate and restrict our ability to enter into cross-border transactions or obtain foreign investments, we may be required to make adjustments to our operating and financing plans, which may in turn affect our business operations and financial position, and have material impacts on the value of our ADSs. If, in the future, foreign investments in petroleum and/or petrochemical industries in China become prohibited or restricted, investors in our ADSs may need to seek exit for their investments in accordance with applicable laws and regulations, which may result in a significant decline in the price of our ADSs and materially and adversely affect the value of the investments made in our ADSs by foreign investors.

In addition, on February 17, 2023, the China Securities Regulatory Commission issued the Trial Administrative Measures of Overseas Securities Offering and Listing by Domestic Companies ("Trial Measures"). In an effort to reform the regulatory regime for offshore listings, the Trial Measures establish a filing-based administration system for overseas listings of domestic enterprises, enhancing support for domestic companies that wish to go public overseas. If we fail to obtain any requisite approvals or filings with respect to future offerings of our equity securities to foreign investors, or if we inadvertently conclude that such approvals or filings are not required, our ability to execute our financing and equity offering plans may be significantly limited or completely hindered. Any measures taken by the PRC authorities to regulate or exert more control over securities offerings conducted overseas and foreign investments in China-based issuers may limit or hinder our ability to offer or continue to offer securities to investors outside China, and the price of our ADSs may decline significantly, leading to a material adverse effect on the value of investments in our ADSs by investors.

In light of the dynamic nature of the Chinese economy and the continuing development of the PRC legal system, the PRC authorities may promulgate new laws and regulations regulating the petroleum and petrochemical industry, or overall investment and market activities in general. Certain legislative changes are required by law to go through review and comment procedures open to certain market participants or the general public, and to the extent that such changes are made to regulate our business operation, we may have the opportunity to participate in such review and comment procedures during the policy and rule-making process. However, we cannot assure you that the rules or policies finally adopted will not adversely affect our business operations. The new regulations and policies or the amendment of current ones may at times only afford a short period for transition or adjustment, and may influence the implementation of our established business plans and operation strategies. They may also subject us to enhanced compliance scrutiny, result in more compliance costs and expenses, or otherwise adversely affect our business by requiring adjustments to our business plans and operations. For example, the PRC government has recently adopted, and may further adopt, stricter laws and regulations with respect to environmental protection and carbon emissions, which may lead to higher operating costs and expenses, and a prolonged project development timetable. As a result of those new or amended rules and policies, we may not have control over the timing or outcome of approvals of certain of our planned projects, and may encounter significant constraints on our ability to implement our business strategies, to develop or expand our business operations or to maximize our profitability, which could in turn adversely affect our operations by raising our operating costs and lowering our profits or otherwise impeding our efforts to improve our operational efficiency and profitability, and further adversely affect the market expectations of our business operations. Depending on the extent to which our operations are so affected, there may be a material change in our operations and the value of our ADSs.

Specifically, the PRC government has recently taken various legislative initiatives in the area of data security and to address market monopoly concerns.

- With respect to data security protection, the revised Measures for Cybersecurity Review (the “Measures”) took effect on February 15, 2022 and provide that critical information infrastructure operators, must evaluate potential risks that the deployment of any products and services will have on national security prior to the procurement of such products and services, and must apply for a cybersecurity review if such products and services affect or may affect national security. “Online platform operators” must apply for a cybersecurity review if any of their data processing activities affects or may affect national security. If an “online platform operator” that is in possession of personal data of more than one million users intends to list its securities on a foreign stock exchange, it must apply for a cybersecurity review. However, the Measures have not clarified if any follow-on offering of ADSs by us will be regulated as a “listing shares on a foreign stock exchange” or whether public companies already listed overseas would be subject to regular cybersecurity reviews. During the reporting period of this annual report, we have not received from the CAC, the Ministry of Public Security or its local counterparts, or any industrial regulatory authorities, any notices imposing administrative penalties against us or demanding any remedial actions be taken in relation to data security matters.

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- With respect to anti-monopoly laws and regulations, the PRC Anti-monopoly Law prohibits monopolistic activities by market participants such as the entering into monopoly agreements, the abuse of dominant market position and anti-competitive activities that have or may have an effect of eliminate or reduce competition. In addition, the National Development and Reform Commission (the “NDRC”), the State Administration of Market Regulation (the “SAMR”) and the Cyberspace Administration of China (the “CAC”), among others, jointly issued the Several Opinions on Promotion of the Standardized, Sound and Sustainable Development of Platform Economy (the “Platform Economy Opinions”), which embody legislative and regulatory anti-monopoly initiatives in relation to the “platform economy.” The Platform Economy Opinions focus on the following aspects of the platform economy: formulation and promulgation of regulations on the prohibition of unfair online anti-competitive activities; future issuance of detailed rules applicable to data processing activities conducted by online platform enterprises; the formulation of regulations on pricing; the investigation on monopoly and unfair competition activities; and the enforcement against monopolistic agreements, abuse of dominant market position and unlawful market concentration.

We do not believe the abovementioned rules currently have a material impact on our capacity to operate our business in the ordinary course, obtain foreign investment, or maintain our listing overseas, however that could change in the future.

*Recent greater oversight by the Cyberspace Administration of China (“CAC”) over data security, particularly for companies seeking to list on a foreign exchange, could adversely impact our business.*

The PRC government has recently taken various legislative initiatives in the area of data security and to address market monopoly concerns. On December 28, 2021, the CAC and other relevant PRC governmental authorities jointly promulgated the Cybersecurity Review Measures (the “CAC Revised Measures”) to replace the original Cybersecurity Review Measures. The CAC Revised Measures took effect on February 15, 2022 and provide that (i) critical information infrastructures operators, or CIIOs, must evaluate potential risks that the deployment of any products and services will have on national security prior to the procurement of such products and services, and must apply for a cybersecurity review if such products and services affect or may affect national security, and “online platform operators” must apply for a cybersecurity review if any of their data processing activities affects or may affect national security, and (ii) if an “online platform operator” that is in possession of personal data of more than one million users intends to list its securities on a foreign stock exchange, it must apply for a cybersecurity review. However, the measures have not clarified if any follow-on offering of ADSs by us will be regulated as a “listing shares on a foreign stock exchange” or whether public companies already listed overseas would be subject to regular cybersecurity reviews. In addition, the NDRC, the SAMR and the CAC, among others, jointly issued the Platform Economy Opinions, which embodies legislative and regulatory anti-monopoly initiatives in relation to the “platform economy.” The Platform Economy Opinions focus on the following aspects of the platform economy: formulation and promulgation of regulations on the prohibition of unfair online anti-competitive activities; future issuance of detailed rules applicable to data processing activities conducted by online platform enterprises; the formulation of regulations on pricing; the investigation on monopoly and unfair competition activities; and the enforcement against monopolistic agreements, abuse of dominant market position and unlawful market concentration. During the reporting period of this annual report, we have not received from the CAC, the Ministry of Public Security or its local counterparts, or any industrial regulatory authorities, any notices imposing administrative penalties against us or demanding any remedial actions be taken in relation to data security matters. We do not believe the abovementioned rules currently have a material impact on our capacity to operate our business in the ordinary course, obtain foreign investment, or maintain our listing overseas, they could in the future. To the extent any current regulation or policy promulgated by the CAC applies to us, we believe we are in full compliance. Up to now, we have not received any notices from the CAC, the Ministry of Public Security or its local counterparts that the company is a critical information infrastructures operator. Based on the advice of counsel provided by Beijing Haiwen Law Firm upon which we have relied, we do not believe that we are subject to the review of, nor require the approval of, the CAC at this time. We can provide no assurance, however, that the CAC will not take a different position, or other regulations and policies that may be issued in the future and their implementation may further require the company to comply with stricter compliance conditions, adjust the company’s business operation mode and business plan, or have a significant impact on our ability to accept foreign investment or maintain its listing in the United States or other overseas markets.

*Interpretation and enforcement of Chinese laws and regulations is uncertain and may change quickly, which could result in a material and negative impact our business operation, decrease the value of our ordinary shares and limit the legal protections available to us.*

The Chinese legal system is based on statutory law. Under this system, prior court decisions may be cited as persuasive authority, but do not have the binding effect of precedents. Since 1979, the Chinese government has been developing a comprehensive system of commercial laws and considerable progress has been made in the promulgation of laws and regulations dealing with economic matters, such as corporate organization and governance, foreign investment, commerce, taxation and trade. Because these laws, regulations and legal

requirements are relatively new and prior court decisions have little precedential value, the interpretation and enforcement of these laws, regulations and legal requirements may change quickly and involve greater uncertainty than in other jurisdictions.

From time to time, we may have to resort to administrative and court proceedings to enforce our legal rights. Since PRC administrative and court authorities have discretion in interpreting and implementing statutory and contractual terms, it may be difficult to evaluate the outcome of administrative and court proceedings and the level of legal protection we enjoy. Such uncertainties, including uncertainty over the scope and effect of our contractual, property (including intellectual property) and procedural rights, could materially and adversely affect our business and impede our ability to continue our operations.

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*Changes in China's economic, political or social conditions or government policies could have a material adverse effect on our business and results of operations.*

Substantially all of our operations are conducted in China. Accordingly, our business, prospects, financial condition and results of operations may be influenced to a significant degree by political, economic and social conditions in China generally and by continued economic growth in China as a whole.

The Chinese economy differs from the economies of most developed countries in many respects, including the amount of government involvement, level of development, growth rate, control of foreign exchange and allocation of resources. See “*Governmental control of currency conversion may limit our ability to utilize our revenues effectively and affect the value of your investment*” for information about the PRC foreign exchange regulations. Although the Chinese government has implemented measures emphasizing the utilization of market forces for economic reform, the reduction of state ownership of productive assets and the establishment of improved corporate governance in business enterprises, a substantial portion of productive assets in China are still owned by the government. In addition, the Chinese government continues to play a significant role in regulating industry development by imposing industrial policies. The Chinese government also exercises significant influence over China's economic growth through allocating resources, controlling payment of foreign currency-denominated obligations, setting monetary policy, and providing preferential treatment to particular industries or companies.

While the Chinese economy has experienced significant growth over the past decades, growth has been uneven, both geographically and among various sectors of the economy. The Chinese government has implemented various measures to encourage economic growth and guide the allocation of resources. Some of these measures may benefit the overall Chinese economy, but may have a negative effect on us. Our financial condition and results of operations may be adversely affected by government control over capital investments or changes in tax regulations that are applicable to us. In addition, the Chinese government has implemented in the past certain measures, including interest rate increases, to control the pace of economic growth. These measures may cause decreased economic activity in China and the rate of China's economic growth has slowed down. Any continued slowdown in the Chinese economy may reduce the demand for our products and services and materially and adversely affect our business and results of operations.

*Governmental control of currency conversion may limit our ability to utilize our revenues effectively and affect the value of your investment.*

The PRC government imposes controls on the convertibility of the Renminbi into foreign currencies and, in certain cases, the remittance of currency out of China. We receive substantially all of our revenues in Renminbi. Under existing PRC foreign exchange regulations, payments of current account items, including profit distributions, interest payments and trade and service-related foreign exchange transactions, can be made in foreign currencies without prior approval of the State Administration of Foreign Exchange (“SAFE”) by complying with certain procedural requirements. Specifically, under the existing exchange restrictions, without prior approval of SAFE, cash generated from the operations of our PRC subsidiaries in China may be used to pay dividends to our company. However, approval from or registration with appropriate government authorities is required where Renminbi is to be converted into foreign currency and remitted out of China to pay capital expenses such as the repayment of loans denominated in foreign currencies. As a result, we need to obtain SAFE approval to use cash generated from the operations of our PRC subsidiaries to pay off their respective debt in a currency other than Renminbi (if any) owed to entities outside China, or to make other capital expenditure payments outside China in a currency other than Renminbi.

Since 2016, the PRC government has imposed more restrictive foreign exchange policies and stepped up scrutiny of major outbound capital movement including overseas direct investment. More restrictions and substantial vetting processes are put in place by SAFE to regulate cross-border transactions falling under the capital account. If any of our shareholders regulated by such policies fail to satisfy the applicable overseas direct investment filing or approval requirement timely or at all, it may be subject to penalties from the relevant PRC authorities. The PRC government may at its discretion further restrict access in the future to foreign currencies for current account transactions. If the foreign exchange control system prevents us from obtaining sufficient foreign currencies to satisfy our foreign currency demands, we may not be able to pay dividends in foreign currencies to our shareholders, including holders of our ADSs.

*Certain judgments obtained against our directors and/or officers by our shareholders may not be enforceable.*

We are a joint stock limited company incorporated under the laws of China. The majority of our directors and other members of management reside within China or Hong Kong. As a result, your ability to bring an action against us or against these individuals in the U.S. in the event that you believe your rights have been infringed under the U.S. federal securities laws or otherwise, or the procedures in relation thereto, may be subject to uncertainties. Even if you are successful in bringing an action of this kind, it may be difficult for you to enforce



judgments against us or these individuals in U.S. courts.

In addition, there is uncertainty as to whether the courts of the PRC would recognize or enforce judgments of U.S. courts. Courts in China may recognize and enforce foreign judgments in accordance with the requirements of the PRC Civil Procedures Law based on treaties between China and the country where the judgment is made or on reciprocity between jurisdictions. China does not have any treaties or other arrangements that provide for the reciprocal recognition and enforcement of foreign judgments with the United States. In addition, according to the PRC Civil Procedures Law, courts in the PRC will not enforce a foreign judgment against us or our directors and officers if they decide that the judgment violates basic principles of PRC law or national sovereignty, security, or the public interest. These policies may make it even more difficult to enforce any judgments obtained from foreign courts against such persons compared to other jurisdictions.

**Business and Operational Risk Factors**

*The coronavirus pandemic has and could continue to materially and adversely affect our business.*

In 2022, the global pandemic of COVID-19 continues to spread. With the spread and dominance of the highly contagious Omicron strains, the Company has been affected by multiple rounds of clustered and large-scale infections, which have had an impact on the procurement of raw and auxiliary materials, production and operation, as well as demand for our end products. Our work arrangements, business operations, financial conditions, and business performance have all been negatively affected to varying degrees, and there have been infection cases among our employees. There remains uncertainty as to the future impact of the virus. The extent to which the COVID-19 pandemic impacts our long-term results will depend on future developments which are highly uncertain, unpredictable and beyond our control, including the appearance of new variants, the effectiveness of efforts to contain or treat cases, and future actions that may be taken in response to these developments. Consequently, the COVID-19 pandemic may continue to materially and adversely affect our business, financial condition and results of operations in the current and future years. We are closely monitoring the impacts of COVID-19 pandemic on us.

*Our operations may be adversely affected by the cyclical nature of the petroleum and petrochemical markets 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 recent extreme volatility in crude oil prices, the decrease in tariff charges, the removal of other restrictions on importation and the Chinese government's gradual relaxation of its control of the allocation of products and pricing, many of our products have become increasingly vulnerable to the cyclical nature of regional and global petroleum and petrochemical markets, which may adversely affect our operations.

We consume large amounts of crude oil to manufacture our products of which more than 95% is typically imported. In 2022, crude oil costs accounted for RMB 47.14 billion, or 61.81% of our consolidated annual cost of sales (73.34% of parent company 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. The volatility of crude oil prices, as well as in the price of other energy products, has increased significantly as a result of the pending conflict between Russia and Ukraine. Russia is a major supplier of crude oil and natural gas to global markets. The sanctions imposed on Russia by numerous countries may result in a material reduction in oil and gas exports from Russia, which could increase price volatility for such products. 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.

*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 95% 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 2020, 2021 and 2022 approximately 43.64%, 47.01%, and 51.40% respectively, 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 possible 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.

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*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 profit and cash flows depends upon continued capital spending. Our current business strategy contemplates capital expenditure for 2023 of approximately RMB 3,700.00 million (U.S. \$531.26 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, 2023, we had an aggregate outstanding indebtedness of approximately RMB 5,048.00 million (U.S.\$ 836.47 million). 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 Finance Company Limited ("Sinopec Finance"), provided a loan of RMB 700.00 million (US \$ 100.51 million) for our debt for the year ended December 31, 2022 and for the three months ended March 31, 2023.

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, 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.

*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.

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 vehicles and products in transit with third-party commercial insurance companies. Sinopec Group carries out unified insurance for safety production liability insurance and environmental liability insurance. We also insured a safety production liability insurance for one year in August 2022. The annual cumulative compensation caps is RMB 135 million and the compensation caps for each accident is RMB 67.5 million.

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

As of March 31, 2023, Sinopec Corp. owned 50.55% 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 either Sinopec Corp. or Sinopec Group refuses to engage in such transactions or if one of them seeks to amend the contracts with us in a way adverse to us. In addition, Sinopec Corp. has interests in businesses that 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.

*We could face increasing competition in China.*

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.

*We face increasing foreign competition in our lines of business.*

China joined the WTO on December 11, 2001 and 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;
- 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 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.

*Cyber attacks and security breaches may threaten the integrity of our intellectual property and other sensitive information and disrupt our business operations, which could adversely affect our reputation, business and financial position.*

We face numerous and evolving global cybersecurity threats, which may range from uncoordinated individual attempts to sophisticated and targeted measures directed at us. Cyber attacks and security breaches may include, but are not limited to, attempts to disrupt our operations including our information technology systems and data, gain access to confidential information, insertion of computer viruses, denial of service and other electronic security breaches, whether internal or external through third parties with whom we conduct business. In recent years, a number of major oil and petrochemical companies have been the subject of cyber attacks.

Although we have not experienced any material cybersecurity incidents in the past, we cannot assure you that we will not experience them in the future. Due to the evolving nature of cybersecurity threats, the scope and impact of any future incident cannot be predicted. While we continually work to safeguard our systems and mitigate potential risks, there is no assurance that such actions will be sufficient to prevent cyber attacks or security breaches that manipulate or improperly use our systems or networks, compromise confidential or otherwise protected information, destroy or corrupt data, or otherwise disrupt our operations. The occurrence of such events could disrupt our operations, cause physical harm to people or the environment, damage or destroy assets, compromise business systems, result in proprietary information, including information of our employees, customers, partners and other third parties, being altered, lost, stolen or compromised or otherwise disrupt our business operations. We could incur significant costs to remedy the effects of such a cybersecurity disruption as well as in connection with any resulting regulatory actions and litigation. In addition, a material cybersecurity incident could negatively impact our reputation and our competitive position, which could have an adverse effect on our financial condition and results of operations.

*Risks associated with climate change.*

In recent years, the petrochemical industry is facing more and more severe challenges as a result of concerns about global climate change. A series of international, domestic and regional agreements to limit greenhouse gas emissions have been signed and come into force. The Paris climate change agreement adopted in December 2015 included binding commitments by countries that have ratified the agreement since November 2016, which may lead to stricter national and regional measures in the near future. Compliance with these measures may lead to higher capital expenditures, tax expenditures, operating costs and other increased costs, resulting in reduced profits and income. Strategic investment may also be adversely affected.

**Legal, Regulatory or Political Risk Factors**

*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 environmental protection tax for the discharge of waste substances;
- the levy of payments and fines for damages for serious environmental offenses;
- the government to close down or suspend any facility which has caused or may cause environmental damages and require it to correct or stop operations causing environmental damages; and
- lawsuits and liabilities arising from pollutions and damages to the environment and public interests.

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 environmental-related permits that are subject to renewal, modification and revocation. We were subject to various administrative penalties for violations of the relevant PRC environmental laws and regulations in the past years. See [Item 4. Information of the Company – B. Business Overview – Environmental Protection](#). We have established a system to treat waste materials to prevent and reduce pollution. 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. On May 31, 2021, the Ministry of ecology and environment issued the guidance on strengthening the prevention and control of the source of ecological environment of high energy consumption and high emission construction projects, strictly approving the environmental impact assessment of “two high” projects such as petrochemical and modern coal chemical industry, and resolutely curbing the blind development of “two high” projects. 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. More stringent environmental requirements or a more rigorous enforcement program could impose significant additional costs on us, and may require us to undertake capital investments to conform with the new requirements. We cannot quantify such additional costs at this time.

*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 needs, which include, among other things:

- 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. 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 SAFE. These limitations could affect our ability to obtain foreign exchange through debt financing, or to make capital expenditures in foreign currency. The Chinese government has stated publicly that it intends to eventually make the Renminbi freely convertible in the future. However, we cannot predict whether the PRC government will continue its existing foreign exchange policy and when the PRC government will allow free conversion of Renminbi.

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.



*Changes in the monetary policy and fluctuations in the value of Renminbi may have an adverse impact on Sinopec Group's business and operating results*

The exchange rate of the Renminbi against the US Dollar and other foreign currencies may fluctuate and is subject to alterations due to changes on the Chinese political and economic situations. In July 2005, the PRC government overhauled its policy of pegging the value of the Renminbi to the US dollar by permitting the Renminbi to fluctuate within a certain band against a basket of foreign currencies. Since the adoption of this new policy, the value of the Renminbi against the US dollar fluctuates daily. In addition, the PRC government has been under international pressure to further ease its exchange rate policy, and may as a result further change its currency policy. Early in 2020, the Renminbi had weakened against the US dollar to levels not seen since 2008, but steadily rebounded at the end of the year.

A small portion of our cash and cash equivalents is denominated in foreign currencies (mainly the U.S. Dollar). As of December 31, 2022, our bank deposits denominated in foreign currencies were equivalent to RMB 195.59 million. Any increase in the value of Renminbi against other currencies, including the U.S. dollar, may decrease the Renminbi value of our cash and cash equivalents that are denominated in foreign currencies.

Although most of our revenue is denominated in Renminbi, most of our procurement of crude oil, certain equipment and certain debt repayments are denominated in foreign currencies. Any depreciation of the Renminbi in the future would increase our costs and adversely affect profitability. 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.

*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. 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.

*Changes in China's economic, political or social conditions or government policies could have a material adverse effect on our business and results of operations.*

Substantially all of our operations are conducted in China. Accordingly, our business, prospects, financial condition and results of operations may be influenced to a significant degree by political, economic and social conditions in China generally and by continued

economic growth in China as a whole.

The Chinese economy differs from the economies of most developed countries in many respects, including the amount of government involvement, level of development, growth rate, control of foreign exchange and allocation of resources. Although the Chinese government has implemented measures emphasizing the utilization of market forces for economic reform, the reduction of state ownership of productive assets and the establishment of improved corporate governance in business enterprises, a substantial portion of productive assets in China is still owned by the government. In addition, the Chinese government continues to play a significant role in regulating industry development by imposing industrial policies. The Chinese government also exercises significant control over China's economic growth through allocating resources, controlling payment of foreign currency-denominated obligations, setting monetary policy, and providing preferential treatment to particular industries or companies.

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While the Chinese economy has experienced significant growth over the past decades, growth has been uneven, both geographically and among various sectors of the economy. The Chinese government has implemented various measures to encourage economic growth and guide the allocation of resources. Some of these measures may benefit the overall Chinese economy, but may have a negative effect on us. Our financial condition and results of operations may be adversely affected by government control over capital investments or changes in tax regulations that are applicable to us. In addition, the Chinese government has implemented in the past certain measures, including interest rate increases, to control the pace of economic growth. These measures may cause decreased economic activity in China, and since 2012, the rate of China's economic growth has slowed down. Any prolonged slowdown in the Chinese economy may reduce the demand for our products and services and materially and adversely affect our business and results of operations.

*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. We are a foreign private issuer, and therefore exempt from certain rules under the Exchange Act that are applicable to U.S. domestic public companies, such as rules relating to the having a majority of independent directors; independent audit committee members, compensation committee members and nominating committee members; obtaining shareholder approval for certain issuances of securities; or certain reporting requirements and certifications. Because of these exemptions, shareholders may be afforded fewer protections than they otherwise would under corporate governance requirements applicable to U.S. domestic issuers, or shareholders may not be afforded the same information generally available to shareholders holding shares in public companies organized in the United States that are not foreign private issuers.

*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 A Shares relating to any rights or obligations conferred or imposed by our Articles of Association, the PRC 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.

*If remedial measures are imposed on the "big four" PRC-based accounting firms, including our predecessor independent registered public accounting firm and successor independent registered public accounting firm, we might not be able to timely file future financial statements in compliance with the requirements of the Exchange Act.*

Starting in 2011, the Chinese affiliates of the "big four" accounting firms, including our predecessor independent registered public accounting firm and successor independent registered public accounting firm, were affected by a conflict between the United States and Chinese law. Specifically, for certain United States listed companies operating and audited in China, the SEC and the PCAOB sought to obtain from the Chinese accounting firms access to their audit work papers and related documents. The firms were, however, advised and directed that under Chinese law they could not respond directly to the United States regulators on those requests, and that requests by foreign

regulators for access to such papers in China had to be channeled through the CSRC.

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In late 2012, this impasse led the SEC to commence administrative proceedings under Rule 102(e) of its Rules of Practice and also under the Sarbanes-Oxley Act of 2002 against the PRC-based accounting firms, including predecessor independent registered public accounting firm and successor independent registered public accounting firm. In January 2014, an administrative law judge reached an initial decision to impose penalties on the firms including a temporary suspension of their right to practice before the SEC. The accounting firms filed a petition for review of the initial decision. On February 6, 2015, before a review by the Commissioners of the SEC had taken place, the firms reached a settlement with the SEC. Under the settlement, the SEC accepts that future requests by the SEC for the production of documents will normally be made to the CSRC. The firms will receive matching requests, and are required to abide by a detailed set of procedures with respect to such requests, which in substance require them to facilitate production via the CSRC. If they fail to meet specified criteria, the SEC retains authority to impose a variety of additional remedial measures on the firms depending on the nature of the failure. Remedies for any future noncompliance could include, as appropriate, an automatic six-month bar on a single firm's performance of certain audit work, commencement of a new proceeding against a firm, or in extreme cases the resumption of the current proceeding against all four firms. Under the terms of the settlement, the underlying proceeding against the four PRC-based accounting firms was deemed dismissed with prejudice four years after entry of the settlement. The four-year mark occurred on February 6, 2019.

In the event that the SEC brings new administrative proceedings, listed companies in the United States with major PRC operations may find it difficult or impossible to retain auditors in respect of their operations in the PRC, which could result in financial statements being determined to not be in compliance with the requirements of the Exchange Act. Moreover, any negative news about any such future proceedings against these audit firms may cause investor uncertainty regarding PRC-based, United States listed companies and the market price of the ADSs may be adversely affected.

*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 is 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. 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 are not currently a PFIC or that we will not be considered a PFIC for the current year, or for any future 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 could be sanctioned or otherwise penalized under relevant U.S. laws if we engage in business with certain entities in Iran or Russia and such transactions are determined by the U.S. governmental authorities to violate U.S. laws.*

We have in the past sourced a small portion of crude oil from Iran. 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 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, Section 1245 of the National Defense Authorization Act of 2012 ("NDAA") enacted December 31, 2011, and Executive Order 13846 of August 6, 2018 that was issued in connection with the termination of the participation by the United States in the Joint Comprehensive Plan of Action, or JCPOA, that became effective January 16, 2016, and resulted in the waiver of certain U.S. sanctions against non-U.S. persons engaging in certain transactions with Iran. The withdrawal was effected in two stages that resulted on November 5, 2018, in the complete re-imposition of the U.S. sanctions that were waived under the JCPOA. On November 5, 2018, the United States also granted a 180-day waiver (that is potentially renewable) under Section 1245 of the NDAA to China (and seven other countries) allowing for the purchase of petroleum from Iran under specified conditions. The NDAA waiver does not authorize transactions that remain prohibited under other U.S. sanctions laws. On April 22, 2019, the U.S. Secretary of State announced that the United States would not grant any further waivers under the NDAA. In February 2021, U.S. President announced that the U.S. would not lift economic sanctions on Iran until Iran complies with the terms of the JCPOA.

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.

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 Iran may continue to be the ultimate source of a small portion of our crude oil. 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.

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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 any 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 Executive Order 13846, the IFCA, and other U.S. laws. 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 13846, 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.

In addition, the conflict between Russia and Ukraine has resulted in the imposition of new sanctions on the Russian energy sector and greater scrutiny of pre-existing sanctions. The continuation of the conflict may result in the imposition of additional or more severe sanctions, and may also generate a higher level of sanctions enforcement activity. The International Emergency Economic Powers Act currently prohibits dealings with designated Russian persons and entities if the transaction involves a nexus to the U.S., such as payment in U.S. dollars. Under U.S. law, penalties could be imposed upon us even if we purchase crude oil or natural gas through a third party, and we are not aware that the purchase was made from an entity subject to U.S. sanctions. The sanctions regime relating to the Russian energy sector is continuing to evolve, and no assurance can be given that the United States or other jurisdictions will not seek to impose penalties upon us if they believed that we had engaged in sanctionable activities. If we were to become involved in sanctions proceedings, our business reputation could be harmed and we could incur substantial costs in order to defend the proceedings or pay any resulting penalties.

*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 or other U.S. laws. 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 under the ISA 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 United States 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 of persons and entities within U.S. jurisdiction or control of U.S. persons if he determines that, among other things, such persons or entities 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 engages in any such activities and if the most extreme sanction under the ISA or other U.S. sanctions laws, 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.



In addition, pursuant to the IFCA, Executive Order 13846 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 Iran transactions.

***Risks Related to our ADSs***

*The trading prices of our ADSs and H Shares have been volatile and may continue to be volatile regardless of our operating performance.*

The trading prices of our ADSs and H Shares have been and may continue to be subject to wide fluctuations. The market price for our ADSs may continue to be volatile and subject to wide fluctuations in response to factors including the following:

- actual or anticipated fluctuations in our quarterly results of operations;
- changes in financial estimates by securities research analysts;
- conditions in petroleum and petrochemical markets;
- changes in the operating performance or market valuations of other petroleum and petrochemical companies;
- announcements by us or our competitors of new products, acquisitions, strategic partnerships, joint ventures or capital commitments;
- fluctuations of exchange rates between RMB and the U.S. Dollar; and
- general economic or political conditions in China or elsewhere in the world.

In addition, the stock market in general, and the market prices for companies with operations in China in particular, have experienced volatility that often has been unrelated to the operating performance of such companies. The securities of some PRC-based companies that have listed their securities in the United States have experienced significant volatility since their initial public offerings in recent years, including, in some cases, substantial declines in the trading prices of their securities. The trading performances of these companies' securities after their offerings may affect the attitudes of investors towards Chinese companies listed in the United States in general, which consequently may impact the trading performance of our ADSs, regardless of our actual operating performance. In addition, any negative news or perceptions about inadequate corporate governance practices or fraudulent accounting, corporate structure or other matters of other Chinese companies may also negatively affect the attitudes of investors towards Chinese companies in general, including us, regardless of whether we have engaged in any inappropriate activities. In particular, the global financial crisis and the ensuing economic recessions in many countries have contributed and may continue to contribute to extreme volatility in the global stock markets. These broad market and industry fluctuations may adversely affect the market price of our ADSs.

*We delisted our ADSs from the New York Stock Exchange ("NYSE") and terminated our depositary agreement with The Bank of New York Mellon, the depositary of the ADSs, which may create difficulties for holders of our ADSs.*

On September 6, 2022, we voluntarily delisted our ADSs from the NYSE when the Form 25 Notification of Delisting we filed with the SEC on August 26, 2022 became effective. On March 15, 2023, we terminated the depositary agreement and our ADS program. The depositary, through its custodian, was the record holder of the shares underlying the ADSs. Therefore, only the depositary can exercise shareholder rights relating to the deposited shares. ADS holders, in their capacity, are not able to directly bring a derivative action, examine our accounting books and records and exercise appraisal rights. The depositary also exercised voting and other rights associated with shares underlying ADSs in accordance with the instructions given by ADS holders, and paid to ADS holders dividends and distributions collected from us.

Current holders of ADSs have one year from the termination date of the depositary agreement to exchange their ADSs for the underlying H Shares. During that time, the depositary will continue to act on behalf of the holders of ADSs. After such time, any remaining ADSs holders will not be able to use the depositary to exchange their ADSs but will be entitled, upon surrender of their ADSs, to receive the net proceeds of the depositary's sale of the underlying H Shares. The termination of the ADS program may significantly limit the liquidity of the

market for our ADSs.

Additionally, our H Shares, which underly our ADSs are quoted on the OTC Pink Sheets under the symbol “SPTJF”. The OTC Pink Sheets is a significantly more limited market than the NYSE. The quotation of our H Shares on the OTC Pink Sheets may result in a less liquid market available for existing and potential stockholders to trade our H Shares, could depress the trading price of our H Shares and could have a long-term adverse impact on our ability to raise capital in the future.

*Our ADSs may be prohibited from trading in the United States under the Holding Foreign Companies Accountable Act (the “HFCAA”) in the future if the PCAOB is unable to inspect or investigate completely auditors located in China.*

Pursuant to the HFCAA, if the SEC determines that we have filed audit reports issued by a registered public accounting firm that has not been subject to inspections by the PCAOB for two consecutive years, the SEC will prohibit our shares or ADSs from being traded on a national securities exchange or on the over-the-counter trading market in the United States.

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On December 16, 2021, the PCAOB issued a report to notify the SEC of its determination that the PCAOB was unable to inspect or investigate completely registered public accounting firms headquartered in mainland China and Hong Kong and our auditor was subject to that determination. In May 2022, the SEC conclusively listed us as a Commission-Identified Issuer under the HFCAA following the filing of our annual report on Form 20-F for the fiscal year ended December 31, 2021. On December 15, 2022, the PCAOB removed mainland China and Hong Kong from the list of jurisdictions where it is unable to inspect or investigate completely registered public accounting firms. For this reason, we do not expect to be identified as a Commission-Identified Issuer under the HFCAA after we file this annual report on Form 20-F for the fiscal year ended December 31, 2022.

Each year, the PCAOB will determine whether it can inspect and investigate completely audit firms in mainland China and Hong Kong, among other jurisdictions. If the PCAOB determines in the future that it no longer has full access to inspect and investigate completely accounting firms in mainland China and Hong Kong and we use an accounting firm headquartered in one of these jurisdictions to issue an audit report on our financial statements filed with the Securities and Exchange Commission, we would be identified as a Commission-Identified Issuer following the filing of the annual report on Form 20-F for the relevant fiscal year. In accordance with the HFCAA, our securities would be prohibited from being traded on a national securities exchange or on the over-the-counter trading market in the United States if we are identified as a Commission-Identified Issuer for two consecutive years in the future. If our shares and ADSs are prohibited from trading in the United States, there is no certainty that we will be able to list on a non-U.S. exchange or that a market for our shares will develop outside of the United States. A prohibition of being able to trade in the United States would substantially impair your ability to sell or purchase our ADSs when you wish to do so. Also, such a prohibition would significantly affect our ability to raise capital on terms acceptable to us, or at all, which would have a material adverse impact on our business, financial condition, and prospects.

#### **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 PRC 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 company website is [www.spc.com.cn](http://www.spc.com.cn). The SEC maintains an Internet site at [www.sec.gov](http://www.sec.gov) that contains reports, proxy and information statements, and our other information that file electronically with the SEC.

###### ***Our Predecessor***

Our predecessor, 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). 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 paraxylene 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 the project 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 further enhanced its oil refining process and strengthened and expanded the Company's core businesses while continuing to explore the development of fine chemicals and products with high value added.

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 into a limited liability company under the name of China Petrochemical Corporation (“Sinopec Group”). On February 25, 2000, Sinopec Group transferred its interest in us to its subsidiary, Sinopec Corp. In 1997, JI was restructured and its subsidiaries were either transferred to Sinopec or Shanghai Jinshan District.

Our H Shares commenced listing on the HKSE on July 26, 1993. Our ADSs, each representing 100 H Shares, were listed on the NYSE. The last day of trading of the ADSs on the NYSE was September 6, 2022. Our A Shares are listed on the Shanghai Stock Exchange. We were the first Chinese joint stock limited company to have securities concurrently traded in Hong Kong, the United States and China. On November 8, 1993, our A Shares were included in the Shanghai Stock Exchange Stock Index.

#### ***A 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 A Shares of the Company would be converted into publicly tradable A 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 was used to fund the issue of 3.36 new bonus shares with respect to every 10 issued and outstanding shares, the surplus reserve was 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 was 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 A Shares of the Company reached, as of December 4, 2013, 7,305,000,000, and the total amount of H Shares of the Company reached 3,495,000,000. Therefore, the Company’s total share capital consists of 10,800,000,000 shares. Sinopec Corp., being the controlling shareholder of the Company, holds 5,460,000,000 A 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 were dispatched and the cash dividend was paid to the holders of H Shares on December 4, 2013. The dealings in the new H Shares commenced on December 5, 2013.

The Company exercised its Share Option Incentive Scheme for the first time in August 2017, and the second time in January 2018, and the total number of shares of the Company increased by 14,176,600 shares and 9,636,900 shares, respectively, upon exercise. Immediately upon completion of the exercise of Share Option Incentive Scheme on February 14, 2018, the total number of A Shares of the

Company reached, as of December 4, 2013, 7,328,813,500, and the total amount of H Shares of the Company reached 3,495,000,000.

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On February 17, 2023, the Company canceled 24,528,000 H shares repurchased from the Stock Exchange of Hong Kong during the reporting period. With this cancellation, the total number of shares issued by the Company has been reduced to 10,799,285,500, including 7,328,813,500 A shares and 3,470,472,000 H shares.

***Description of Principal Capital Expenditures and Divestitures***

For a description of capital expansion projects related to our facilities, see [Item 4. Information on the Company – D. Property, Plant and Equipment – Capital Expansion Program](#).

***B. Business Overview***

We are one of the major petrochemical companies in China based on 2022 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 2022 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 2020, 2021 and 2022 are summarized as follows:

**Net Sales of RMB61,560.9 million in 2020**

Synthetic fibers	2.39%
Resins and plastics	15.30%
Intermediate petrochemicals	13.33%
Petroleum products	48.96%
Trading of petrochemical products	18.81%
Others	1.21%
Total	<u>100.00%</u>

**Net Sales of RMB75,888.8 million in 2021**

Synthetic fibers	1.81%
Resins and plastics	13.13%
Intermediate petrochemicals	14.21%
Petroleum products	55.19%
Trading of petrochemical products	14.56%
Others	1.10%
Total	<u>100.00%</u>

**Net Sales of RMB72,654.6 million in 2022**

Synthetic fibers	0.57%
Resins and plastics	10.08%
Intermediate petrochemicals	14.50%

Petroleum products	57.04%
Trading of petrochemical products	16.53%
Others	1.28%
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. Shown by geographic region and exports, our net sales by business lines as a percentage of total net sales for each of 2020, 2021 and 2022 are as follows:

#### 2020 Net Sales by Region (%)

	Eastern China	Other parts of China	Exports
Synthetic fibers	89.85	10.15	0.00
Resins and plastics	91.93	8.07	0.00
Intermediate petrochemicals	94.72	4.06	1.22
Petroleum products	91.35	0.24	8.41
Trading of petrochemical products	61.08	5.61	33.31
Total net sales	86.92	2.64	10.45

#### 2021 Net Sales by Region (%)

	Eastern China	Other parts of China	Exports
Synthetic fibers	91.68	8.32	0.00
Resins and plastics	94.99	5.01	0.00
Intermediate petrochemicals	97.12	1.18	1.70
Petroleum products	91.80	0.39	7.81
Trading of petrochemical products	64.54	3.11	32.35
Total net sales	89.28	1.43	9.29

#### 2022 Net Sales by Region (%)

	Eastern China	Other parts of China	Exports
Synthetic fibers	98.34	1.66	0.00
Resins and plastics	97.45	2.55	0.00
Intermediate petrochemicals	97.44	0.68	1.88
Petroleum products	87.03	0.44	12.54
Trading of petrochemical products	68.77	27.19	4.04
Total net sales	87.18	1.18	11.64

#### ***Doing Business in China***

As an integrated petroleum and petrochemical company operating in China, our business operations may be directly affected by new laws and regulations covering our industries that are enacted by the PRC government or the exercise of its supervisory power over our industries. The PRC government continues to exercise certain controls over the petroleum and petrochemical industry in China. These control mechanisms include periodically setting the upper limit of the retail prices for gasoline and diesel, collecting special oil income levies, deciding import and export quotas and procedures, setting safety, environmental and quality standards, and formulating policies to save energy and reduce emission. In addition, the PRC government may continue to make and adopt changes to its existing macroeconomic and industry policies for the petroleum and petrochemical industry, including further reform and improvement of pricing mechanisms of refined oil products and natural gas, which could impact the development of the petroleum and petrochemical industry in China and the production and operations of the market players in such industry. Our board of directors and management, when developing and formulating our business plan and operating strategies, are required to take into consideration those control mechanisms and industry policies, some of which may impose constraints and limitations on our business planning and strategy. We cannot assure you that these control mechanisms will not have a material adverse effect on our operations and profitability.



The Negative List, while requiring enterprises incorporated in China and operating in industries that are subject to foreign investment prohibition to obtain approval from relevant competent government authorities for their overseas securities offerings and listings, does not prohibit or impose restrictions on foreign investments in the petroleum and petrochemical industries. However, we cannot rule out the possibility that the PRC government may in the future amend and revise PRC laws and regulations in this area to advance new energy security policies. In addition, the Security Review Measures provide that a foreign investor must seek the approval of the competent PRC regulatory authorities prior to investing in key energy and resources sectors that have national security implications where such investment will result in such investor obtaining actual control over the invested enterprises. The Security Review Measures also provides that PRC regulatory authorities should enact implementing rules applicable to the acquisition by foreign investors of publicly-traded securities of listed companies that have or may have national security consequences, and pending the enactment of such implementing rules, there are uncertainties as to whether there are restrictions on open-market purchase of our publicly-traded ADSs by foreign investors under said measures. Given that Sinopec Corp., our controlling shareholder, and its concert parties currently hold approximately 50.55% of our outstanding shares, we do not expect any foreign investor will be able to obtain control over us by investing in our publicly traded H shares or ADSs.

The PRC government imposes controls on the convertibility of the Renminbi into foreign currencies and, in certain cases, the remittance of currency out of China. We receive substantially all of our revenues in Renminbi. Under existing PRC foreign exchange regulations, payments of current account items, including profit distributions, interest payments and trade and service-related foreign exchange transactions, can be made in foreign currencies without prior approval of the State Administration of Foreign Exchange ("SAFE") by complying with certain procedural requirements. Specifically, under the existing exchange restrictions, without prior approval of SAFE, cash generated from the operations of our PRC subsidiaries in China may be used to pay dividends to our company. However, approval from or registration with appropriate government authorities is required where Renminbi is to be converted into foreign currency and remitted out of China to pay capital expenses such as the repayment of loans denominated in foreign currencies. As a result, we need to obtain SAFE approval to use cash generated from the operations of our PRC subsidiaries to pay off their respective debt in a currency other than Renminbi (if any) owed to entities outside China, or to make other capital expenditure payments outside China in a currency other than Renminbi.

Meanwhile, other than approvals and filing processes required under prevailing PRC laws and regulations, our ability to transfer money or other assets out of China or enter into business transactions with non-Chinese parties in the ordinary course of our business has not been substantively affected by the Security Review Measures. If the PRC government, in keeping with its national security policy, promulgates new laws and regulations in the future to regulate and restrict our ability to enter into cross-border transactions or obtain foreign investments, we may be required to make adjustments to our operating and financing plans, which may in turn affect our business operations and financial position, and have material impacts on the value of our ADSs. If, in the future, foreign investments in petroleum and/or petrochemical industries in China become prohibited or restricted, investors in our ADSs may need to seek exit for their investments in accordance with applicable laws and regulations, which may result in a significant decline in the price of our ADSs and materially and adversely affect the value of the investments made by such foreign investors.

Our business, prospects, financial condition, and results of operations may be influenced to a significant degree by political, economic, and social conditions in China generally. The PRC government has significant authority to intervene or influence our operations at any time, which could result in a material adverse change to our operations and the value of our securities.

Furthermore, given recent statements by the Chinese government indicating an intent to exert more oversight and control over offerings that are conducted overseas, although we are currently not required to obtain permission from the PRC government and have not received any denial to list on a U.S. exchange, it is uncertain whether or when we might be required to obtain permission from the PRC government to maintain our current listing or list additional securities on U.S. exchanges in the future. Even if such permission is obtained, it is uncertain whether it will be later denied or rescinded, which could significantly limit or completely hinder our ability to offer or continue to offer our securities to investors in the United States and result in a material adverse change to our business operations, and damage our reputation, and therefore causing the value of our ADSs to significantly decline or lose their value.

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The PRC government has recently taken various legislative initiatives in the area of data security and to address market monopoly concerns. On December 28, 2021, the CAC and other relevant PRC governmental authorities jointly promulgated the Cybersecurity Review Measures (the “CAC Revised Measures”) to replace the original Cybersecurity Review Measures. The CAC Revised Measures took effect on February 15, 2022 and provide that (i) critical information infrastructures operators, or CIIOs, must evaluate potential risks that the deployment of any products and services will have on national security prior to the procurement of such products and services, and must apply for a cybersecurity review if such products and services affect or may affect national security, and “online platform operators” must apply for a cybersecurity review if any of their data processing activities affects or may affect national security, and (ii) if an “online platform operator” that is in possession of personal data of more than one million users intends to list its securities on a foreign stock exchange, it must apply for a cybersecurity review. However, the measures have not clarified if any follow-on offering of ADSs by us will be regulated as a “listing shares on a foreign stock exchange” or whether public companies already listed overseas would be subject to regular cybersecurity reviews. In addition, the NDRC, the SAMR and the CAC, among others, jointly issued the Platform Economy Opinions, which embodies legislative and regulatory anti-monopoly initiatives in relation to the “platform economy.” The Platform Economy Opinions focuses on the following aspects of the platform economy: formulation and promulgation of regulations on the prohibition of unfair online anti-competitive activities; future issuance of detailed rules applicable to data processing activities conducted by online platform enterprises; the formulation of regulations on pricing; the investigation on monopoly and unfair competition activities; and the enforcement against monopolistic agreements, abuse of dominant market position and unlawful market concentration. During the reporting period of this annual report, we have not received from the CAC, the Ministry of Public Security or its local counterparts, or any industrial regulatory authorities, any notices imposing administrative penalties against us or demanding any remedial actions be taken in relation to data security matters. We do not believe the abovementioned rules have a material impact on our capacity to operate our business in the ordinary course, obtain foreign investment, or maintain our listing overseas. To the extent any current regulation or policy promulgated by the CAC applies to us, we believe we are in full compliance. Up to now, we have not received any notices from the CAC, the Ministry of Public Security or its local counterparts that the company is a critical information infrastructures operator. Based on the advice of counsel provided by Beijing Haiwen Law Firm upon which we have relied, we do not believe that we are subject to the review of, nor require the approval of, the CAC at this time. We can provide no assurance, however, that the CAC will not take a different position, or other regulations and policies that may be issued in the future and their implementation may further require the company to comply with stricter compliance conditions, adjust the company’s business operation mode and business plan, or have a significant impact on our ability to accept foreign investment or maintain its listing in the United States or other overseas markets.

In light of the dynamic nature of the Chinese economy and the continuing development of the PRC legal system, the PRC authorities may promulgate new laws and regulations regulating the petroleum and petrochemical industry, or overall investment and market activities in general. Certain legislative changes are required by law to go through review and comment procedures open to certain market participants or the general public, and to the extent that such changes are made to regulate our business operation, we may have the opportunity to participate in such review and comment procedures during the policy and rule-making process. However, we cannot assure you that the rules or policies finally adopted will not adversely affect our business operations. The new regulations and policies or the amendment of current ones may at times only afford a short period for transition or adjustment, and may influence the implementation of our established business plans and operation strategies. They may also subject us to enhanced compliance scrutiny, result in more compliance costs and expenses, or otherwise adversely affect our business by requiring adjustments to our business plans and operations. For example, the PRC government has recently adopted, and may further adopt, stricter laws and regulations with respect to environmental protection and carbon emissions, which may lead to higher operating costs and expenses, and a prolonged project development timetable. As a result of those new or amended rules and policies, we may not have control over the timing or outcome of approvals of certain of our planned projects, and may encounter significant constraints on our ability to implement our business strategies, to develop or expand our business operations or to maximize our profitability, which could in turn adversely affect our operations by raising our operating costs and lowering our profits or otherwise impeding our efforts to improve our operational efficiency and profitability, and further adversely affect the market expectations of our business operations. Depending on the extent to which our operations are so affected, there may be a material change in our operations and the value of our ADSs.

The occurrence of any, some or all of the legal and operational risks described above and discussed under the heading “ *Risks Related to Doing Business in China*” under Item 3.C of this Annual Report could cause the value of our securities to significantly decline or lose their value.

### ***The Holding Foreign Companies Accountable Act***

Pursuant to the HFCAA, if the SEC determines that we have filed audit reports issued by a registered public accounting firm that has not been subject to inspections by the PCAOB for two consecutive years, the SEC will prohibit our shares or the ADSs from being traded on a national securities exchange or on the over-the-counter trading market in the United States. On December 16, 2021, the PCAOB issued a

report to notify the SEC of its determination that the PCAOB was unable to inspect or investigate completely registered public accounting firms headquartered in mainland China and Hong Kong, including our auditor. In May 2022, the SEC conclusively listed us as a Commission-Identified Issuer under the HFCAA following the filing of our annual report on Form 20-F for the fiscal year ended December 31, 2021. On December 15, 2022, the PCAOB issued a report that vacated its December 16, 2021 determination and removed mainland China and Hong Kong from the list of jurisdictions where it is unable to inspect or investigate completely registered public accounting firms. For this reason, we do not expect to be identified as a Commission-Identified Issuer under the HFCAA after we file this annual report on Form 20-F. Each year, the PCAOB will determine whether it can inspect and investigate completely audit firms in mainland China and Hong Kong, among other jurisdictions. If PCAOB determines in the future that it no longer has full access to inspect and investigate completely accounting firms in mainland China and Hong Kong and we continue to use an accounting firm headquartered in one of these jurisdictions to issue an audit report on our financial statements filed with the SEC, we would be identified as a Commission-Identified Issuer following the filing of the annual report on Form 20-F for the relevant fiscal year. There can be no assurance that we would not be identified as a Commission-Identified Issuer for any future fiscal year, and if we were so identified for two consecutive years, we would become subject to the prohibition on trading under the HFCAA. See “Item 3. Key Information-D. Risk Factors- Risks Related to our ADSs—“Our ADSs may be prohibited from trading in the United States under the HFCAA in the future if the PCAOB is unable to inspect or investigate completely auditors located in China.”

### ***Transfer of Cash through Our Organization***

Sinopec Shanghai Petrochemical Co Ltd, is a joint stock limited company incorporated in China, and operates its business in China in accordance with the scope of business as set forth in its articles of association. The Company directly and indirectly owns equity interests in its PRC subsidiaries, and there is no variable interest entity within the Group. All cash flows among the Company, the parent company and the subsidiaries represent equity contributions, dividends and distributions, loans and other cash flow items underlying business activities made during the ordinary course of their business.

The Company is not a holding company established solely to hold equity interest in its operating subsidiaries but an operating company and independently generates revenue from its business operations. The Company is not solely relying on dividends and distributions declared and paid by its subsidiaries to satisfy its needs of funding. Having considered the status of its business operation and financial management, the Company has established a centralized treasury system within the group with the aim to effectively coordinate the fund and budget management at group level based on consolidated funding and budgeting regime, for the purpose of maintaining a sufficient cash reserve for the Company while optimizing funding management efficiently. As of December 31, 2022, the Company directly owns more than 90% of total consolidated assets and more than 75% of the consolidated cash and cash equivalents of the group. For the year ended December 31, 2022, the Company directly generated more than 80% of the total consolidated revenue of the group. Therefore, the Company can continue to generate sufficient funding for its business operations. On the other hand, the day-to-day sales from the Company's business include inter-segment sales in the ordinary course of business, which are eliminated during the preparation of its consolidated financial statements and therefore will not be reflected under the line items of its consolidated revenues. As a result, the Company believes the preparation of cash flow and transfer of assets between the company and its subsidiaries is not meaningful to investors.

Our parent company, China Petroleum & Chemical Corporation ("Sinopec Corp.") is the largest integrated petroleum company in China. Any cash flow and transfer of assets between our company and our parent company mainly involves (1) distribution of dividends based on shareholding and (2) funds transfer in the normal course of business. As disclosed on page 8 of the Form 20-F, our parent company has from time to time provided a variety 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. These businesses are carried out on normal commercial terms and are in compliance with the relevant regulatory requirements in all material respects, and therefore the corresponding fund flows are not subject to any additional restrictions. Transactions between the Group and Sinopec Corp., its subsidiaries and joint ventures have been separately disclosed in Note 32 Related-party transactions of Item 17. Financial Statements.

The current foreign exchange regulations have significantly reduced the government's foreign exchange control over transactions under the current account, including trade, services and dividend payments involving foreign exchange transactions. Foreign exchange transactions under capital account (including payment of principal of foreign currency debt) are still subject to strict foreign exchange control and need to be approved by the State Administration of foreign exchange. Such restrictions may affect the company's ability to obtain foreign exchange through debt or equity financing. The Chinese government has publicly announced its plan for the free convertibility of RMB in the future. However, the company cannot predict whether the government will continue to adopt the current foreign exchange management system and when it will allow the free convertibility of RMB. The company's income denominated in foreign currency and the exchange of RMB to foreign currency are the main sources of the company's foreign currency funds. Up to now, the company's currency exchange has not been significantly restricted, and the company's ability to carry out daily operations, dividend payment and investment plans has not been significantly affected; The foreign currency currently held by the company is also sufficient to meet the needs of performing the financial obligations denominated in foreign currency. If the company is subject to more stringent foreign exchange control measures in the future, and therefore cannot obtain the required foreign currency through exchange in time, the company's ability to pay financial obligations denominated in foreign currency according to the business plan may be significantly affected. In the case that the company cannot further obtain sufficient foreign currency funds, the company may therefore breach some foreign-related agreements and fail to pay dividends according to the plan, or unable to further carry out overseas business and investment activities.

### ***Dividend Distribution Policy***

According to the articles of association, our board of directors will determine the payment of dividends, if any, with respect to our shares on a per share basis. Any final dividend for a financial year shall be subject to shareholders' approval. The board may declare interim and special dividends at any time under general authorization by a shareholders' ordinary resolution. A decision to declare or to pay any dividends in the future and the amount of any dividends will depend on our results of operations, cash flows, financial condition, the payment by our subsidiaries of cash dividends to us, future prospects and other factors which our directors may determine to be important.

For holders of our H shares, cash dividend payments, if any, shall be declared by our board of directors in Renminbi and paid in Hong Kong dollars. The depositary will convert the Hong Kong dollar dividend payments and distribute them to holders of ADSs in US dollars, less expenses of conversion.

The Company may distribute dividends in the following forms: cash, shares or other forms provided by laws, administrative rules, regulations of competent authorities and regulatory provisions in the place where the Company's shares are listed. The Company shall give priority to the distribution of dividends in cash. The Company may make interim dividends distribution. The Company shall distribute cash dividends when the Company's net profit and retained earnings, in separate financial statement, are positive and the Company has adequate cash inflows over the requirements of cash outflows of operation and sustainable development. The cash dividends per annum should not be less than thirty percent of the net profit of the Company in the current year. Dividends in the form of shares will be distributed to the depositary and, except as otherwise described in the Deposit Agreement, will be distributed by the depositary in the form of additional ADSs, to holders of ADSs. The Company will be required to, pursuant to applicable PRC laws and regulations, withhold 10-20% dividend tax (based on the status of the shareholder) for dividends paid to holders of H shares (including ADSs representing such H shares), and make filing pursuant to applicable foreign exchange control procedures for the payment of such dividends. In addition, ADS holders will be required to pay applicable service fees in relation to the distribution of cash dividends pursuant to the Deposit Agreement for the Company's American Depositary Shares.

In addition, foreign exchange transactions under the capital account, including principal payments in respect of foreign currency-denominated obligations, continue to be subject to significant foreign exchange controls and require the approval of SAFE. While we have not been denied of our applications for foreign exchange for the payment of our dividends, we cannot rule out the possibility that such control and limitation could affect our ability to obtain foreign exchange to pay cash dividends declared on our H shares (including ADSs representing our H shares). Consequently, we cannot assure that foreign investors' investment will not be subject to foreign exchange payment risks as a result of these foreign exchange control measures. See "Legal, Regulatory or Political Risk Factors—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."

Since the Company's shares were listed in Hong Kong and the U.S. in 1993, the Company has distributed dividends to its shareholders over 25 times, and has never experienced any restrictions.

During the reporting period of this annual report, the company used its own funds to distribute a final dividend of RMB 0.1 per share (tax included). For the financial year ended December 31, 2021, dividends of RMB 0.1 per share (tax included) were distributed throughout the year. For H-share holders, cash dividends are declared in Renminbi and paid in Hong Kong dollars. After receiving dividends in Hong Kong dollars, the depositary bank converts them into US dollars for distribution to holders of ADS.

According to the relevant laws and regulations of China, the company shall withhold and pay 10% of the dividend tax when distributing dividends to the ADS holders who are paid through the depositary bank. In addition, the ADS holders shall bear the service fees related to cash dividend distribution in accordance with the deposit agreement. In 2021, each ADR (equal to 100 H shares) received a dividend of US \$1.56. After deducting the 10% dividend tax withheld and the deposit bank's distribution fee of US \$0.21/ADS for each dividend, the ADS holders actually received US \$1.35/ADS. In 2021, the aggregate dividend paid to the ADS holders through the depositary bank was about US \$436.32m.

***Permits and Approvals***

We are required to obtain permits and approvals for the operation of our business pursuant to applicable PRC laws, regulation and industrial policies. The following chart sets forth our current licenses, allowing us to operate our business in certain places and industries:

<b>License</b>	<b>Underlying Business/Activities</b>	<b>Competent/Approving Authority</b>
Port Operation License	Providing wharf facilities, storage, etc. for ships	Authorities of transportation
Newspaper Publishing License	Newspaper publishing	Authorities of press and publication
Power Business License	Engaging in power business	Authorities of energy management
Water-taking License	Using water resource	Authorities of water management
Radiation Safety License	Using specific radioactive sources	Authorities of environment protection management
Pollutant discharge License	Discharging pollutants into the environment	Authorities of ecological environment management
Work Safety License	Safe production activities	Authorities of Work Safe Regulation and Supervision (Ministry of Emergency Management and its counterparts)
Safety Production License for Hazardous Chemicals	Production of hazardous chemicals	Authorities of Work Safe Regulation and Supervision (Ministry of Emergency Management and its counterparts)
National Industrial Product Production License	Industrial product production	Authorities of quality and technology management
Mobile Pressure Vessel Filling License	Low pressure liquefied gas filling	Authorities of Work Safe Regulation and Supervision (Ministry of Emergency Management and its counterparts)
Shanghai Port Shoreline use License	Using shoreline	Authorities of port management

We have obtained all approvals and permits that are material for our business operations under the PRC laws and regulations, and we have not been subject to any material administrative penalties from the PRC regulatory authorities nor have any permissions or approvals ever been denied. However, we cannot rule out the possibility of new requirements for approvals and permits in the future. If we fail to obtain relevant approvals and permits in time, our business operations may be adversely affected. In addition, pursuant to the Special Regulations of the State Council concerning Offering and Listing of Shares Overseas by Companies Limited by Shares promulgated in 1994, currently in effect, as a PRC company with equity securities listed in the PRC and the U.S., we are required to obtain the prior approval of the China Securities Regulatory Commission (the “CSRC”) for any public offering of equity securities to foreign investors. In addition, we may be subject to legal liabilities under the PRC Securities Law if our offering or the trading of our securities overseas is deemed to “disrupt the order of PRC domestic market and harm legitimate rights and interests of PRC domestic investors”. We have received from the CSRC the approval for our public offerings of equity securities in the past. We are required to continue to comply with the provisions of the PRC Securities Law and we remain subject to the supervision of the PRC regulatory authorities. However, we cannot assure you that we can timely receive such approval if we wish to make any new equity offerings in the future.

If we fail to obtain any requisite approvals with respect to future offerings of our equity securities to foreign investors, or if we inadvertently conclude that such approvals are not required, our ability to execute our financing and equity offering plans may be significantly limited or completely hindered. In the absence of alternative sources of financing, this could impede our efforts to improve our liquidity or expand our business operation, and we cannot assure you that there will not be material negative impacts on our financial condition and result of operations, or a significant decline in the value of our ADSs. Furthermore, we cannot assure you that PRC authorities will not promulgate new laws to further regulate the listing of our ADSs, or impose new compliance obligations for us to maintain the listing of our ADSs. Certain of



our actions in relation to our overseas listing may also constitute a violation of PRC Securities Law or other relevant laws, and as a consequence, subject us to penalties, including without limitation fines, limitations on our ability of financing activities, or the suspension or termination of certain aspects of our business operations, which may in turn result in substantial difficulty for us to maintain our listing overseas.

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In addition, on February 17, 2023, the China Securities Regulatory Commission issued the Trial Administrative Measures of Overseas Securities Offering and Listing by Domestic Companies ("Trial Measures"). In an effort to reform the regulatory regime for offshore listings, the Trial Measures establish a filing-based administration system for overseas listings of domestic enterprises, enhancing support for domestic companies that wish to go public overseas. If we fail to obtain any requisite approvals or filings with respect to future offerings of our equity securities to foreign investors, or if we inadvertently conclude that such approvals or filings are not required, our ability to execute our financing and equity offering plans may be significantly limited or completely hindered. Any measures taken by the PRC authorities to regulate or exert more control over securities offerings conducted overseas and foreign investments in China-based issuers may limit or hinder our ability to offer or continue to offer securities to investors outside China, and the price of our ADSs may decline significantly, leading to a material adverse effect on the value of investments in our ADSs by investors.

### ***Business Strategies***

Our development objectives are to evolve itself into a "leading domestically, first-class globally" energy and chemical and new material enterprise. The key components of the Company's development strategy are as follows: to take into account both low cost and differentiation, and to focus on both scale and refinement. The Company focuses on value and market orientation, creativity, talents as the backbone of the Company, the emphasis of environment and low carbon emissions and integrated development, to realize low cost and large scale of the upstream, and high value-added and refinement of the downstream. The Company will give full play to its advantages of a wide product chain, diversified products and close monitoring of the market to enhance competitiveness. Under the guidance of the above development strategy, according to the requirements of North-South Transformation Policy raised by Shanghai Government, the Company will (a) actively promote the transition from oil refining to chemical industry, the transition from chemical industry to materials, the transition from materials to high-end products, and the transition from parks to ecology, (b) carry out comprehensive technological transformation and quality upgrades, and (c) further optimize refining product structure to better meet the market needs. The Company will seek to strengthen the core industries of mid-to-high-end new materials such as carbon fiber, and take polyester, polyolefin, elastomer, and C-5 downstream fine chemical new materials as breakthrough and extension for the mid-to-high-end new materials which should help the North-South transformation and the construction of Carbon Valley Green Bay and local industrial parks in Jinshan District. The Company will seek to develop wind, light, fire, and biological integrated power generation and green hydrogen production technology, with a view towards realizing the energy structure transformation from fossil energy to fossil energy combined with renewable energy to achieve energy saving. Through diversified industrial linkage development and cluster agglomeration, the Company plans to build an industrial base with green energy, fine chemical, and high-end material on the north bank of Hangzhou Bay with world-scale and first-class competitiveness.

In 2023, the Company will, adhering to the principle of prioritizing stability while pursuing progress, integrate into the new development landscape and coordinate development and safety in a better way, to lay a solid foundation for its high-quality development on all fronts. In 2023, the Company plans to process a total of 13.6 million tons of crude oil, produce a total of 8.001 million tons of refined oil products, 756,000 tons of ethylene, 680,000 tons of xylene, and 698,700 tons of new synthetic resin products and special materials annually. In order to achieve the business objectives for 2023, the Group will focus on the following five areas of work:

- Strengthen safety and environmental protection and improve the level of intrinsic safety

Learning from the accidents, we exercise full and strict management over the Company, and strengthen the fulfillment of responsibilities. We strictly control risks and ensure safety and environmental protection. We strengthen the control over contractors, promote the review of contractors' QHSE system, and strengthen the supervision over direct work safety. While enhancing the basic skills training, we optimize the training mode and process. We push forward the effective operation of the HSE management system, improve environmental protection KPI indicators, and meet basic emission standards. In addition, we strictly implement the principles of solid waste reduction, recycling and harmlessness, and advance the construction of waste-free factories.

- Strengthen efficiency and reduce costs to improve production and operation

We implement the target of efficiency improvement and cost reduction throughout production and operation. We put equal emphasis on both process and equipment, to ensure the stable and efficient operation of equipment. We optimize crude oil procurement, transportation and distribution, production operation and maintenance, energy saving and "three new business" (new energy, new materials and new economy), strictly control costs and expenses, and improve cost control. These efforts aim to maximize the overall efficiency of the Company.

- Strengthen management to improve efficiency and enhance endogenous momentum

We keep optimizing the management system and mechanism, further optimize the organizational setup, and improve management efficiency and level. We strengthen organizational performance management by improving assessment, incentives and constraints, and refining the internal management market-oriented working mechanism.

- Focus on transformation and development and promote the development of key projects

We accelerate transformation and upgrading. We go all out to create a more resilient and higher-value integrated industrial chain, and build an industrial base featuring green energy, fine chemical and high-end materials. We speed up the breakthroughs in core technologies in key fields and the implementation of key projects. During the year, the first phase of 48K large-tow carbon fiber went into commercial operation. We carried out the second phase of equipment construction, made available 100-ton test devices for high-performance carbon fiber and pilot plants for aeronautical composite materials, and accelerated the construction of 250,000 tons/year thermoplastic elastomer projects. We strengthen the construction of platforms of sci-tech innovation and our innovation capability. We promote the application of new technologies and processes in production units. Furthermore, we strengthen the operation and management of joint laboratories with universities to integrate production, learning, research and application.

- Strengthen team building and consolidate the foundation for corporate development

We enhance cadres' ability to perform their duties and continuously promote the construction of cadre management system. We also further better the talent system. Specifically, we provide the basic skills training for skilled operators, and continue with the business competition themed "big drills and big game". We refine the plan for training and introducing talents, and improve the management plus assessment and incentive of cutting-edge and urgently-needed talents. These efforts will enable us to maintain the personal interests, long-term interests and fundamental interests of the employees, and enhance the satisfaction and sense of gain of the grass-roots employees.

### 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.

The following table shows a comparison of the production volume and sales volume in 2022 and 2021 by our major products.

Product	Production			Sales		
	2022 (10,000 tons)	2021 (10,000 tons)	Year-on-year change	2022 (10,000 tons)	2021 (10,000 tons)	Year-on-year change
Diesel <sup>Note1</sup>	252.02	338.80	-25.61%	251.84	338.10	-25.51%
Gasoline	257.08	339.64	-24.31%	255.84	340.23	-24.80%
Jet Fuel <sup>Note1</sup>	81.70	118.45	-31.03%	66.24	99.57	-33.47%
Paraxylene	58.59	49.63	18.05%	58.54	46.53	25.81%
Benzene <sup>Note2</sup>	30.32	30.67	-1.14%	29.70	29.99	-0.97%
Ethylene Glycol	9.57	15.07	-36.50%	6.24	4.14	50.72%
Ethylene Oxide	19.67	33.56	-41.39%	19.23	32.78	-41.34%
Ethylene <sup>Note2</sup>	59.81	71.28	-16.09%	—	—	—
Polyethylene	39.12	49.62	-21.16%	38.28	49.63	-22.87%
Polypropylene	39.70	45.59	-12.92%	37.07	42.26	-12.28%
Polyester Pellet <sup>Note2</sup>	10.75	34.34	-68.70%	10.89	30.24	-63.99%
Acrylic	1.96	7.10	-72.39%	2.06	7.32	-71.86%
Polyester Staple	0	2.62	-100.00%	0	2.73	-100.00%

Notes: 1. Excludes sales volume of proceeds on order.

2. The difference between production and sales are internal sales.

The above-mentioned sales volume does not include the trading of our petrochemical products.

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The following table shows our 2022 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
<b>SYNTHETIC FIBERS</b>		
Polyester staple fiber	0.00	Textiles and apparel
Acrylic staple fiber	0.45	Cotton type fabrics, wool type fabrics
Others	0.12	
<b>Sub-total</b>	<b>0.57</b>	
<b>RESINS AND PLASTICS</b>		
Polyester chips	0.95	Polyester fibers, films and containers
Polypropylene pellets	4.16	Films, ground sheeting, wire and
cable compound and other injection molding products such as housewares and toys		
Polyethylene pellets	4.57	Films or sheets, injection molding
products such as housewares, toys and household electrical appliances and automobile parts Polyvinyl alcohol ("PVA")	0.00	PVA fibers, building coating materials and textile starch
Others	0.39	
<b>Sub-total</b>	<b>10.08</b>	
<b>INTERMEDIATE PETROCHEMICALS</b>		
Ethylene	0.00	Feedstock for polyethylene, ethylene glycol, polyvinyl chloride and other
intermediate petrochemicals which can be further processed into resins, plastics and synthetic fiber.		
Ethylene oxide	1.73	Intermediate products for the chemical and pharmaceutical
industry, including dyes, detergents and adjuvant..		
Benzene	2.82	Intermediate petrochemical products, styrene, plastics, explosives, dyes, detergents, epoxies and polyamide fiber
Paraxylene	5.97	Intermediate petrochemicals and polyester
Butadiene	0.76	Synthetic rubber and plastics
Ethylene glycol	0.35	Fine chemicals
Others	2.87	
<b>Sub-total</b>	<b>14.50</b>	
<b>PETROLEUM PRODUCTS</b>		
Gasoline	23.50	Transportation fuels
Diesel	20.05	Transportation fuels and agricultural machinery fuels
Jet Fuel	5.90	Transportation fuels
Others	7.59	
<b>Sub-total</b>	<b>57.04</b>	
Trading of petrochemical products	16.53	Import and export trade of petrochemical products (purchased from domestic and overseas suppliers)
Others	1.28	
<b>Total</b>	<b>100.00</b>	

The following table provides a detailed description of our major products by industry segment, primary upstream raw materials, transport and storage method, primary downstream application fields and key price-influencing factors:

Product	Industry segment	Primary upstream raw material	Transport/storage method	Primary downstream application fields	Key price-influencing factors
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Diesel	Petroleum products	Petroleum	Pipeline transportation and shipping/ storage tank	Transportation fuel, agricultural machinery fuel	International crude oil price, government control
Gasoline	Petroleum products	Petroleum	Pipeline transportation and shipping/ storage tank	Transportation fuel	International crude oil price, government control
Jet Fuel	Petroleum products	Petroleum	Pipeline transportation and shipping/ storage tank	Transportation fuel	International crude oil price, supply- demand balance
Paraxylene	Intermediate petrochemicals	Naphtha	Road transportation/ storage tank	Intermediate petrochemical products and polyester	Raw material price, supply-demand balance

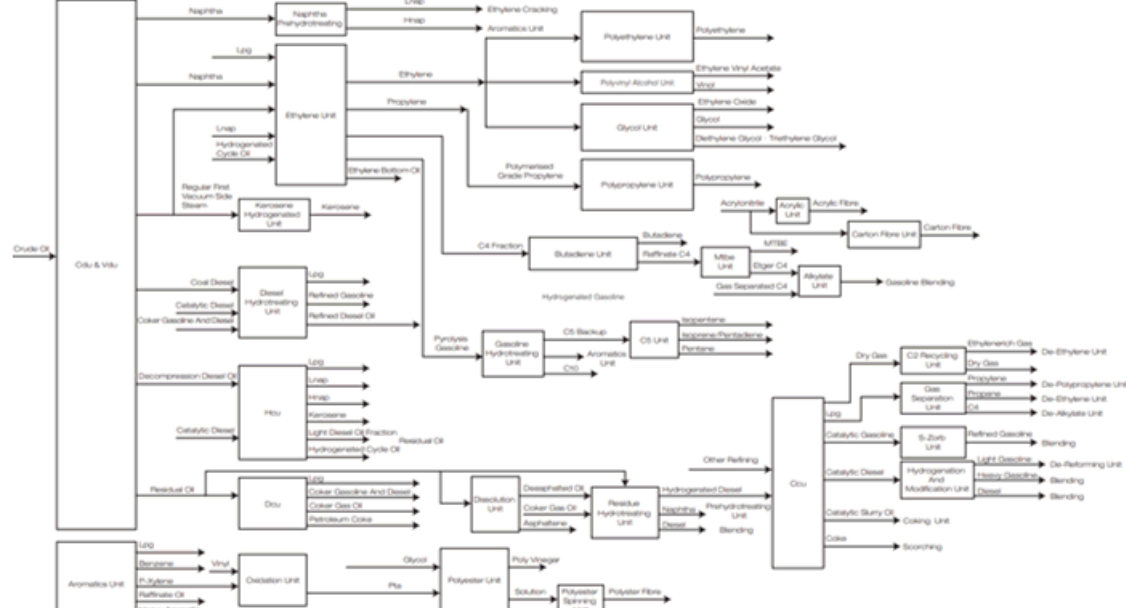
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Product	Industry segment	Primary upstream raw material	Transport/storage method	Primary downstream application fields	Key price-influencing factors
Benzene	Intermediate petrochemicals	Naphtha	Road transportation, shipping, rail transportation/ storage tank	Intermediate petrochemical products, styrene, plastic, explosive, dye, detergent, epoxy resin, chinlon	International crude oil price, market supply- demand condition
Ethylene Glycol	Intermediate petrochemicals	Naphtha	Road transportation/ storage tank	Fine Chemicals engineering	International crude oil price, market supply- demand condition
Ethylene Oxide	Intermediate petrochemicals	Naphtha	Road transportation, pipeline transportation/ storage tank	Chemical and medical industry intermediate products, including dyes, detergents and auxiliary	International crude oil price, market supply- demand condition
Ethylene	Intermediate petrochemicals	Naphtha	Road transportation, pipeline transportation, shipping/storage tank	PE, EG, PVC and other raw material for further processing of intermediate petrochemical products such as resins, plastics and synthetic fibres	International crude oil price, supply-demand balance
Polyethylene	Resins and plastics	Ethylene	Road transportation, shipping and rail transportation/ warehousing	Film, mulching film, cable insulation material and housewares, toys injection moulding products	Raw material price and market supply-demand condition
Polypropylene	Resins and plastics	Propylene	Road transportation, shipping and rail transportation/ warehousing	Film, mulching film, housewares, toys, household appliances and auto parts injection moulding products	Raw material price and market supply-demand condition
Polyester chips	Resins and plastics	PTA, EG	Road transportation, shipping and rail transportation/ warehousing	Polyester fibre or film, container	Raw material price and market supply-demand condition
Acrylics	Synthetic fibres	Acrylonitrile	Road transportation, shipping and rail transportation/ warehousing	Simple spinning or blend with other material for texture or acrylic top	Raw material price and market supply-demand condition
Polyester	Synthetic fibres	Polyester	Road transportation, shipping and rail transportation/warehousing	Texture, apparel	Raw material price and market supply-demand condition





The key component of the vertically integrated production facility of the Company is the ethylene facility producing ethylene and



**Ethylene** Ethylene is either directly processed into polyethylene resins or processed into other intermediate petrochemicals.

We process our intermediate petrochemical products into five kinds of synthetic fiber raw materials: (1) polyester, (2) acrylonitril-

*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.

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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 polypropylene resins by feeding propylene into a polymerization unit. Our fiber grade polypropylene resin is the main ingredient for polypropylene fiber production.

*Polyethylene* – We have three sets of units producing polypropylene, two of which produce low-density polyethylene (“LDPE”) using the kettle type process, and the other unit produces all density polypropylene products using the Borstar bimodal process.

*PVA* – PVA granules are produced from vinyl acetate, derived from ethylene.

### *Raw Materials*

In 2022, we continued to strengthen our advantages in refining and chemical integration and leverage the strong adaptability of our refining plants to process more high-sulfur crude oil; we used a Process Industry Modeling System to determine the cost performance of crude oil to further improve the cost control of crude oil purchases; and the total volume of the top ten main types of oil purchased in the whole year of 2022 accounted for 88.54% of the total purchase of crude oil.

To enhance the overall profitability, we optimized our ethylene cracking stocks, adjusted and improved our natural gas and fuel gas structure, optimized our hydrogen system, reduced the emission and increased the efficiency of flare gas, increased the outputs of gasoline and aviation kerosene, and optimized naphtha, residual oil and wax oil processing lines. We further optimized the structure of our finished oil products, achieving a diesel to gasoline ratio of 0.98:1 for 2022. We strengthened our tracking of the margin contribution of our units, and continuously carried out daily profitability measurement for each product so as to promptly detect changes in profitability, quickly adjust the load and running schedule of our production units and afford priority to the production of products with high profitability and market demand.

### **Crude Oil**

Crude oil is our primary raw material and the most significant raw material we purchase from outside sources. In 2022, crude oil accounted for approximately 61.81% of our consolidated annual cost of sales (73.34% of parent company annual cost of sales). Accordingly, the supply and price of crude oil are key factors in determining our profitability.

*Supply and Transportation* – The crude oil required by us is purchased through Sinopec Corp., as an agent, from foreign sources and Shanghai Nanguang Petrochemical Co., Ltd., as an agent, from domestic sources. During 2022 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 13.60 million tons of imported crude oil in 2023. 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 types of crude oil, including domestic offshore and imported crude oil, to satisfy our anticipated annual needs. We anticipate that we will fully utilize our supply of crude oil in 2023. We believe that the mix of crude oil feedstock currently available is satisfactory for our 2023 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.

*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 2023 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 2023 production capacity and goals.

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In 2022, our crude oil was sourced as follows:

Domestic offshore crude oil	1.02%
Imported crude oil	98.98%
Total:	<u>100.00%</u>

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. The crude oil for our 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 crude oil shall apply the market –adjusted rate and the 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 2022 was RMB 4,675.66 (U.S.\$ 695.70) per ton and RMB 5,318.94 (U.S.\$ 791.41) per ton, respectively. In 2022, we processed 10,338,313 tons of imported crude oil and 107,022 tons of domestic offshore crude oil (including 378,279 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”) established 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 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, NDRC ceased publishing an indicative price. Instead, the indicative price for domestic onshore oil has been calculated and determined directly by China National Petroleum Corporation and Sinopec Group based on the principles and methods formerly applied by NDRC.

On January 13, 2016, NDRC issued the *Circular on Several Issues on Further Improving the Pricing Mechanism of Refined Oil* (Fa Gai Jia Ge [2016] No. 64) to adjust the existing refined oil pricing mechanism, which include, among other things, (i) setting a price floor of U.S.\$40 for the downward adjustment of the crude refined oil. When the international crude oil price drops to U.S.\$40 per barrel or below, i.e., the adjustment price floor, the refined oil price in China shall no longer be adjusted downwards; and (ii) creating a reserve for risks associated with the adjustment and control of oil prices. When the international crude oil price drops to U.S.\$40 per barrel or below, all unadjusted amount shall be allocated to the reserve above mentioned for use for the purpose of energy saving or reduction of emission, improving the oil quality and securing a safe supply of oil.

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.

As of December 31, 2022, the Group had processed a total of 10.4453 million tons of crude oil, indicating a year-on-year decrease of 24.11%, mainly due to the implementation of the largest overhaul in the Company’s history this year. The cost of crude oil processing for the whole year of 2022 was RMB4682.50 /ton, representing an increase of RMB1450.21 /ton or 44.87% from the same period last year. The annual crude oil processing total cost increased by RMB3.96 billion from the same period last year or 9.16%, accounting for 61.81% 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.. 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 company-owned wharf and conveyer system. Our cost is primarily dependent on coal price and transportation charges.

We expect that our total requirement for coal to generate electricity in 2023 will be approximately 1.90 million tons. In 2022, we consumed approximately 1.7352 million tons of coal, a decrease of 16,900 tons from 2021 of 1.7521 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, methanol, ammonia, sodium hydroxide, sulfur, acetone, acrylonitrile, PTA, propylene and a variety of catalytic agents. In 2022, the total cost of these materials accounted for approximately 12.05 % of our total cost of sales. We do not expect any difficulties in obtaining a supply of any of these ancillary raw materials in amounts sufficient to meet our needs in the foreseeable future.

### ***Sales and Marketing***

#### ***Distribution***

The distribution of our fuel products is subject to government regulations. We are required to sell certain refined products to the subsidiaries of Sinopec Group or customers designated by Sinopec Group. Since the second half of 2005, Sinopec Group has executed reforms to its system of selling petrochemical products and implemented what it refers to as a “Five Consolidations” strategy featuring “consolidated marketing strategy, consolidated promotion, consolidated logistics optimization, consolidated sales and consolidated branding.” As a result, the sales of our major petrochemical products are now conducted in a consolidated manner by sales agents designated by Sinopec Group. However, we have the autonomy to decide on the distribution method of our other products in accordance with market conditions. The products we sold in 2022 that were subject to planned distribution by Sinopec Group, sales by agents and sales based on our own discretion accounted for 65.31%, 29.09% and 5.60%, respectively, of the total sales volume in 2022.

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 2022. In general we managed to maintain a stable correlation between production and sales in 2022.

#### ***Product breakdown***

*Synthetic Fibers* – In 2022, 11.85% of our synthetic fiber products were purchased by provincial and municipal government trading companies that act as intermediaries between us and end-users. List of customers each accounting for more than 25% of the sales in this segment. List of customers each accounting for more than 10% of the sales in this segment: Shanghai Dunshan Textile Co., Ltd. (上海盾杉纺织品有限公司): 21.77%; Jiangsu Zhonghuai Textile New Materials Co., Ltd. (江苏中淮纺织新材料有限公司): 13.85%

*Resins and Plastics* – In 2022, approximately 52% of our resins and plastics sales were to provincial and municipal government trading companies and approximately 48% were sold to industrial users. No single customer accounted for more than 5% of our sales of resins and plastics in 2022.

*Intermediate Petrochemicals* – We sell a variety of intermediate petrochemical products, among which the sale volume of petroleum benzene and paraxylene was relatively high in 2022. Shanghai SECCO Petrochemical Company Limited (“SECCO”) is the principal outside consumer of our petroleum benzene. In 2022, we sold 0.1685 million tons of petroleum benzene to SECCO, representing 56.71% of our total 2022 production of such product. List of customers each accounting for more than 10% of sales in this segment: SECCO: 56.71%; SINOPEC Shanghai Gaoqiao Petroleum Chemical Co., Ltd.: 18.61%; Zhejiang Baling Hengyi Caprolactam Co., Ltd.: 9.86%.

Jiaxing Petrochemical Company Limited, Oriental Petrochemical (Shanghai) Corporation and Zhejiang Dushan Energy Co., Ltd. are the outside consumers of our paraxylene. In 2022, we sold 0.2264 million tons, 0.0419 million and 0.3172 million tons of paraxylene, representing 38.16%, 7.06% and 53.47% of our total 2022 production of such product, to Jiaxing Petrochemical Company Limited, Oriental

Petrochemical (Shanghai) Corporation respectively and Zhejiang Dushan Energy Co., Ltd., at prices mutually agreed upon by the relevant parties.

*Petroleum Products* – In 2022, our primary gasoline and diesel customer was East China Branch of Sinopec Sales Company Limited (“SINOPEC East China Company”).



*Trading of Petrochemical Products* – In 2022, our largest trading customer for petrochemical products was Sinopec Chemical Commercial Holding Company Limited.

#### *Major Suppliers and Customers*

The Group's top five suppliers in 2022 were China International United Petroleum & Chemical Co., Ltd., East China Branch of Sinopec Sales Company Limited, Materials and Equipment Department of China Petroleum and Chemical Corporation, SECCO, and Shanghai Gas Co., Ltd.. Total procurement costs involving these five suppliers, which amounted to RMB 53,719.8 million, accounted for 74.29 % of the total procurement costs of the Group for the year. Among the top five suppliers, the purchase amount of related parties was RMB 52,304.9 million, accounting for 72.33% of the total annual purchase amount. The procurement from the largest supplier amounted to RMB 45,666.4 million, representing 63.15 % of the total costs of purchases by the Group for the year.

The Group's top five customers in 2022 were SINOPEC East China Company, China International United Petroleum & Chemical Co., Ltd., Sinopec Sales Company Limited, SECCO and Zhejiang Dushan Energy Co., Ltd.. Total sales to these five customers amounted to RMB 54,719.9 million, representing 66.37% of the Group's total turnover for the year. Among the sales of the top five customers, the sales of related parties was RMB 52,363.1 million, accounting for 63.51% of the total annual sales. Sales to Sinopec Group's largest customer amounted to RMB 40,337.00 million, representing 48.93% of Sinopec Group's total turnover for the year.

To the knowledge of the Board, among the suppliers and customers listed above, Shareholders and Directors of the Company and their close associates have no interest in Shanghai Gas Co., Ltd. and Zhejiang Dushan Energy Co., Ltd.; SECCO is an associate of the Company; China International United Petroleum & Chemical Co., Ltd., SINOPEC East China Company, Materials and Equipment Department of China Petroleum and Chemical Corporation and East China Branch of Sinopec Sales Company Limited and Sinopec Sales Company Limited are subsidiaries of Sinopec Corp., the controlling shareholder of the Company.

#### *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. In 2020, 2021 and 2022, approximately 43.64%, 47.01% and 51.40% of our net sales, respectively, 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 88.36% of our products in volume were sold in 2022. In addition, we believe the limitation in transportation infrastructure in China and the difficulties involved in transporting petrochemical products force petrochemical companies in China, including us, to compete primarily on a regional basis. In 2022, 87.18% of our net sales were made to customers in Eastern China.

#### *Our Competitive Advantages*

We believe our primary competitive advantages are quality of product, pricing, brand recognition, geographic location and vertical integration. We have received many prizes and awards from both central and local government authorities for high product quality. Furthermore, our location on the outskirts of the densely populated and highly industrialized Shanghai area places us in close proximity to

many of our customers. This location also gives us convenient access to ocean transport and inland waterways, which results in a competitive advantage in terms of transportation cost and reliability and punctuality of product delivery.

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***

In 2022, we had an approximate 0.05% share of total domestic polyester and acrylic consumption while imports had an approximate 0.52% share.

The following table summarizes the competitive position of our principal synthetic fibers according to domestic sales in 2022.

<b>Product</b>	<b>Our share of domestic consumption (%)</b>	<b>Our competitive ranking</b>	<b>Location of principal domestic competitor</b>	<b>Principal domestic competitor's share of consumption (%)</b>	<b>Imports' share of consumption (%)</b>
Acrylic	3.37	8	Jilin Province	55.02	7.84

Sources: Zhuochuang Information ([www.chem99.com](http://www.chem99.com)).

#### ***Resins and Plastics***

In 2022, we had an approximate 1.01% share of total domestic resins and plastics consumption while imports had an approximate

18.84% share. The following table summarizes the competitive position of our principal resins and plastics products according to domestic sales in 2022.

<u>Product</u> (%)	<u>Our share of domestic consumption</u>	<u>Our competitive ranking</u>	<u>Location of principal domestic competitor</u>	<u>Principal Domestic competitor's Share of consumption</u> (%)	<u>Imports' share of consumption</u> (%)
Polyester chips	0.54	4	Jiangsu Province	4.68	1.80
Polyethylene	1.05	29	Guangdong Province	1.59	36.27
Polypropylene	1.24	24	Zhejiang Province	3.42	9.19

Sources: Zhuochuang Information ([www.chem99.com](http://www.chem99.com)).

### *Intermediate Petrochemicals*

In 2022, we were one of the largest sellers of intermediate petrochemicals in China, holding an approximate 1.14% share of total domestic consumption, while imports had an approximate 14.50% share of domestic consumption. Ethylene glycol, paraxylene, benzene and butadiene are our major intermediate petrochemical products. In 2022, we were a major producer of ethylene, paraxylene and benzene in China. The following table summarizes the competitive position of our principal intermediate petrochemicals according to domestic sales in 2022.

<b>Product</b>	<b>Our share of domestic consumption (%)</b>	<b>Our competitive ranking</b>	<b>Location of principal domestic competitor</b>	<b>Principal Domestic competitor's Share of consumption (%)</b>	<b>Imports' share of consumption (%)</b>
Ethylene glycol	0.46	11	Zhejiang Province	5.62	35.89
Paraxylene	1.71	16	Zhejiang Province	19.16	30.82
Benzene	1.60	8	Zhejiang Province	11.59	17.57
Butadiene	1.86	28	Jiangsu Province	1.91	4.07

Sources: Zhuochuang Information ([www.chem99.com](http://www.chem99.com)).

### *Petroleum Products*

In 2022, we had an approximate 1.70% share of total domestic petroleum products market while imports had an approximate 7.33% 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 2022, we sold approximately 88.08% of our petroleum products in Eastern China.

### *Research and Development, Patents and Licenses, etc.*

We have a number of technology development units, including Advanced Materials Innovation Research Institute, the Petrochemical Research Institute, the Plastics 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 2020, 2021 and 2022 were RMB 110.6 million, RMB 94.3 million and RMB 130.5 million, respectively. The increase was mainly due to the increase in material cost for research and development of technology in equipment and products.

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

### *Investments*

We established SECCO, a Sino-foreign equity joint venture, in late 2001 with BP Chemicals East China Investments Limited ("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, while BP and Sinopec Corp. own 50% and 30% interests in SECCO, respectively. In October 2017, BP transferred its 50% equity interests in SECCO to a subsidiary of Sinopec Corp., Sinopec Shanghai Gaoqiao Petrochemical Co., Ltd. As a result of equity transfer, we, Sinopec Corp. and Sinopec Shanghai Gaoqiao Petrochemical Co., Ltd. own 20%, 30% and 50% interests in SECCO, respectively, and SECCO was converted into a PRC domestic company. The registered capital of SECCO is RMB7,800,811,272.00, all of which had been fully contributed by the shareholders in

accordance with their equity percentages in SECCO as of October 18, 2017. In July 2021, SECCO's paid in capital has reduced from RMB 7,800,811,272 to RMB 500,000,000 and all shareers of SECCO has reduced their capital in proportion to their shareholding ratios. In August 2022, the registered capital of SECCO increased from RMB 500,000,000 to RMB 3,115,180,000 through transfer from surplus reserve. Sinopec Corp., Sinopec Shanghai Gaoqiao Petrochemical Co., Ltd. and we increased the registered capital according to the original shareholding ratios. In December 2022, Sinopec Corp. transferred 15% of its equity to INEOS, and Sinopec Shanghai Gaoqiao Petrochemical Co., Ltd. transferred 35% of its equity to INEOS. As at December 31, 2022, INEOS, Sinopec Corp., Sinopec Shanghai Gaoqiao Petrochemical Co., Ltd. and we owned 50%, 15%, 15% and 20% interests in SECCO, respectively.

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In 2022, SECCO achieved a sales revenue of RMB 24.10 billion (U.S.\$ 3.59 billion), representing a decrease of 18.91% from its sales revenue of RMB 29.72 billion (U.S.\$ 4.61 billion) in 2021. SECCO produced 171,535 tons of ethylene in 2022, representing a decrease of 98,029 tons over the previous year. SECCO had a net loss of RMB 1.95 billion (U.S.\$ 290.14 million) in 2022, representing a decrease of RMB 5.08 billion (U.S.\$ 775.61 million) over the previous year.

### *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. In 2022, the Company paid a total of RMB 12.68 million in environmental taxes, a decrease of 10.74% compared with 2021.

We were subject to various administrative penalties for its violations of the relevant PRC environmental laws and regulations in the past three years. In 2022, we were subject to no administrative penalty for violations of the relevant PRC environmental laws and regulations.

We believe our environmental protection facilities and systems are adequate for the existing national and local environmental protection regulations. In 2022, we 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.

As compared with 2021, the emissions of ammonia nitrogen, sulfur dioxide and nitrogen oxide decreased by 57.64%, 23.90%, 10.56%, respectively, and COD emissions increased by 7.19%. The Company achieved a 100% comprehensive standard rate of effluents, a 99.99% standard rate of controlled exhaust gas discharge, and a 100% rate of proper disposal of hazardous waste. The Company continued to progress the LDAR related work. In 2022, we tested a total of 2,902,476 sealing points of production units, detected 8,374 leak points and repaired 8,245 points, with a repair rate of 98.50%.

### *Insurance*

We currently participate in a package of insurance coverage plan through Sinopec Group as its controlled subsidiary, which, as of December 31, 2022, was approximately RMB 46.2429 billion (U.S.\$ 6.7046 billion) on our property and facilities and approximately RMB 1,639.23 million (U.S.\$ 237.67 million) on our inventory. In addition, we maintain insurance policies for such assets as vehicles 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.

### *Cyber Security*

We have implemented policies and procedures intended to prevent cyber incidents and to identify and respond to unauthorized intrusions. With respect to our internal internet policies on cybersecurity, we have established an information safety management system and issued internal regulations on cybersecurity, internal hardware and data safety systems and we are gradually implementing measures relating to the office environment information safety management, information system access control, protection from any malicious software, and internal review and audit of information safety risks, in order to prevent loss of information due to cybersecurity incidents, network outages or hardware incidents. In 2022, we did not experience any material cybersecurity incidents or related losses.

### *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.



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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 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 2022, we sourced no crude oil from Iran.

In addition, based on feedback to our inquiries to Sinopec Corp., in 2022, it did not source any of its refinery throughputs of crude oil from Iran. Based on Sinopec Corp.'s internal reports and statistics, Sinopec Corp. recorded no revenue or net profit from its trading activities with Iranian companies.

In addition, based on feedback to our inquiries to Sinopec Group, the controlling shareholder of Sinopec Corp., Sinopec Group engaged in a small amount of business activities in Iran such as providing engineering services and designs. Sales revenue and profits from these business activities accounted for 0.02% and 0.13% of its total unaudited sales revenue and profits respectively.

We have no performance obligations under any contract to continue to purchase crude oil sourced from Iran in 2023.

### **C. Organizational Structure.**

#### *Our Subsidiaries*

As of December 31, 2022, 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	100.00	100.00
Shanghai Jinshan Trading Corporation	67.33	67.33
Zhejiang Jinlian Petrochemical Storage and Transportation 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 SEC. 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.

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Sinopec Corp. is the largest integrated petroleum and petrochemical company in China and one of the largest in Asia in terms of operating revenues. 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 Overseas Investment Holding Limited, which are incorporated in Bermuda and Hong Kong respectively, all of the below principal subsidiaries are incorporated in China.

<b>Name of Company</b>	<b>Particulars of issued capital (millions)</b>	<b>Type of legal entity</b>	<b>Percentage of equity held by Sinopec Corp. and its subsidiary (%)</b>	<b>Principal activities</b>
Sinopec International Petroleum Exploration and Production Company Limited	RMB8,250	Limited company	100.00	Investment in exploration, development, production, sales of petroleum and natural gas and other areas
Sinopec Great Wall Energy and Chemical Company Limited	RMB22,761	Limited company	100.00	Coal chemical industry investment management, production and sale of coal chemical products
Sinopec Yangzi Petrochemical Company Limited	RMB15,651	Limited company	100.00	Manufacturing of intermediate petrochemical products and petroleum products
Sinopec Yizheng Chemical Fiber Limited Liability Company	RMB4,000	Limited company	100.00	Production and sale of polyester chips and polyester fibers
Sinopec Lubricant Company Limited	RMB3,374	Limited company	100.00	Production and sale of lubricant products, lubricant base oil, and petrochemical materials
Sinopec Qingdao Petrochemical Company Limited	RMB1,595	Limited company	100.00	Manufacturing of intermediate petrochemical products and petroleum products
Sinopec Chemical Sales Company Limited	RMB1,000	Limited company	100.00	Marketing and distribution of petrochemical products
China International United Petroleum & Chemical Company Limited	RMB5,000	Limited company	100.00	Trading of crude oil and petrochemical products
Sinopec Overseas Investment Holding Limited	U.S.\$3,423	Limited company	100.00	Investment of overseas business and equity interests management
Sinopec Catalyst Company Limited	RMB1,500	Limited company	100.00	Production and sale of catalyst products
China Petrochemical International Company Limited	RMB1,400	Limited company	100.00	Trading of petrochemical products
Sinopec Beihai Refining and Chemical Limited Liability Company	RMB5,294	Limited company	98.98	Import and processing of crude oil, production, storage and sales of petroleum and petrochemical products
Sinopec Qingdao Refining and Chemical Company Limited	RMB5,000	Limited company	85.00	Manufacturing of intermediate petrochemical products and petroleum products
Sinopec Hainan Refining & Chemical Company Limited	RMB9,606	Limited company	100.00	Manufacturing of intermediate petrochemical products and petroleum products
Sinopec Marketing Co.	RMB28,403	Limited company	70.42	Marketing and distribution of refined petroleum products
Sinopec-SK (Wuhan) Petrochemical Company Ltd.	RMB7,193	Limited company	59.00	Production, sale, research and development of petroleum products, petrochemical products, ethylene and downstream derivatives
Sinopec Kantons Holdings Limited	HK\$248	Limited company	60.33	Provision of crude oil jetty services and natural gas pipeline transmission services
Sinopec Shanghai Gaoqiao Petrochemical Company Limited	RMB10,000	Limited company	55.00	Manufacturing of intermediate petrochemical products and petroleum products
Sinopec Shanghai Petrochemical Company Limited	RMB10,824	Limited company	50.55	Manufacturing of synthetic fibers, Resin and plastics, intermediate petrochemical products and petroleum products
Fujian Petrochemical Company Limited	RMB10,492	Limited company	50.00	Manufacturing of plastics, intermediate petrochemical products and petroleum products
Zhongke (Guangdong) Refining & Chemical Co., Ltd.	RMB 6,397	Limited company	90.30	Crude oil processing and petroleum product manufacturing

***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

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

The following table sets forth the Rated Capacities and weighted average utilization rates of our principal production units for petroleum products and intermediate petrochemicals in 2022:

Key production facilities (number of sets)	Designed capacity (tons)	Capacity Utilization (%)
Crude oil distillation facility (2)	14,000,000	89.52
Hydrocracking facility (2)	3,000,000	88.88
Ethylene facility	700,000	97.06
* Aromatics facility (2)	835,000	96.86
PTA facility	400,000	—
Ethylene oxide/Ethylene glycol facility (2)	525,000	77.48
Catalytic cracking	3,500,000	92.19
Delayed coking (2)	2,200,000	88.60
** Diesel hydrogenation (2)	3,850,000	83.31
** Acrylonitrile facility	650,000	100.35
C-5 Separation (2)	185,000	123.25
*** Polyester facility (3)	550,000	87.31
**** Polyester staple fibre facility (2)	158,000	—
**** Polyester filament facility	21,000	—
***** Acrylics staple fibre facility (3)	140,800	93.03
Polyethylene facility (3)	408,000	93.33
Polypropylene facility (3)	400,000	95.13
Vinyl acetate facility	86,100	104.41

\* No.1 PX facility (235,000 tons/year) was suspended for the whole year.

\*\* No.2 Diesel hydrogenation facility (1,200,000 tons/year) was revamped into acrylonitrile facility by the end of 2016. Annual production is 650,000 tons/year.

\*\*\* No.2 polyester fibre facility (300,000 tons/year) and No.3 polyester fibre facility (100,000 tons/year) were suspended for the whole year.

\*\*\*\* Polyester staple fibre facility and polyester filament facility were suspended for the whole year.

\*\*\*\*\* Acrylic south unit (46,800 tons/year) and the Acrylic south unit (66,000 tons/year) were suspended for the whole year.

Our two crude oil distillation units were designed and built in China. In 2022, the actual quantity of crude oil we processed was approximately 10.45 million tons. Our hydrocracker uses technology from United Oil Products Corporation of the United States. Our 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 ethylene oxide / ethylene glycol unit was constructed using technology from Scientific Design Corporation of the United States.

Our polyester units use technology from Kanebo Corporation of Japan and E.I. DuPont DeNemours & Co. Inc. 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 E.I. DuPont DeNemours & Co. Inc. 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 high-density polypropylene 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 polypropylene 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.

#### *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 2022, the Group focused on building up and implementing stable production as its top priority in production management, and implemented and consolidated its foundation in production operation while cementing safety management. The Company seeks to implement the HSSE management system and put into practice process safety management, and further enhance its ensure equipment integrity assurance regime. We did not encounter serious accidents involving production safety, environmental pollution or occupational poisoning in 2022 except the No.1 ethylene glycol plant explosion accident, which occurred on June 28, 2022 due to a fire broke out in No.1 ethylene glycol plant of the intermediate petrochemicals segment of the Company, causing a fire on surrounding individual pipelines. Net losses due to the fire include (a) writing off of damaged fixed assets and inventories in the amount of RMB7,676 thousand and RMB819 thousand respectively, and (b) compensation to casualties in the amount of RMB1,010 thousand.

#### *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 2022, approximately 88.08% of our products by sales volume were picked up by customers from our premises, and the others were delivered by us. Our major ethylene customer is supplied via a pipeline. And some of the products were transported using our facilities.

#### *Wharfs*

We own one chemical wharf at Jinshan with five berths of 3,000, 5,000, 10,000, 10,000 and 30,000 tons. We also own a connecting pipeline capable of loading up to approximately 4.6 million tons of chemical products annually onto ocean-going barges and ships. In 2022, products representing 39.07% 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 2022, products representing 1.08% 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 2022, products representing 0.13% of total sales volume were transported from the factory by rail.

#### *Capital Expansion Program*

We have planned or started a number of other principal capital expansion projects. In 2020, 2021 and 2022, we invested RMB

2.1 billion, RMB 3.533 billion and RMB 3.452 billion, respectively, in capital expansion projects. We expect that total investment in the projects described below will be approximately RMB 3.7 billion in 2023.

***Increasing Quality of Oil Products***

In 2016, we launched No. 2 Diesel Hydrogenation Unit Reconstruction and Diesel Quality Upgrading Project so as to further improve the quality of oil products and perfect oil product structure. In 2017, we launched an oil cleaning project with 400,000 tons/year clean gasoline components units, which was completed and put into operation in 2020.



***Expansion of New and Existing Downstream Petrochemical Products***

As a large-scale integrated petrochemical enterprise, we produce a wide range of intermediate and downstream petrochemical products. In order to adapt to the changes in the world's energy market and the development trends in the oil and chemical products market in China, we will seek to further integrate the existing refining, olefin and aromatic processing chains, and further develop our chemical business.

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. Subject to the market conditions, we commenced the construction of Phase II of the Project in April 2019, and completed the mid-term delivery of it in March 2021. We commenced raw silks (24,000 ton/year) and 48K large-tow carbon fiber (12,000 ton/year) project in November 2020, and completed Phase I mid-term delivery of them in August 2022.

***Upgrading Environmental Protection Facilities Projects***

To enhance our capacity for sustainable development and response to the government requirements of environmental protection, we intend to increase our capital expenditures on a series of environmental projects, mainly including 400,000 tons/year clean gasoline components units, transformation project for "ultra clean discharge" work in cogeneration unit, transformation of No. 2 olefin cracking burner, and Thermoelectric Department's renovation project involving furnaces Nos. 3 and 4 meeting emission standards. All the projects were completed in 2020.

**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, in each case, together with the accompanying notes included elsewhere in this annual report. Our audited financial statements have been prepared in accordance with IFRS, as issued by the International Accounting Standards Board.

***Critical Accounting Estimates***

We prepare our consolidated financial statements in accordance with IFRS, as issued by the IASB. In doing so, we have to make estimates and assumptions. Our critical accounting estimates are those estimates that involve a significant level of uncertainty at the time the estimate was made, and changes in them have had or are reasonably likely to have a material effect on our financial condition or results of operations. Accordingly, actual results could differ materially from our estimates. We base our estimates on past experience and other assumptions that we believe are reasonable under the circumstances, and we evaluate these estimates on an ongoing basis.

***Classification of Financial Assets***

The classification depends on the Company's business model for managing the financial assets and the contractual terms of the cash flows. The Company determines the business model for managing financial assets at the level of the financial asset portfolio. The factors considered include the way to evaluate and report the performance of financial assets to key management personnel, the risks affecting the performance of financial assets and their management methods, and the way for relevant business management personnel to obtain remuneration, etc.

When evaluating whether the contractual cash flow of financial assets is consistent with the basic lending arrangements, the Company has the following main judgments: whether the time distribution or amount of the principal may change in the duration due to

prepayment and other reasons; whether the interest only includes the time value of money, credit risk, other basic lending risks and the consideration of cost and profit. For example, does the amount of prepayment only reflect the outstanding principal and the interest based on the outstanding principal, as well as the reasonable compensation paid for the early termination of the contract.

*Net realizable value ("NRV") of inventories*

Inventories are valued at the lower of cost and net realizable value. The net realizable value is determined based on the estimated selling prices in the ordinary course of business less the estimated costs to completion, and other costs necessary to make the sale. These estimates are based on the current market condition and historical experience of selling products of similar nature. It could change significantly as a result of competitor actions in response to changes in market conditions.

Management reassesses these estimations at the end of each reporting period to ensure inventory is measured at the lower of cost and net realizable value.

*Impairments for non-current assets*

At the end of each reporting period, if any indication of impairment exists, the Company estimates the recoverable amount of an asset or a cash-generating unit ("CGU") (a portion of which related to certain production facilities), at the higher of its fair value less costs of disposal and its value in use, to determine the impairment losses. If circumstances indicate that the carrying amount of the asset or CGU may not be recoverable, the asset or CGU may be considered "impaired", and an impairment loss may be recognized.

The recoverable amount of assets or CGUs is the higher of the fair value less costs of disposal and value in use. As the fair value of certain assets or CGUs may not be publicly available, the Company uses all readily available information in determining an amount that is a reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions for projections of product sales and operating costs and discount rate. In particular, in determining the value in use of the Company's specific CGUs, significant judgements are required on the accounting estimates which are based on the assumptions relating to product sales growth rates, related costs growth rates and discount rate applied.

*Useful life and residual value of property, plant and equipment*

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. Management reviews the estimated useful lives and estimated residual value 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 the Company's 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.

**A. Operating Results**

The following discussion covers the years ended December 31, 2021 and 2022. For the discussion covering the year ended December 31, 2020, please refer to Item 5A of the Company's Form 20-F for the year ended December 31, 2021 filed with the SEC on April 28, 2022.

**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 95% 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 2020, 2021 and 2022, approximately 43.64%, 47.01% and 51.40% 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. Historically, the trend for appreciation of the Renminbi was helpful to us since our imported crude oil purchases constitute such a large portion of our total costs. However, the recent depreciation of the Renminbi increased our costs and affected 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**

In 2022, China's GDP saw growth of 3%, and such rate of growth is expected to accelerate in 2023.

In 2022, the Company actively responded to the complex and severe domestic and international economic and industry situations. At the same time as pandemic prevention, Sinopec Group focused its attention on resolving main contradictions, system optimization, and pandemic prevention to transform potential crisis into opportunities and to achieve a level of operation results with the joint efforts of all staff.

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

	Year ended December 31,								
	2020			2021			2022		
	Sales Volume ('000 tons)	Net Sales (RMB million)	% of Total Net Sales	Sales Volume ('000 tons)	Net Sales (RMB million)	% of Total Net Sales	Sales Volume ('000 tons)	Net Sales (RMB million)	% of Total Net Sales
Synthetic fibers	151.4	1,472.4	2.4	101.9	1,374.8	1.8	22.4	412.5	0.6
Resins and plastics	1,365.4	9,419.7	15.3	1,254.9	9,962.7	13.1	889.3	7,321.2	10.1
Intermediate petrochemicals	2,168.0	8,205.8	13.3	1,989.1	10,780.5	14.2	1,544.2	10,537.7	14.5
Petroleum products	10,347.7	30,139.6	49.0	10,065.0	41,884.4	55.2	7,211.4	41,444.7	57.0
Trading of petrochemical products	—	11,577.3	18.8	—	11,051.4	14.6	—	12,007.6	16.5
Others	—	746.1	1.2	—	835.0	1.1	—	930.9	1.3
Total	14,032.5	61,560.9	100.0	13,410.9	75,888.8	100.0	9,667.3	72,654.6	100.0

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

	Year ended December 31,					
	2020		2021		2022	
	RMB million	% of Net sales	RMB million	% of Net sales	RMB million	% of Net sales
Synthetic fibers						
Net sales	1,472.4	2.4	1,374.8	1.8	412.5	0.6
Operating expenses	(1,836.6)	(3.0)	(2,228.9)	(2.9)	(1,427.8)	(2.0)
Segment loss	(364.2)	(0.6)	(854.1)	(1.1)	(1,015.3)	(1.4)

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	Year ended December 31,					
	2020		2021		2022	
	RMB million	% of Net sales	RMB million	% of Net sales	RMB million	% of Net sales
Resins and plastics						
Net sales	9,419.7	15.3	9,962.7	13.1	7,321.2	10.1
Operating expenses	(8,157.6)	(13.3)	(9,910.5)	(13.1)	(8,573.7)	(11.8)
Segment profit/(loss)	1,262.1	2.0	52.2	0.1	(1,252.5)	(1.7)
Intermediate petrochemicals						
Net sales	8,205.8	13.3	10,780.5	14.2	10,537.7	14.5
Operating expenses	(7,624.2)	(12.4)	(11,415.6)	(15.0)	(11,994.3)	(16.5)
Segment profit/(loss)	581.6	0.9	(635.1)	(0.8)	(1,456.6)	(2.0)
Petroleum products						
Net sales	30,139.6	49.0	41,884.4	55.2	41,444.7	57.0
Operating expenses	(32,338.3)	(52.5)	(38,917.4)	(51.3)	(41,443.7)	(57.0)
Segment (loss)/profit	(2,198.7)	(3.5)	2,967.0	3.9	1.0	0.0
Trading of petrochemical products						
Net sales	11,577.3	18.8	11,051.4	14.6	12,007.6	16.5
Operating expenses	(11,535.3)	(18.7)	(11,007.7)	(14.5)	(11,994.8)	(16.5)
Segment profit	42.0	0.1	43.7	0.1	12.8	0.0
Others						
Net sales	746.1	1.2	835.0	1.1	930.9	1.3
Operating expenses	(535.1)	(0.9)	(976.5)	(1.3)	(1,063.7)	(1.5)
Segment profit/(loss)	211.0	0.3	(141.5)	(0.2)	(132.8)	(0.2)
Total						
Net sales	61,560.9	100.0	75,888.8	100.0	72,654.6	100.0
Operating expenses	(62,027.1)	(100.8)	(74,456.6)	(98.1)	(76,498.0)	(105.3)
(Loss)/profit from operations	(466.2)	(0.8)	1,432.2	1.9	(3,843.4)	(5.3)
Net finance income	332.3	0.5	414.6	0.5	443.3	0.6
Share of profits/(losses) of associates and jointly controlled entities	724.7	1.2	874.3	1.2	(173.6)	(0.2)
Profit/(loss) before income tax	590.8	0.9	2,721.1	3.6	(3,573.7)	(4.9)
Income tax	65.6	0.1	(644.5)	(0.9)	731.4	1.0
Net profit/(loss)	656.4	1.0	2,076.6	2.7	(2,842.3)	(3.9)
Attributable to:						
Equity shareholders of the Company	645.1	1.0	2,073.4	2.7	(2,846.2)	(3.9)
Non-controlling interests	11.3	0.0	3.2	0.0	3.9	0.0
Net profit/(loss)	656.4	1.0	2,076.6	2.7	(2,842.3)	(3.9)

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

*Year ended December 31, 2022 compared with year ended December 31, 2021*

#### **Net sales**

In 2022, net sales of the Company amounted to RMB72,654.6 million, a decrease of 4.26% from the previous year's RMB75,888.8 million. As of December 31, 2022, the weighted average prices (excluding tax) of synthetic fibers, resins and plastics, intermediate petrochemical products and petroleum products of the Company increased by 36.31%, 3.58%, 13.97% and 31.94% year-on-year respectively. The total volume of our products was 9.71 million tons in 2022, representing a decrease of 27.81% over the previous year. Our production/sales ratio was 99.83%, and the trade receivables recovery rate was 100%. Our total amount of sales from export was RMB 9.6 billion, an increase of 17.07% compared with 2021.

#### *(i) Synthetic fibers*

In 2022, the Company's net sales of synthetic fiber products amounted to RMB412.5 million, representing a decrease of 70.00% from the previous year's RMB1,374.8 million, which was mainly due to the price hike of main raw materials and perennial loss of acrylic fiber, and the lower sales during the Reporting Period resulted from the decrease of sales of synthetic fiber products. Sales volume of synthetic fibers decreased by 78.02% year-on-year, while the weighted average sales price increased by 36.31%. Meanwhile, the sales volume of acrylic fibers, the main product of the synthetic fibers segment, decreased by 71.92% year-on-year. Net sales of acrylic fibers and other products accounted for 78.47% and 21.53% of the total sales of synthetic fibers segment respectively.

Net sales of synthetic fibers accounted for 0.60% of the Company's net sales in the current year, representing a decrease of 1.2 percentage points from the previous year.

*(ii) Resins and plastics*

In 2022, the Company's net sales of resins and plastics products amounted to RMB7,321.2 million, a decrease of 26.51% from the previous year's RMB9,962.7 million, which was mainly due to the decrease in production resulting from the downturn in the domestic market and the shutdown of production during the Reporting Period. The weighted average sales price of resins and plastics increased by 3.58%, while the sales volume of resins and plastics products decreased by 29.13% year-on-year. Meanwhile, the weighted average sales price of polyethylene and polypropylene decreased by 0.11% and 5.48%, and the weighted average sales price of polyester chips increased by 14.17% year-on-year. The sales of polyethylene, polypropylene, polyester chips and other products accounted for 45.36%, 41.31%, 9.47% and 3.86% of the total sales of resins and plastics segment respectively.

The net sales of resins and plastics accounted for 10.08% of the Company's net sales in the current year, a decrease of 3 percentage points from the previous year.

*(iii) Intermediate petrochemicals*

In 2022, the Company's net sales of intermediate petrochemical products amounted to RMB10,537.7 million, a decrease of 2.25% from the previous year's RMB10,780.5 million, which was mainly due to the rise in unit price of intermediate petrochemical products driven by the sharp rise in international crude oil prices and due to the decrease in the sales volume resulting from the stagnant market. The weighted average sales price of major intermediate petrochemical products increased by 13.97% year-on-year, and its sales volume decreased by 11.43% year-on-year. The sales of p-xylene, ethylene oxide, pure benzene, ethylene glycol and other products accounted for 41.16%, 11.93%, 19.44%, 2.44% and 25.03% of the total sales of intermediate petrochemical products respectively.

The net sales of intermediate petrochemical products accounted for 14.50% of the Company's net sales in the current year, an increase of 0.3 percentage points from the previous year.

*(iv) Petroleum products*

In 2022, the Company's net sales of petroleum products amounted to RMB41,444.7 million, a decrease of 1.05% from the previous year's RMB41,884.4 million, which was mainly due to the rise in the price of petroleum products resulted from the hike in international crude oil prices and decrease of sales volume resulted from the downturn in the domestic market. The weighted average sales price of petroleum products increased by 31.94% year-on-year, and sales volume decreased by 30.06%.

The net sales of petroleum products accounted for 57.04% of the Company's net sales in the current year, an increase of 1.8 percentage points from the previous year.

*(v) Trading of petrochemical products*

In 2022, the Company's net sales of trading of petrochemical products amounted to RMB12,007.6 million, an increase of 8.65% from the previous year's RMB11,051.4 million. This was mainly due to the increase in sales of our second-level subsidiary, Shanghai Jinshan Trading Corporation, by RMB1,439 million.

The net sales of trading of petrochemical products accounted for 16.53% of the Company's net sales in the current year, an increase of 1.9 percentage points from the previous year.

*(vi) Others*

In 2022, the Company's net sales of other products amounted to RMB930.9 million, an increase of 11.48% from the previous year's RMB835.0 million.

The net sales of other products accounted for 1.28% of the Company's net sales in the current year, an increase of 0.2 percentage points from the previous year.

***Cost of sales and operating expenses***



Cost of sales and operating expense consist of cost of sales, sales and administrative expenses, other operating expenses and other operating income, etc.

In 2022, the Company's cost of sales and expenses amounted to RMB76,498.0 million, an increase of 2.74% from RMB74,456.6 million in 2021. Cost of sales and expenses of synthetic fibers, resins and plastics, intermediate petrochemical products, petroleum products, petrochemical products and other products amounted to RMB1,427.8 million, RMB8,573.7 million, RMB 11,994.3 million, RMB41,443.7 million, RMB11,994.8 million and RMB1,063.7 million respectively, representing a decrease of 35.94%, a decrease of 13.49%, an increase of 5.07%, an increase of 6.49%, an increase of 8.97% and an increase of 8.93% year-on-year respectively.

Compared with the last year, the cost of sales and expenses of intermediate petrochemical products, petroleum products, trading of petrochemical products and others increased this year, which was mainly due to the sharp increase in crude oil prices and thus the increase in corresponding costs.

- ***Cost of sales***

In 2022, the Company's cost of sales amounted to RMB76,265.9 million, an increase of 2.65% from previous year's RMB74,298.0 million, which was mainly due to the increase in cost resulting from the rise in crude oil prices as well as accrual of inventories impairment in cost of sales. Cost of sales accounted for 104.97% of the net sales this year.

- ***Selling and administrative expenses***

In 2022, the Company's sales and administrative expenses amounted to RMB288.7 million, a decrease of 21.59% from the previous year's RMB368.2 million. This was primarily due to the overall sales volume drop in the year.

- ***Other operating income***

In 2022, the Company's other operating income amounted to RMB110.6 million, a decrease of 11.73% from previous year's RMB125.3 million. This was mainly due to the drop in rental income.

- ***Other operating expenses***

In 2022, the Company's other operating expenses amounted to RMB25.8 million, a decrease of 42.28% from previous year's RMB44.7 million. This was primarily due to the decrease of RMB23.2 million for the purchases of rights of carbon emission during the year.

***Loss from operations***

In 2022, the Company's operating loss amounted to RMB3,843.4, and the operating profit amounted to RMB1,432.2 million in the previous year. In 2022, the Company's operating loss was mainly due to the rising cost resulting from higher crude oil prices, the increase in the selling price of products not as high as the rising cost, and a sluggish domestic market.

***(i) Synthetic fibers***

In 2022, the operating loss of synthetic fibers amounted to RMB1,015.3 million, an increase of RMB161.2 million from the operating loss of RMB854.1 million in the previous year. The increase was mainly due to the weak market demand of the textile industry which is the downstream market of the synthetic fibers segment, together with temporary plant shutdown. Due to a part of production facilities being idle or obsolete the provision for impairment of long-term assets of RMB49.2 million was made for the synthetic fiber segment.

***(ii) Resins and plastics***

In 2022, the operating loss of resins and plastics amounted to RMB1,252.5million, and the operating profit amounted to RMB52.2 million in the previous year. The decrease in operating profit in the year was mainly because the rise in international crude oil prices resulted in the sharp rise in costs while the demand in the downstream market was weak, and thus the increase in sales price was lower than that in cost price.

***(iii) Intermediate petrochemicals***

In 2022, the operating loss of intermediate petrochemical products amounted to RMB1,456.6 million, an increase of RMB821.5 million from the operating loss of RMB635.1 million in the previous year. The increase in operating loss of petrochemical products as compared with the previous period was mainly because the rise in international crude oil prices resulted in the sharp rise in costs while the

demand in the downstream market was weak, and thus the increase in sales price was lower than that in cost price. In 2022, provision for impairment of long-term assets of RMB212.4 million was made for some devices as increasing production and operation cost is not expected to be covered by the estimated selling price of the products due to deteriorating market conditions.

*(iv) Petroleum products*

In 2022, the operating profit of petroleum products amounted to RMB1.0 million, a decrease of RMB2,966.0 million from the operating profit of RMB2,967.0 million in the previous year. The decrease in operating profit in the year was mainly due to the rise in international crude oil prices resulted in the sharp rise in costs, and thus the increase in sales price was lower than that in cost price.

*(v) Trading of petrochemical products*

In 2022, the operating profit of the trading of petrochemical products amounted to RMB12.8 million, a decrease of RMB30.9 million from the operating profit of RMB43.7 million in the previous year, which was mainly due to the decrease in the gross profit from trading of petrochemical products during the period.

*(vi) Others*

In 2022, the Company's other operating loss amounted to RMB132.8 million, a decrease of RMB8.7 million from the other operating loss of RMB141.5 million in the previous year, which was no significant change compared with the previous year.

**Net finance income**

In 2022, the Company's net financial income amounted to RMB443.3 million, an increase of RMB28.7 million from the net financial income of RMB414.6 million in the previous year, mainly due to an increase in interest income from time deposits during the Reporting Period, resulting in an increase of our interest income by RMB33 million from RMB508.8 million in 2021 to RMB541.8 million in 2022.

**Loss before taxation**

In 2022, the Company's loss before taxation amounted to RMB3,573.7 million, and the profit before taxation amounted to RMB2,721.1 million in the previous year.

**Income tax**

The income tax benefit of the Company amounted to RMB731.4 million in 2022 and the income tax expense amounted to RMB644.5 million in 2021. This was primarily due to the recognition of deferred income tax assets as a result of the Company's loss for the year. In accordance with The Enterprise Income Tax Law of the PRC (amended in 2018), the income tax rate applicable to the Company in 2022 is 25% (2021: 25%).

The effective rate for income tax was 20.47% in 2022, as compared to 23.68% in 2021.

**Loss for the year**

In 2022, the Company's loss after tax amounted to RMB2,842.3 million, a decrease of RMB4,918.9 million from the profit after tax of RMB2,076.6 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 and 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.

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The following table sets forth a condensed summary of our consolidated statement of cash flows for the years ended December 31, 2020, 2021 and 2022.

	Year Ended December 31,		
	2020	2021	2022
	(RMB million)		
Net cash generated from / (used in) operating activities	1,679.8	3,950.0	(7,459.4)
Net cash (used in) / generated from investing activities	(3,887.5)	(2,359.4)	4,390.4
Net cash generated from / (used in) financing activities	1,681.8	(3,393.1)	(1,168.9)
Net decrease in cash and cash equivalents	(525.9)	(1,802.5)	(4,237.9)

***Net cash generated from operating activities***

The net cash used in operating activities amounted to RMB 7,459.4 million in 2022, representing and the net cash inflows amounted to RMB 3,950.0 million in 2021. During the reporting period, with the operating loss, the Company's cash outflows used in operating activities in 2022 amounted to RMB 6,960.7 million, and the cash inflows generated from operating activities amounted to RMB 4,411.7 million in 2021. The income tax paid in 2022 amounted to RMB 376.8 million, an increase of RMB 25.2 million from the income tax paid of RMB 351.6 million in the previous year.

The net cash generated from operating activities amounted to RMB 3,950.0 million in 2021, representing an increase in cash inflows of RMB 2,270.1 million as compared to the net cash inflows of RMB 1,679.9 million in 2020. During the reporting period, with profitability in operating, the Company's cash inflows generated from operating activities in 2021 amounted to RMB 4,411.7 million, an increase of RMB 2,416.6 million from the cash inflows generated from operating activities of RMB 1,995.1 million in 2020. The income tax paid in 2021 amounted to RMB 351.6 million, an increase of RMB 107.7 million from the income tax paid of RMB 243.9 million in the previous year.

***Net cash used in investing activities***

The net cash inflows amounted to RMB4,390.4 million in 2022, and the net cash outflows amounted to RMB2,359.4 million in 2021. This was primarily due to the net cash inflow of time deposits increased in the year as compared with the previous year. .

Our net cash used in investing activities decreased from RMB 3,997.5 million in 2020 to RMB 2,359.4 million in 2021. This was primarily due to the proceeds from capital reduction of an associate. According to the resolution of the Board of Directors on 9 July 2021, the Company, Sinopec Corp., and Sinopec Shanghai Gaoqiao Petrochemical Company Limited approved to reduce their paid-in capital in SECCO, an associate of the Company, by a total amount of RMB 7,300.8 million in proportion to their shareholding ratios of 20%, 30% and 50% respectively. Among them, the Company reduced its investment cost in SECCO by approximately RMB 1,460.3 million and the Company has received the amount of the capital reduction in December 2021.

***Net cash used in financing activities***

Our net cash used in financing activities was RMB 1,168.9 million in 2022 as compared to RMB 3,393.1 million in 2021. The decrease of net cash outflows was primary because the net cash outflow from the acquisition and repayment of short-term bonds decreased by RMB3,001 million and the net cash outflow from the acquisition and repayment of loans increased by RMB722 million as compared with the previous year.

Our net cash used in financing activities was RMB 3,393.1 million in 2021 as compared to net cash generated from financing activities was RMB 1,681.8million in 2020. The decrease was mainly due to net cash outflow resulted from repayment of short-term bonds and issuance of short-term bonds.

***Borrowings and banking facilities***

Our total borrowings at the end of 2022 amounted to RMB2,250 million, representing a decrease of RMB 9.8 million as compared to RMB 2,259.8 million at the end of the previous year. See [Item 11 Quantitative and Qualitative Disclosures about Market Risk – Interest](#)

Rate Risk for more information on the maturity and the interest rate of the borrowings. We have been able to arrange short term loans with several PRC financial institutions as and when needed. The debt obligations as of December 31, 2021 and 2022 were as follows.

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	As of December 31,	
	2021	2022
Debt instruments	(RMB million)	
Short term bank loans (1)	1,559.8	1,550.0
Long term bank loans	700.0	700.0
	<u>2,259.8</u>	<u>2,250.0</u>

- (1) As of December 31, 2022, no borrowings were secured by the way of property, plant and equipment. We obtained a credit rating of AAA- for financing loans, assessed by Shanghai Huajie Credit Rating & Investors Service Co., Ltd., a credit rating agency authorized by the Shanghai Branch of the People's Bank of China. As of December 31, 2022, the current assets exceeded current liabilities by RMB 1,767.5 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. We assessed that all the facilities could be renewed upon their expiration dates. We have carried out a detailed review of the cash flow forecast for the 12 months ending December 31, 2022. 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.

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 gearing 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.

#### **Gearing ratio**

As of December 31, 2022, our gearing ratio was 35.93%, while as of December 31, 2021, our gearing ratio was 35.26%. The ratio is calculated using this formula: total liabilities divided by total assets.

#### **Capital expenditure**

In 2022, our capital expenditure amounted to RMB 3,452 million, representing a decrease of 2.29% as compared to RMB 3,533 million in capital expenditure in 2021. Major projects include the following:

Major Project	Total amount of project investment RMB million	Amount of project investment in 2022 RMB million	Project progress as of December 31, 2022
Shanghai Jinshan baling New Material Co., Ltd	400,000	200,000	Paid in RMB200 million
Sinopec Shanghai 24000 T/A precursor fiber and 12000 T/A 48K large tow carbon fiber project	3,489,638	1,099,999	Under construction
100 ton high performance carbon fiber test plant	566,183	326,739	Under construction
Improvement transformation project of clean water and sewage separation of Sinopec Shanghai	155,293	80,000	Under construction
Third circuit 220kV incoming power line project of Sinopec Shanghai	507,120	75,000	Under construction
The compliance transformation project plus the hidden danger rectification project of the control system in the control room of 1#, 2#, 3#, 4# refining combined unit of oil refining department	97,689	70,000	Interim delivery
Compliance transformation project of control room of the synthetic resin department (the former plastics department)	121,991	60,000	Under construction

Compliance transformation project of energy consumption of 2xCC100 Turbine (No.5 and No.6) for coal power units	93,260	53,000	Put into operation
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Note: In addition to the major capital expenditure items disclosed in the above table, the total capital expenditure of other projects of the Company is RMB1,487 million.

The Company's capital expenditures for 2023 are estimated at approximately RMB3,700 million.



***Proposed Dividend Distribution***

The Board did not recommend the distribution of profit for the year nor Capital Reserve Capitalization. The proposal remains to be approved at our 2022 Annual General Meeting.

***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 2020, 2021 and 2022 were RMB 110.6 million, RMB 94.30 million and RMB 130.5 million, respectively. The increase was mainly due to the increase in material cost for research and development of technology in equipment and products.

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

***D. Trend Information***

The International Monetary Fund advised in its April 2023 edition of *World Economic Outlook* that the global economy grew 3.4 percent in 2022 and is projected to have a continued moderate recovery of about 2.8 percent in 2023 and 3.0 percent in 2024. The global economic recovery is still clouded by the following challenges: rising energy costs, higher than anticipated inflation, prolonged pandemic disruptions due to more variants, supply chain disruptions, geo-political tensions such as the Russia-Ukraine conflict and related sanctions, and ongoing climate emergencies and natural disasters.

The domestic petrochemical industry is currently facing the challenge of a downward economic cycle. During the “14th Five-Year Plan” period, China’s refining and chemical industry is set to enter a full phase of new release in capacity and fierce competition. Industry integration, transformation and upgrading are also phasing in. Oversupply is further seen in the refined oil market. The transformation of chemical products towards the higher end and the more environmentally friendly will become a new trend. Driven by new energy, new materials, and the new economy, clean, digital, and diversified developments are now the key trends in developments upon the phasing in of a new energy regime in social development. These new developments will impact the energy supply from petrochemical companies, which will put severe pressure on petrochemical companies’ profitability.

***E. Critical Accounting Estimates***

Please refer to discussion on Critical Accounting Estimates in general section of Item 5.

***F. Other Information***

***Purchase, Sale and Investment***

Except as disclosed in this report, during the year ended December 31, 2022, 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, 2022, we did not pledge any of our property or equipment.

## 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 2023.

Name	Age	Position
<u>Directors</u>		
Wan Tao	55	Executive Director, Chairman of the Board of Directors, Chairman of Strategy Committee, and Member of Nomination Committee
Guan Zemin	59	Executive Director, Vice-Chairman of the Board of Directors, Vice-Chairman of Strategy Committee, and President
Du Jun	52	Executive Director, Vice President and Chief Finance Officer
Huang Xiangyu	55	Executive Director and Vice President
Xie Zhenglin	58	Non-executive Director and Member of Strategy Committee
Peng Kun	57	Non-executive Director
Li Yuanqin	50	Independent Director, and Chairman of Audit Committee
Tang Song	43	Independent Director, and Member of Audit Committee
Chen Haifeng	49	Independent Director, Member of Audit Committee and Member of Nomination Committee
Yang Jun	67	Independent Director, Chairman of Remuneration and Appraisal Committee and Chairman of Nomination Committee
Gao Song	53	Independent Director, Member of Remuneration and Appraisal Committee and Member of Strategy Committee
<u>Supervisory Committee</u>		
Ma Yanhui	52	Chairman of the Supervisory Committee
Zhang Feng	54	Employee Supervisor
Chen Hongjun	52	Employee Supervisor
Zhang Xiaofeng	53	Supervisor
Zheng Yunrui	58	Independent Supervisor
Choi Tingki	69	Independent Supervisor
<u>Senior Management</u>		
Jin Qiang*	58	Vice President
Jin Wenmin*	58	Vice President
Zhou Jijun*		Vice President
Huang Fei*	46	Vice President
Liu Gang	51	Secretary of the Board of Directors
Wu Haijun*	61	Former Executive Director, Chairman of the Board of Directors, Chairman of Strategy Committee, and Member of Nomination Committee

\* On February 15, 2022, Mr. Jin Qiang, Mr. Jin Wenmin and Mr. Huang Fei proposed request to the board of directors that they would no longer serve as executive directors and directors due to job change. Mr. Jin Qiang's, Mr. Jin Wenmin's and Mr. Huang Fei's resignations took effect when the resignation reports were delivered to the board of directors of the Company on February 15, 2022. Mr. Zhou Jijun was appointed as the Vice President of the Company by the board of directors of the Company on January 18, 2023. On September 8, 2022, Mr. Wu Haijun proposed to the board of directors that he would no longer serve as Executive Director and Chairman due to job change. Mr. Wu Haijun's resignation took effect when the resignation report was delivered to the board of directors of the Company on September 8, 2022.

#### Directors

**Wan Tao**, born in January 1968, currently serves as the Company's Chairman, Executive Director, Chairman of the Strategy Committee and member of the Nomination Committee, Director of Shanghai SECCO and Chairman of Shanghai Chemical Industry Park Development

Co., Ltd. From August 2012 to January 2017, he served as deputy director of the Chemical Department of China Petroleum & Chemical Corporation. From March 2013 to January 2017, he served as supervisor of Sinopec Catalyst Co., Ltd. From March 2014 to January 2017, he served as director of Sinopec Great Wall Energy & Chemical (Guizhou) Co. Ltd. From January 2017 to December 2019, he served as general manager of Sinopec Yizheng Chemical Fibre Limited Liability Company and general manager of Yizheng Branch at Sinopec Assets Management Co, Ltd. From January 2017 to January 2018, he served as deputy secretary of the CPC Committee of Sinopec Yizheng Chemical Fibre Limited Liability Company. From January 2018 to July 2022, he served as executive director and secretary of the CPC Committee of Sinopec Yizheng Chemical Fibre Limited Liability Company. In July 2022, he was appointed as secretary of the CPC Committee of the Company and director of Shanghai SECCO. In September 2022, he was appointed as Chairman, Executive Director, Chairman of the Strategy Committee and member of the Nomination Committee of the Company. In October 2022, he was appointed as Chairman of Shanghai Chemical Industry Park Development Co., Ltd. Mr. Wan graduated from Tianjin University in 1992 with an engineering master's degree in chemical engineering. He is a senior engineer.

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**Guan Zemin**, born in December 1964, is serving as Vice Chairman, Executive Director, Vice Chairman of the Strategy Committee and President of the Company. Mr. Guan started to work in 1990, and he has successively served as Section Manager of Technology Development Section, Technology Development Department, and Deputy Chief Engineer of Wuhan Petrochemical Works, and Director of Catalyzing Workshop, Deputy Director and Director of Production Scheduling Department, and Deputy Chief Engineer of the Wuhan branch of Sinopec Corp. ("Wuhan Branch"). From December 2012 to December 2018, he served as Deputy General Manager of Wuhan Branch. From May 2016 to December 2019, he served as General Manager and Director of Sinopec-SK (Wuhan) Petrochemical Company Limited. From December 2018 to December 2019, he served as the Director and Deputy Party Secretary and General Manager of Wuhan Branch. In December 2019, he was appointed as Deputy Secretary of the Company. From February 2020, he served as the President of the Company. From June 2020, he served as the Executive Director, Vice Chairman and Vice Chairman of the Strategy Committee of the Company. Mr. Guan graduated from the Fine Chemical Major of School of Chemical Engineering, East China University of Science and Technology with a Master's degree in Engineering in July 1990. He is a senior engineer by professional title.

**Du Jun**, born in March 1970, is currently the Executive Director, member of the Strategy Committee, Vice President and Chief Financial Officer of the Company, chairman of Jinshan Associated Trading, and director of Shanghai Chemical Industry Park Development Co., Ltd. Mr. Du started the work in 1990 and successively served as the chief of the second section of the Secretary of the general manager's office of Yangzi Petrochemical Co., Ltd., the deputy director of the finance department and the deputy director of the Finance Department of Yangzi Petrochemical Co., Ltd. From August 2004 to July 2007, he served as the director of the Finance Department of Yangzi Petrochemical Co., Ltd. From July 2007 to August 2012, he served as the director of the Finance Department of Yangzi Petrochemical Co., Ltd. From August 2012 to August 2016, he served as the chief accountant of Yangzi Petrochemical Co., Ltd. From December 2015 to September 2020, he served as the supervisor of Yangzi Petrochemical BASF Co., Ltd. From June 2016 to September 2020, he served as a director of Yangzi Petrochemical Co., Ltd. From August 2016 to September 2020, he served as the chief accountant of Yangzi Petrochemical Co., Ltd. From September 2020, he served as the deputy general manager and chief financial officer of the Company. He has been the chairman of Jinshan Associated Trading since December 2020. He has been a director of Shanghai Chemical Industry Park Development Co., Ltd. since December 2020. He has been an Executive Director of the Company since June 2021. He has been a member of the Company's Strategy Committee since March 2022. Mr. Du graduated from Southeast University in 1990, majoring in industrial enterprise management, and obtained a master's degree in Business Administration from Southeast University in 2004. He has the title of senior accountant.

**Huang Xiangyu**, born in March 1968, is the Executive Director and Vice President of the Company. Mr. Huang started his career in 1990 and joined Shanghai Petrochemical Complex in 1992. He served as the Deputy Director of the chemical workshop of Shanghai Jinyang Acrylic Plant, Deputy Director of Jinyang Equipment, Director and Deputy Director of Jinyang Acrylic Equipment of Acrylic Business Unit and Chief Engineer of Acrylic Business Unit. From July 2011 to January 2020, he served as the Director of the Acrylic Fiber Research Institute. From November 2011 to January 2020, he served as the Chief Engineer of the Acrylic Fiber Department. From February 2019 to January 2020, he served as Deputy Chief Engineer of the Company. From February 2020, he served as the Vice President of the Company. He has been an Executive Director of the Company since June 2020. Mr. Huang graduated from the Organic Chemical Major of the School of Chemical Engineering, East China University of Science and Technology with a Bachelor's degree in Engineering in July 1990. He obtained a Master's degree in Engineering from Donghua University in May 2004. He graduated from Polymeric Chemistry and Physics Major of Fudan University with a doctor's degree in Science in June 2013. He is a professorate senior engineer by title.

**Xie Zhenglin**, born in February 1965, is a Non-Executive Director, member of the Strategy Committee, Vice President of Chemical Service Department of the Sinopec Corp., General Manager of Sinopec Group Assets Management Co., Ltd., a director of Chongqing Yangzijiang Acetyl Chemical Co., Ltd., Chairman of Tianjin Jinpuli Environmental Protection Technology Co., Ltd., and a director of Sinopec Shanghai Gaoqiao Petrochemical Co. Ltd.. Mr. Xie started his work in 1989, served as Principal Staff Member of State Price Control Bureau and State Development Planning Commission. After joined Sinopec Group in September 1995, he successively served as Deputy Director of the Comprehensive Division of the Finance Department, Deputy Director of Capital Management Department, Director of the Capital Management Division of the Finance and Assets Department, Director of the Capital Management Division of the Financial Planning Department, Deputy Director of the Financial Planning Department of Sinopec Corp., Deputy Director of General Accounting Department of Sinopec Assets Management (presided over the work), Deputy Director of Assets Management Department of Sinopec Corp., Deputy General Manager of Sinopec Assets Management, Acting Director of Assets Management Department of Sinopec Corp., and Deputy Executive Director and Deputy General Manager of Sinopec Assets Management. From April 2014 to October 2020, he served as the Vice Chairman and director of China Merchants Energy Shipping Co., Ltd. (listed on the Shanghai Stock Exchange, Stock Code: 601872). From April 2014 to December 2019, Mr. Xie served as Director of Assets Management Department of Sinopec Corp., and Executive Director and General Manager of Sinopec Assets Management. He has been the Deputy President of Chemical Service Department of Sinopec Corp. and

General Manager of Sinopec Assets Management since December 2019. From June 2020, he served as the Executive Director and a member of the Strategy Committee of the Company. Mr. Xie obtained a Master's degree in Economics from Graduate School of Chinese Academy of Social Science in August 1989. He obtained a Master's degree in Business Administration from University of Houston in May 2007. He is a Senior Accountant by professional title.

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**Peng Kun**, born in December 1966, is currently a Non-Executive Director, the General Manager of Human Resource Department, Minister of Party Committee Organization Department, Director of the CPC United Front Work Department and Director of the Office of Veteran Cadres of the Company. Mr. Peng joined the Shanghai Petrochemical Complex in 1986 and served as Deputy Director of General Affairs Office, Department of Chemical Engineering, General Research Institute, assistant manager of the life logistics subsidiary of Easy-Art Design, section manager of Coordination Section of Chemical Engineering Institute, section manager of Administration Department, Secretary of Party General Branch and Deputy Director of Quality Center, Deputy Party Secretary and Secretary of Commission for Discipline Inspection of Quality Management Center, Director of Labor Union, and Chairman, Secretary of the Communist Party Committee and Deputy Manager of Labor Union. He served as Director of Human Resources Department of the Company from February 2016 to April 2018, the Head of Human Resources Division of the Company from April 2018 to May 2019, and the Head of Organization and Personnel Division of the Company from May 2019 to March 2020. He was appointed as Director of CPC United Front Work Department and Director of Retired Cadres Office in May 2019, and General Manager of Human Resources Department and Director of CPC Organization Department of the Company from March 2020. From June 2020, he served as the Non-Executive Director of the Company. Mr. Peng graduated from East China University of Science and Technology in Engineering Management Major in July 2004 and obtained senior professional and technical title.

**Li Yuanqin**, born in July 1973, is an Independent Non-Executive Director, Chairman of the Audit Committee of the Company, Professor of the School of Management and the associate head of the Department of Accountancy at Shanghai University. Ms. Li has been served as an Independent Non-Executive Director of the Company since August 2017. She is currently the independent director of Yunsai Zhilian Co., Ltd. (listed on Shanghai Stock Exchange, stock code: 600602, 900901) and Hengtian Kaima Co., Ltd. (listed on Shanghai Stock Exchange, stock code: 900953). Ms. Li served as an independent director of Shanghai New World Co., Ltd. (listed on Shanghai Stock Exchange, stock code: 600628) from June 2014 to December 2021. From April 2000 to March 2003, Ms. Li served at the Settlement Department of the ICBC headquarters. From June 2006 to September 2009, she was a lecturer of the School of Management of Shanghai University. From September 2009 to March 2020, she was the associate professor of the School of Management of Shanghai University. She has been the professor of the School of Management of Shanghai University since March 2019, and she has been the associate head of the Department of Accountancy of Shanghai University since May 2011. During that period, she was also a visiting scholar at Foster School of Business, University of Washington in the United States between February 2012 and February 2013. She also serves as a member of the eighth and ninth session of the Shanghai Baoshan Committee of the Chinese People's Political Consultative Conference and a non-practicing member of the Chinese Institute of Certified Public Accountants. She received a PhD in Management from Antai College of Economics and Management (ACEM) at Shanghai Jiao Tong University.

**Tang Song**, born in December 1980, is the Independent Non-executive Director and a member of the Audit Committee and Remuneration and Appraisal Committee of the Company, Dean Assistant of School of Accountancy, Shanghai University of Finance and Economics, Professor and PH. D supervisor. Mr. Tang obtained a bachelor's degree in management (accountancy) in June 2003 from the School of Accountancy of the Shanghai University of Finance and Economics, and obtained a doctor's degree from a successive postgraduate and doctoral program in management (accountancy) in June 2008. Mr. Tang worked in the School of Accounting and Finance, Hong Kong Polytechnic University for collaborative research from August 2008 to August 2009. He worked in China Europe International Business School for collaborative research from August 2009 to June 2010. Mr. Tang served as a lecturer of School of Accountancy, Shanghai University of Finance and Economics from June 2010 to July 2012. He served as associate professor of the School of Accountancy, Shanghai University of Finance and Economics from August 2012 to June 2019. He served as Dean Assistant of Shanghai University of Finance and Economics from January 2019, and as a Professor of the School of Accountancy of the University since August 2019. Mr. Tang served as an independent director of the Shanghai Qifan Cable Co. Ltd. (listed on the Shanghai Stock Exchange, stock code: 605222) from July 2019 to July 2022, served as an independent director of Tibet Dongcai Fund Management Co., Ltd since August 2019, and as an Independent Director for the Shanghai Universal Biotech Co., Ltd. (listed on the Shenzhen Stock Exchange, stock code: 301166) since April 2020. He served as the Independent Non-executive Director, member of the Audit Committee and the Strategy Committee of the Company since June 2020. He served as an independent director for Wuxi Commercial Mansion Grand Orient Co., Ltd. (listed on Shanghai Stock Exchange, stock code: 600327) since November 2020. He served as an independent director for Shanghai Shine-Link International Logistics Co., Ltd. (listed on Shanghai Stock Exchange, stock code: 603648) since November 2022.

**Chen Haifeng**, born in January 1974, is an Independent Non-Executive Director, member of the Audit Committee and the Nomination committee of the Company, and a Senior Director of the Shanghai MindMotion Microelectronics Co., Ltd. Mr. Chen graduated from Fudan University with a Bachelor's degree in applied physics in July 1997. He served as clerk, project supervisor, and project manager of Investment Banking Department of CITIC Securities from July 1997 to August 2001. Mr. Chen served as a senior manager of the strategic investment department of SVT Group from September 2002 to February 2006. He served as a senior manager of investment banking department of

Orient Securities from August 2006 to March 2008. Mr. Chen served as senior vice president and sponsor deputy of investment banking department of China Jianyin Investment Securities from April 2008 to May 2012. He served as the CEO and sponsor deputy of investment banking department of Caida Securities from June 2012 to June 2015. Mr. Chen served as an independent director of Cnnc Hua Yuan Titanium Dioxide Company Limited (listed on Shenzhen Stock Exchange, stock code: 002145) from February 2015 to October 2018. He served as the CEO and sponsor deputy of investment banking department of Dongxing Securities from July 2015 to September 2017. Mr. Chen has been a non-independent director of Zhejiang Yueling Wheels Corporation from October 2017 to December 2020 (listed on the Shenzhen Stock Exchange, Stock Code: 002725). He served as an Independent Non-executive Director, member of the Audit Committee and member of the Nomination Committee of the Company since June 2020. He served as a senior director of Shanghai MindMotion Microelectronics Co., Ltd. since January 2021.

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**Yang Jun**, born in August 1957, is an Independent Non-executive Director, Chairman of the Nomination Committee and the Remuneration and Appraisal Committee of the Company, a director (vice president level) of Gansu Gangtai Holding (Group) Co., Ltd., and the chief supervisor of Shanghai Aoji Science and Technology Development Foundation. Mr. Yang graduated from East China University of Political Science and Law with a degree in Law in September 1979 and from Peking University with a Master's degree in Civil Law in July 1991. He worked in Shanghai Intermediate Court and Supreme Court from July 1983 to July 2005. He served as an assistant to the president and general legal officer of Shanghai United Assets and Equity Exchange, general manager of Beijing headquarters of Central Enterprise Equity Exchange, operation director of Equity Exchange and general manager of Financial Equity Exchange from July 2005 to September 2017. He served as an arbitrator of China International Economic and Trade Arbitration Commission from March 2007 to March 2015 and served as an arbitrator of Shanghai International Economic and Trade Arbitration Commission and Shanghai Arbitration Commission since March 2007. He served as an independent non-executive Director of China Merchants Securities Co., Ltd. (listed on the Hong Kong stock exchange, stock code: 06099) from June 2011 to January 2018. He has served as an independent director of Shanghai Zhenhua Heavy Industries Co., Ltd. (listed on Shanghai Stock Exchange, stock code: 600320) from April 2015 to March 2021 and a director (vice president level) of Gansu Gangtai Holding (Group) Co., Ltd. since September 2017. He has served as an Independent Non-executive Director, Chairman of the Nomination Committee and Chairman of the Remuneration and Assessment Committee of the Company since June 2020. He served as the chief supervisor of Shanghai Aoji Science and Technology Development Foundation since January 2022.

**Gao Song**, born in June 1970, is an Independent Director, member of Remuneration and Appraisal Committee and Strategy Committee of the Company, Professor of Business School of East China University of Science and Technology and Director of China's Institute for action learning. Mr. Gao graduated from Shandong University with a degree in Computer Software in 1992, from the School of Management of Fudan University with a Master's degree in Corporate Management in 1998 and from the Antai College of Economics & Management of Shanghai Jiao Tong University with a doctorate in Corporate Management in 2006. He served as a director of marketing department of Shanghai Guanshengyuan Group Co., Ltd. from March 1998 to May 2002 and the general manager of Shanghai Aichu Food Co., Ltd. from May 2002 to March 2007. He has served as a professor of the Business School of East China University of Science and Technology and a director of China's Institute for Action Learning since May 2009. He was a visiting scholar at the University of Illinois at Urbana-Champaign from 2014 to 2015. From June 2020, he served as the Independent Non-executive Director, Chairman of the Remuneration and Appraisal Committee and a member of the Strategy Committee of the Company.

### *Supervisors*

**Ma Yanhui**, born in February 1971, is a Supervisor, the Chairman of Supervisory Committee, Secretary of the Communist Party Discipline Supervisory Committee and Chairman of the Labour Union of the Company. Mr. Ma started his career in 1996. He served as the secretary of Office of Yanhua Refinery, office secretary and deputy director of Yanhua Branch of Great Wall Lubricant Oil, supervisor and acting director and deputy director of Integrated Corporate Reform Department of China Petrochemical Corporation, and deputy director and director of Structure Reform Sector, Corporate Reform Department of Sinopec Assets Management Co., Ltd., etc. From June 2008 to August 2017, Mr. Ma was the director of Integrated Corporate Reform Department of China Petrochemical Corporation (Sinopec Group). From August 2017, Mr. Ma was the Deputy Secretary of the Communist Party Committee and Secretary of the Communist Party Discipline Supervisory Committee of the Company. He was appointed as the Supervisor, Chairman of Supervisory Committee and Chairman of the Labour Union of the Company in October 2017. Mr. Ma graduated from East China University of Science and Technology in July 1996, majoring in petroleum processing, and obtained a Bachelor's degree in engineering. In June 2006, he obtained a Master's degree in corporate management from Renmin University of China. Mr. Ma is a senior economist by professional title.

**Zhang Feng**, born in June 1969, is currently a Supervisor and the Auditing Director of the Company. Mr. Zhang started his career in Shanghai Petrochemical Complex in 1991. He served as Assistant of Chief and Deputy Chief of Finance Section of Polyester II Factory, Deputy Chief of Finance Section of Polyester Department, Deputy Chief and Chief of Cost Section of Finance Division of Polyester Department, Deputy Chief and Chief of Finance Division, Director Assistant, Deputy Director, Deputy Director (Hosting Work), Director of Finance Department, and Chief of Finance Division, etc. He worked as Auditing Director of the Company from December 2018 to March 2020, and as Supervisor in October 2019. From March 2020, he worked as the Auditing Director of the Company. Mr. Zhang graduated from Shanghai University of Finance and Economics in 1991, majoring in accounting, and obtained a Bachelor's degree in Economics. Mr. Zhang is a senior accountant by professional title.

**Chen Hongjun**, born in January 1971, is currently a Supervisor, Vice-President of Labour Union, Director of the Public Affairs Department, and Vice-President of the Association of Science and Technology of the Company. Mr. Chen started his career in Shanghai



Petrochemical Complex in 1996. He served as Vice Party Branch Secretary of Fibre Polymer Office, Deputy Director of Spinning Office, Director of Simulation Office, Section Manager of Scientific Research Management Department, Deputy Secretary and Secretary of Youth League Committee of the Company, Party Secretary and Deputy Director of the Chemical Engineering Department, Party Secretary and Assistant Manager of Fine Chemicals Department and Director of Public Affairs Department. Mr. Chen was appointed as Vice-President of Labour Union of the Company in November 2013. He was appointed as Vice President of the Association of Science and Technology in December 2017. He served as Director of the Public Affairs Department of the Company from April 2018 to March 2020, and he was elected as a Supervisor of the Company in October 2019. He was the Director of Public Affairs of the Company since March 2020. In November 2021, he served as the executive director, general manager and secretary of the general Party branch of Sinopec Shanghai Training Center, general manager of Shanghai Petrochemical training center, executive vice president of the Party school, general manager of Shanghai Convention Center and President of Jinshan Community College. In 1993, Mr. Chen graduated from Chengdu University of Science and Technology, majoring in Dyeing and Finishing Engineering, and obtained a Bachelor's degree in engineering. In 1996, he obtained a Master's degree in Chemical Fibre from Sichuan Unite University. Mr. Chen is a senior engineer by professional title.

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**Zhang Xiaofeng**, born in March 1970, is currently an External Supervisor of the Company, deputy general manager of the Enterprise Reform and Legal Department of Sinopec Group. Mr. Zhang is currently a supervisor of Sinopec Insurance Limited, Sinopec Oilfield Equipment Corporation, Sinopec Petroleum Reserve Company Limited and a director of Sinopec International Energy Investment Co., Ltd. Starting his career in 1995, Mr. Zhang has served as deputy chief of the Office Management Division of the Legal Department of Sinopec Group, deputy chief and chief of the Contract Project Division, chief of the Dispute Management Division, and chief of the General Management Division of Legal Department of Sinopec Group. He served as the deputy director of Legal Department of Sinopec Group from January 2018 to December 2019. He served as the supervisor of Sinopec Insurance Limited from June 2019 to May 2021. He has also served as the deputy general manager of the Enterprise Reform and Legal Department of Sinopec Group since December 2019. In June 2021, he served as a director of Sinopec International Energy Investment Co., Ltd. Mr. Zhang, majoring in international economic law, graduated from China University of Political Science and Law with a Bachelor's degree in law in July 1995. Mr. Zhang is a senior economist by professional title and the lawyer of the Company.

**Zheng Yunrui**, born in December 1965, is an Independent Supervisor of the Company, a professor in civil and commercial law at the Faculty of Law of the East China University of Political Science. He has served as the Company's Independent Supervisor since December 2014. He is currently an independent director of Fuxin Dare Automotive Parts Co., Ltd. (listed on the Shenzhen Stock Exchange, stock code: 300473) and Wuxi New Hongtai Electrical Technology Co., Ltd. (listed on Shanghai Stock Exchange, stock code: 603016). Mr. Zheng graduated from the Shangrao Normal University in Jiangxi Province, majoring in English. Mr. Zheng obtained a Master's degree in law and a doctorate's degree in law from the Faculty of Law of Peking University in July 1993 and July 1998, respectively. Mr. Zheng previously worked at the Education Bureau of Shangrao County, Jiangxi Province, Hainan Airport Limited, China Township Enterprise Investment and Development Company Limited and the Legal Affairs Office of the Shanghai Municipal People's Government. He has been teaching at East China University of Political Science and Law since August 2001. He was a visiting scholar at the Faculty of Law of National University of Singapore between July 2002 and December 2002. From April 2013 to May 2019, he served as independent director of Hangzhou Xianfeng Electronic Technology Co., Ltd. (listed on Shenzhen Stock Exchange, stock code: 002767). From 2019 to February 2021, he served as the external supervisor of Zhejiang Weihai Construction Group Co., Ltd. (listed on Shenzhen Stock Exchange, stock code: 002586). From December 2015 to June 2021, he was an independent director of Jiangxi Xinyu Guoke Technology Co., Ltd. (listed on Shenzhen Stock Exchange, stock code: 300722). From April 2019 to March 2022, he served as an independent director of Dalian Electric Porcelain Group Co., Ltd. (listed on Shenzhen Stock Exchange, stock code: 002606). In November 2019, he served as a member of the second Shareholding Exercise Expert Committee of China Securities Small and Medium Investors Service Center. In September 2020, he was appointed as a legal consultant of Wuxi Intermediate People's Court. Mr. Zheng has been engaged in trials, teaching and research relating to civil law, property law, contract law, company law, insurance law, social insurance law and government procurement law. He is experienced in the legal affairs on corporate governance and has great academic achievements. He is also an arbitrator at the Arbitration Commission of Shenzhen, Xuzhou, Wuxi and Suzhou. Mr. Zheng was appointed as an advisory expert on civil and administrative cases of the Supreme People's Procuratorate and the Zhejiang People's Procuratorate, a member of the second shareholding exercise Committee of CSI small and medium-sized investment service center, a news, public opinion and legal advisory expert of Wuxi intermediate people's court, a member of the expert advisory Committee of Shanghai Yangpu District People's Procuratorate and a mediator of Shanghai Second Intermediate People's court.

**Choi Ting Ki**, born September 1954, is an Independent Supervisor of the Company and a Fellow of the Hong Kong Institute of Certified Public Accountants. He joined the Company in June 2011. Mr. Choi served as Independent Non-Executive Director of the Company from June 2011 to June 2017 and has been Independent Supervisor of the Company since June 2017. Mr. Choi has been an independent non-executive director of YangtzeKiang Garment Limited (listed on the Main Board of the Hong Kong Stock Exchange, stock code: 00294) and YGM Trading Limited (listed on the Main Board of the Hong Kong Stock Exchange, stock code: 00375) since December 2012. Mr. Choi graduated from the Department of Accounting, Hong Kong Polytechnic in 1978 and joined KPMG in the same year. He has held various positions, including the Partner of the Audit Department of KPMG Hong Kong Office, Executive 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. Choi retired from KPMG Huazhen in April 2010.

### *Senior Management*

**Jin Qiang**, born in May 1965, is the Vice President of the Company. Mr. Jin joined Zhenhai General Petrochemical Works in 1986 and has held various positions, including deputy chief 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 Zhenhai Refining & Chemical Co., Ltd. Mr. Jin was the deputy chief engineer of Sinopec Zhenhai Refining & Chemical Co., Ltd. from March 2007 to October 2011, and was

appointed as the Vice President of the Company in October 2011. From June 2014 to February 2022, Mr. Jin served as an Executive Director of the Company. Mr. Jin graduated from the East China Institute of Chemical Technology in 1986 majoring in chemical machinery and graduated from the Graduate School of Central Party School in 2007 majoring in economic management. He is a professorate senior engineer by title.

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**Jin Wenmin**, born in February 1965, is the Vice President of the Company. Mr. Jin joined Shanghai Petrochemical Complex in 1985 and served as the Secretary of the Communist Party Committee of the Company's No.1 Oil Refining Device of Refining Unit, Head of Butadiene Device, Manager of the Storage and Transportation Branch, Manager and Deputy Secretary of the Communist Party Committee of Storage and Transportation Department, Manager and Deputy Secretary of the Communist Party Committee of Oil Refining Department etc. From April 2013 to February 2017, Mr. Jin was appointed as the Head of Production Department of the Company. From May 2013 to August 2016, Mr. Jin was appointed as the Assistant to the General Manager of the Company and was appointed as the Vice President of the Company in September 2016. He served as the Executive Director of the Company from June 2018 to February 2022. Mr. Jin graduated from the Shanghai Second Polytechnic University in July 2003. He is a senior engineer by professional title.

**Zhou Jijun**, born in May 1965, is the Vice President of the Company. Mr. Zhou stated his career in 1987 and served as the deputy director, chief engineer and director of Olefins Department of Sinopec Zhenhai Refining & Chemical Co., Ltd. From January 2015 to 8, 2016, he served as the deputy chief engineer and director of Olefins Department and secretary of Party General Branch of Sinopec Zhenhai Refining & Chemical Co., Ltd. From August 2016 to January 2019, he served as the deputy general manager and member of the Party Committee of Shanghai Gaoqiao Petrochemical Co., Ltd. From January 2019 to November 2022, he served as the vice general manager and member of the Party Committee of Shanghai SECCO Petrochemical Co., Ltd. From February 2023, he served as the Vice President of the Company. Zhou Jijun graduated from Zhejiang Institute of Technology in 1987, majoring in inorganic chemical engineering, and obtained a master's degree in engineering from East China University of Science and Technology in 1998. He is a senior engineer by professional title.

**Huang Fei**, born in January 1977, is the Deputy President of the Company. Mr. Huang joined Sinopec Shanghai Petrochemical in 2000, and he has successively served as Polyolefin Plant Deputy Director of Plastic Business Unit and Manager Assistant and Polyolefin Plant Director of Plastic Department. From August 2012 to June 2014, he served as Deputy Manager of the Plastic Department. From June 2014 to February 2017, he served as Director of Statistical Center and Vice Party Secretary. From February 2017 to December 2018, he served as Manager of Olefin Department and Deputy Party Secretary. From December 2018 to January 2019, he served as President's Assistant and the Director of Production Department. From January 2019 to December 2019, Mr. Huang served as President's Assistant and Manager of Production Department of Shanghai SECCO. From February 2020, he served as the Vice President of the Company. From June 2020 to April 2021, he served as the Secretary to the Board and Joint Company Secretary. From June 2020 to February 2022, he served as the Executive Director and member of the Strategy Committee of the Company. Mr. Huang graduated from the polymer materials and engineering major of East China University of Science and Technology with a bachelor's degree of engineering in July 2000. He graduated from chemical engineering major of East China University of Science and Technology with a master's degree in April 2008. He is a senior engineer by professional title.

**Liu Gang**, born in September 1972, is currently the Secretary to the Board, the Joint Company Secretary, the Assistant to the General Manager, the General Counsel, and the general manager of the Capital Operation Department and Shanghai Petrochemical Investment Development Co., Ltd. Mr. Liu Gang joined the work in 1995 and successively served as the deputy director and director of the supply management department of the Company's material supply company and the business operation manager of the Commercial Department of Shanghai SECCO. From November 2015 to August 2018, he served as the Deputy Director of the Company's Material Procurement Center. From August 2018 to April 2019, he served as the Deputy Director (presiding over the work) of the Company's Material Procurement Center. From April 2019 to January 2021, he served as the General Manager of the Material Procurement Center of the Company. He has been the Assistant to the General Manager of the Company since December 2019. He has been the General Counsel of the Company since March 2021. He has been the Secretary of the Board and Joint Company Secretary of the Company since April 2021. He has been the General Manager of the Company's Capital Operation Department and Shanghai Petrochemical Investment Development Co., Ltd. since August 2021. Mr. Liu Gang graduated from China Textile University in 1995, majoring in mechatronics, and obtained a master's degree in power engineering from East China University of technology in 2007, with the title of senior economist.

### ***B. Compensation.***

The aggregate amount of cash compensation we paid to our directors, supervisors and executive officers during the year ended December 31, 2022 was approximately RMB 14.31 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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Name	Position with the Company	Salaries and other benefits (RMB'000) (before tax)	Retirement scheme contributions* (RMB'000) (before tax)	Discretionary bonus (RMB'000) (before tax)	Fees (RMB'000) (before tax)	Total Remuneration in 2022 (excluding share options) (RMB'000) (before tax)
Wan Tao	Chairman & Executive Director	177	24	90	—	291
Guan Zemin	Executive Director, Vice Chairman & President	412	55	992	—	1,459
Du Jun	Executive Director Vice President & Chief Financial Officer	373	55	894	—	1,322
Huang Xiangyu	Executive Director & Vice President	250	54	817	—	1,121
Xie Zhenglin	Independent Director	—	—	—	—	—
Peng Kun	Independent Director	193	52	641	—	886
Li Yuanqin	Independent Director	—	—	—	150	150
Tang Song	Independent Director	—	—	—	150	150
Chen Haifeng	Independent Director	—	—	—	150	150
Yang Jun	Independent Director	—	—	—	150	150
Gao Song	Independent Director	—	—	—	150	150
Ma Yanhui	Chairman of Supervisory Committee	343	55	899	—	1,297
Zhang Feng	Supervisor	174	46	560	—	780
Chen Hongjun	Supervisor	184	47	603	—	834
Zhang Xiaofeng	Supervisor	—	—	—	—	—
Zheng Yunrui	Independent Supervisor	100	—	—	—	100
Choi Tingki	Independent Supervisor	100	—	—	—	100
Jin Qiang*	Vice President	372	55	907	—	1,334
Jin Wenmin*	Vice President	259	55	812	—	1,126
Zhou Jijun*	Vice President	—	—	—	—	—
Huang Fei*	Vice President	247	52	811	—	1,109
Liu Gang	Secretary of the Board of Directors	204	55	662	—	921
Wu Haijun*	Former Executive Director, Chairman of the Board of Directors, Chairman of Strategy Committee, and Member of Nomination Committee	207	35	634	—	876

\* On 15 February 2022, Mr. Jin Qiang, Mr. Jin Wenmin and Mr. Huang Fei proposed request to the board of directors that they would no longer serve as executive directors and directors due to job change. Mr. Jin Qiang's, Mr. Jin Wenmin's and Mr. Huang Fei's resignations took effect when the resignation reports were delivered to the board of directors of the Company on 15 February 2022. Mr. Zhou Jijun was appointed as the Vice President of the Company by the board of directors of the Company on 18 January 2023. On 8 September 2022, Mr. Wu Haijun proposed request to the board of directors that he would no longer serve as Executive Director and Chairman due to job change. Mr. Wu Haijun's resignation took effect when the resignation report was delivered to the board of directors of the Company on 8 September 2022.

### C. Board Practices.

#### Board of Directors

Our Board of Directors consists of eleven 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 Non-executive Director may not exceed a total of six years. The term of our current Board of Directors will expire in June 2023. 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 June 18, 2020, which consists of five Independent Non-executive Directors. The current members are Ms. Li Yuanqin, Mr. Tang Song, Mr. Chen Haifeng, Mr. Yang Jun and Mr. Gao Song. 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, 2022.

#### *Remuneration and Appraisal Committee*

We formed a remuneration and appraisal committee on December 25, 2001 which consists of three Directors. As of December 31, 2022, the members of the remuneration committee are Mr. Yang Jun (Chairman of the Committee), Mr. Tang Song and Mr. Gao Song. 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. The members of the remuneration and appraisal committee will hold office for the same term as their directorships which will expire in June 2023.

#### *Audit Committee*

We formed an audit committee on June 15, 1999 which consists of three Directors. As of December 31, 2022, the members are Ms. Li Yuanqin (Chairman of the Committee), Mr. Tang Song and Mr. Chen Haifeng. The key responsibility of the Audit Committee is to advise the Board on the appointment, dismissal, remuneration and terms of engagement of external auditors, review and supervise our financial reporting process, internal controls and risk management systems, and review our connected transactions. The members of the audit committee will hold office for the same term as their directorships which will expire in June 2023.

#### *Nomination Committee*

We formed a nomination committee on June 27, 2012 which consists of three Directors. As of December 31, 2022, the members are Mr. Yang Jun (Chairman of the Committee), Mr. Chen Haifeng and Mr. Wan Tao. The key responsibility of the Nomination Committee is to review the Board composition, make recommendations to the Board on the procedures and criteria for the selection and appointment of Directors and senior management and assess the independence of Independent Non-executive Directors. The members of the audit committee will hold office for the same term as their directorships which will expire in June 2023.

#### *Strategy Committee*

We formed a strategy committee on June 15, 2017 which consists of three Executive Directors, one Non-executive Directors and one Independent Non-executive Director. As of December 31, 2022, the members are Mr. Wan Tao (Chairman of the Committee), Mr. Guan Zemin (Vice-Chairman of the Committee), Mr. Du Jun, Mr. Huang Xiangyu, Mr. Xie Zhenglin, and Mr. Gao Song.] The key responsibility of the Strategy Committee is to conduct researches and give recommendations to the Board on major investment decisions, projects and major issues that affect our development, and monitor our long-term development strategic plan. The members of the audit committee will hold office for the same term as their directorships which will expire in June 2023.

#### **D. Employees.**

As of December 31, 2022, we had 8,007 employees.

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

	December 31,		
	2020	2021	2022
Management	1066	1044	1008



Engineers, technicians and factory personnel	5094	5070	5077
Accounting, marketing and others	2306	2116	1922
Total	<u>8466</u>	<u>8230</u>	<u>8007</u>

Approximately 32.17% of our work force are graduates with a bachelor's 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, 2022, 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 2022, we incurred RMB 3,545.72 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 19454 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.

### ***E. Share Ownership.***

The table below sets forth information regarding the beneficial ownership of our shares held by our directors, supervisors and executive officers as of March 31, 2023:

Name	Position held	Number of Shares held (shares)	Percentage of total issued shares of the Company (%)	Percentage of total issued A shares (%)
Jin Qiang*	Vice President	301,000 A shares (L)	0.002781	0.00411
Jin Wenmin*	Vice President	175,000 A shares (L)	0.001617	0.00239
Huang Xiangyu	Executive Director and Vice President	140,000 A shares (L)	0.001293	0.001910
Zhang Feng	Supervisor	10,000 A shares (L)	0.000092	0.00014
Chen Hongjun	Supervisor	31,400 A shares (L)	0.000290	0.00043

(L): Long position

Jin Qiang and Jin Wenmin resigned as executive directors on February 15, 2022.

### ***Share Option Incentive Scheme***

The Share Option Incentive Scheme of the Company took effect from 23 December 2014, with a validity period of 10 years until 22 December 2024. The first grant of A-share share options under the Share Option Incentive Scheme was on 6 January 2015. For details, please refer to the relevant announcements uploaded on the websites of Shanghai Stock Exchange, Hong Kong Stock Exchange and the Company on 6 January 2015. All the exercise periods of the first grant have ended on 28 December 2018. For details, please refer to the relevant announcements uploaded on the websites of Shanghai Stock Exchange, Hong Kong Stock Exchange and the Company on 28 December 2018. At present, the Company has no other granting scheme.

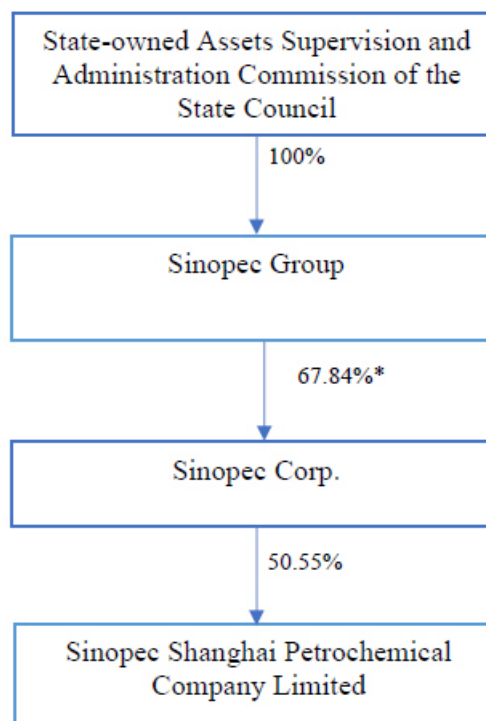
During 2022, the Company did not grant A-share share options under the Share Option Incentive Scheme, nor did the grantees exercise any A-share share options, and no A-share share options were cancelled or lapsed.

**ITEM 7. MAJOR SHAREHOLDERS AND RELATED PARTY TRANSACTIONS.**

***A. Major Shareholders.***

Sinopec Corp. owns 50.55% 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 diagram below sets forth the information on the ownership and controlling relationship between our Company, Sinopec Corp., and Sinopec Group.



\*Including 767,916,000 H shares in Sinopec Group held by Sinopec Century Bright Capital Investment Limited, an overseas wholly-owned subsidiary of Sinopec Group, through HKSCC (Nominees) Limited.

The table below sets forth information regarding ownership of our shares as of March 31, 2023 by all persons who we know own more than five percent of our A shares and our H Shares. Our major shareholders listed below do not have voting rights different from those of our other shareholders.

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Name of shareholders	Interests held (shares)	Percentage of total issued shares of the Company (%)	Percentage of total issued shares for this category (%)
Sinopec Corp.	5,459,455,000 A Shares(L) Shares of legal person	50.55(L)	74.549(L)
The Bank of New York Mellon Corporation	201,171,367 H Shares (L) 174,382,000 H Shares (S) 26,776,667 H Shares (P)	1.86 1.61 0.25	5.76 4.99 0.77
Corn Capital Company Ltd	211,008,000 H Shares (L) 200,020,000 H Shares (S)	1.95 1.85	6.04 5.72
Hung Hin Fai	211,008,000 H Shares (L) 200,020,000 H Shares (S)	1.95 1.85	6.04 5.72
Yardley Finance Limited	200,020,000 H Shares (L)	1.85	5.72
Chan Kin Sun	200,020,000 H Shares (L)	1.85	5.72

(L) : Long position; (S): Short position; (P): Lending Pool

Notes:

- (1) Based on the information obtained by the Directors from the website of the Hong Kong Stock Exchange and as far as the Directors are aware, Sinopec Group directly and indirectly owned 67.84% of the issued share capital of Sinopec Corp. as at 31 March 2023. By virtue of such relationship, Sinopec Group is deemed to have an interest in the 5,459,455,000 A shares of the Company directly owned by Sinopec Corp.
- (2) All the 201,171,367 H shares (L) and 174,382,000 H shares (S) are deemed to be held by The Bank of New York Mellon Corporation, due to control of multiple companies (among which 174,382,000 H shares (S) are held through physical settlement unlisted derivatives). Below are the companies indirectly or wholly owned by The Bank of New York Mellon Corporation:
  - (2.1) All the 3,000 H shares (L) are held by BNY Mellon, National Association. Since BNY Mellon, National Association is wholly owned by The Bank of New York Mellon Corporation, The Bank of New York Mellon Corporation is deemed to have an interest in the 3,000 H shares (L) of the Company held by BNY Mellon, National Association.
  - (2.2) All the 9,700 H shares (L) is directly held by BNY Mellon Corporate Trustee Services Limited. Since BNY Mellon Corporate Trustee Services Limited is wholly owned by BNY International Financing Corporation, BNY International Financing Corporation is wholly owned by The Bank of New York Mellon, and The Bank of New York Mellon is wholly owned by The Bank of New York Mellon Corporation. The Bank of New York Mellon Corporation is deemed to have an interest in the 9,700 H shares (L) of the Company held by BNY Mellon Corporate Trustee Services Limited.
  - (2.3) All the 201,158,667 H shares (L) and 174,382,000 H shares (S) are directly or indirectly held by The Bank of New York Mellon. Since The Bank of New York Mellon is wholly owned by The Bank of New York Mellon Corporation, The Bank of New York Mellon Corporation is deemed to have an interest in the 201,158,667 H shares (L) and 174,382,000 H shares (S) of the Company held by The Bank of New York Mellon.
- (3) These shares were held by Corn Capital Company Limited. Hung Hin Fai held 100% interests in Corn Capital Company Limited. Pursuant to the SFO, Hung Hin Fai was deemed to be interested in the shares held by Corn Capital Company Limited.
- (4) These shares were held by Yardley Finance Limited. Chan Kin Sun held 100% interests in Yardley Finance Limited. Pursuant to the SFO, Chan Kin Sun was deemed to be interested in the shares held by Yardley Finance Limited.

Save as disclosed above, as at 31 March 2023, the Directors have not been notified by any person (other than the Directors, chief executive and Supervisors) who had interests or short positions in the shares and underlying shares of the Company which would fall to be disclosed to the Company pursuant to Divisions 2 and 3 of Part XV of the SFO or as recorded in the register of interests required to be kept by the Company under section 336 of the SFO.

As of March 31, 2023, a total of 3,470,472,000 H Shares were outstanding, and a total of 7,328,813,500 A Shares were outstanding.

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*

The Company entered into the Mutual Product Supply and Sales Services Framework Agreement and Comprehensive Services Framework Agreement (the “Framework Agreement”) with Sinopec Corp., the controlling shareholder of the Company, and Sinopec Group, the actual controller of the Company on 23 October 2019. Pursuant to the Framework Agreement, the Company conducted a series of continuing connected transactions related to daily operation with Sinopec Group, Sinopec Corp. and their associates. The Framework Agreement was valid for three years and expired on 31 December 2022. The Company’s Board of Directors considered and approved on 10 November 2022, the signing of a new Mutual Product Supply and Sales Services Framework Agreement and a new Comprehensive Services Framework Agreement between the Company and Sinopec Group and Sinopec Corp., which are valid for three years until the expiry of 31 December 2025; and the Financial Services Framework Agreement signed with Sinopec Group is valid for one year until the expiry of 31 December 2023. The Company has disclosed the three agreements and each of the continuing connected transactions under the agreements in the announcement dated 10 November 2022, and considered and approved the new Mutual Product Supply and Sales Services Framework Agreement, the new Comprehensive Services Framework Agreement and each of the continuing connected transactions under the agreements, as well as the annual cap for the years 2023 to 2025 at the third extraordinary general meeting of the Company in 2022. For details, please refer to the 6-K of the Company filed with the Commission dated 20 January 2023.

The Company entered into a storage service agreement with Sinopec Commercial Reserve Co., Ltd., a wholly-owned subsidiary of Sinopec Group, the actual controller of the Company, and its subsidiary Baishawan branch (“**Baishawan branch**”) on 31 December 2020. Accordingly, Baishawan branch provides storage services to the Company, with the service period from 1 January 2021 to 31 December 2023, and the maximum annual storage service fee is RMB114 million (including value-added tax). For details, please refer to the 6-K of the company filed with the Commission dated 8 December 2020.

The Company entered into the Technology Development Contract with Sinopec Corp. on 15 December 2022, pursuant to which Sinopec Corp. entrusted the Company to research and develop the 100 ton level high-performance carbon fiber related devices. The consideration for the Technology Development Contract is RMB44,400,000, of which RMB5,010,000 and RMB39,390,000 shall be paid by Sinopec Corp. in 2022 and 2023, respectively. Sinopec Corp. is the controlling shareholder of the Company and is therefore a connected person of the Company. Related announcements were published on the official websites of the Shanghai Stock Exchange and Hong Kong Stock Exchange on 20 December 2022 and 19 December 2022, respectively.

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.

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.

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The table below sets forth certain relevant information regarding our continuing connected transactions with Sinopec Corp. and Sinopec Group under the Mutual Product Supply and Sales Services Framework Agreement and the Comprehensive Services Framework Agreement in 2022.

Type of major transactions	Connected parties	Annual cap for 2022	Transaction Amount during the reporting Period	Unit: RMB'000 Percentage Of the total Amount of the same type of transaction (%)
<b>Mutual Product Supply and Sales Services Framework Agreement</b>				
Purchases of raw materials	Sinopec Corp., Sinopec Group and their associates	78,591,000	58,502,366	80.89%
Sales of petroleum and petrochemical products	Sinopec Group, Sinopec Corp. and their associates	71,274,000	51,288,425	67.66%
Property leasing	Sinopec Group, Sinopec Corp. and their associates	37,000	33,866	45.06%
Agency sales of petrochemical products	Sinopec Corp. and its associates	169,000	90,341	100.00%
<b>Comprehensive Services Framework Agreement</b>				
Construction, installation and engineering design services	Sinopec Group, Sinopec Corp. and their associates	1,074,000	812,516	48.79%
Petrochemical industry insurance services	Sinopec Group and its associates	130,000	109,597	100.00%
Financial services	Associate of Sinopec Group (Sinopec Finance)	200,000	2,917	0.54%
<b>Storage services agreement</b>				
Storage services	Associate of Sinopec Group (Baishawan Branch)	114,000	114,000	83.28%

The prices of continuing connected transactions between the Company and Sinopec Group, Sinopec Corp. and their associates are based on: 1) national pricing; or 2) national guidance price; or 3) the market price is determined by both parties through negotiation, and the conclusion of the related party transaction agreement is based on the needs of the Company's production and operation. Therefore, the above continuing connected transactions do not have a significant impact on the independence of the Company.

The independent non-executive director of the Company has reviewed the continuing connected transactions of the Company and confirmed that: the above continuing connected transactions 1) are entered into in the daily business of the Company; 2) generally or better; 3) according to the agreement on the transaction, the terms are fair and reasonable and in line with the overall interests of the shareholders of the Company; and 4) the transaction amount in the Reporting Period was within the annual maximum limit.

*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 18. Financial Statements](#) for our audited consolidated financial statements filed as part of this annual report.

*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 or cash flows. 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 A 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](#).

***B. Significant Changes.***

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***

The principal trading market for our H Shares is the HKSE. We have also listed our A Shares on the Shanghai Stock Exchange. Prior to our initial public offering on July 26, 1993 and subsequent listings on the HKSE, there was no market for our H Shares. Public trading in our A Shares commenced on November 8, 1993.

***B. Plan of Distribution***

Not applicable.

***C. Markets***

Our H Shares are listed for trading on the HKSE (Code: 00338), and our A Shares are listed for trading on the Shanghai Stock Exchange (Code: 600688).

***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.***

We are a joint stock limited company established in accordance with the PRC Company Law and certain other laws and regulations of the PRC. We are registered with the Shanghai Administration for Market Regulation with business license number 91310000132212291W.

The following is a summary based upon provisions of our Articles of Association as currently in effect, the PRC Company Law 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.

Our Articles of Association provide, at article 12, 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 13 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, release of advertisements on self-owned media and quality technology services (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.

A Shares and overseas-listed foreign invested H Shares are both ordinary shares in our share capital. A 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 PRC Company Law. Although the PRC 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.

Currently, the primary sources of shareholder rights are the Articles of Association, the PRC 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.

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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 PRC 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 PRC 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 the controlling shareholder. 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 PRC Company Law, 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 PRC Company Law.

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 A Shares,

involving any right or obligation provided in the Articles of Association, the PRC 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 SEC, 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.

### *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;

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- 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 A 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 PRC 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.

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.

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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 A 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 A Shares or H Shares, the holders of A 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:

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 A and H Shares would not be a variation or abrogation of the rights of A shareholders or H shareholders, therefore, separate approval of the A 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.

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.

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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 11 to 15 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.

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.

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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 the controlling shareholder, 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.

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;

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- 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.

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 six 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 A 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.

*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*

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 in the last two years 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.

#### **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 unless otherwise provided in law and administrative regulations, 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. SAFE, under supervision of the People's Bank of China ("PBOC"), controls the conversion of Renminbi into foreign currency. Chinese governmental policies were introduced in 1996 to reduce restrictions on the convertibility of Renminbi into foreign currency for current account items. In recent years, the Chinese government has gradually simplified and improved the foreign exchange administration policies in relation to capital items, such as the cancellation of foreign exchange registration and approval for domestic and overseas foreign direct investment. However, foreign exchange control over the capital items is not completely abolished. The limitations on foreign exchange 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 U.S. 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 U.S. 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 U.S. 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 August 31, 2018 and effective on January 1, 2019 (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 on the HKSE, 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 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 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.

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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 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 China or in circumstances other than above described.

### *For a Corporation*

According to the Enterprise Income Tax Law of the People's Republic of China ("Enterprise Income Tax Law") and its implementation rules, as amended on December 29, 2018, 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) 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, as amended on January 8, 2011, 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.

### ***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 to U.S. Holders (as defined below). 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 Internal Revenue Service ("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, or the net investment income 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; individuals 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 the voting power or value of our stock; U.S. Holders (as defined below) whose functional currency is other than the U.S. Dollar; and persons holding our H Shares or ADSs in connection with a trade or business conducted outside the United States.

**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 U.S. Holders (defined below) 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; or
- a trust or estate, the income of which is subject to U.S. federal income taxation regardless of its source.



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.

## *TAXATION OF U.S. HOLDERS*

The discussion in “Distributions on H Shares or ADSs” and “Dispositions of H Shares or ADSs” below is based on the assumption 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 depository’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. 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).

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. Capital gain from the sale or other taxable disposition of H Shares or ADSs held by certain non-corporate U.S. Holders will be taxed at preferential rates if such H Shares or ADSs have been held for more than one year and certain other requirements are met. The deductibility of capital losses is subject to limitations. Any gain or loss recognized generally will be treated as gain or loss from sources within the United States for U.S. foreign tax credit limitation purposes.

If you receive currency other than U.S. Dollars upon the disposition of H Shares or ADSs, the tax consequences will generally be as described under “—Foreign Currency Distributions” above.

### ***Passive Foreign Investment Company***

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 is 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. 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 the current year until its close, or for any future 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.](#)

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, our PFIC status must be determined annually at the end of each year based upon the composition of our income and the composition and valuation of our assets, all of which are subject to change. In determining whether we are a PFIC, we rely on a current valuation of our assets including goodwill, not reflected in our financial statements, and our projection of our income for the current year. We determine the value of our assets in large part by reference to the market value of our ordinary shares at the end of each quarter. We believe this valuation approach is reasonable. However, the IRS may successfully challenge our valuation of our assets, and the market price of our ordinary shares may fluctuate.

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 ordinary shares 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 ordinary shares 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:

- any “excess distribution” paid on ordinary shares, 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 ordinary shares prior to the current taxable year, if shorter); and
- any gain recognized on the sale or other taxable disposition (including a pledge) of ordinary shares.

Under these default tax rules:

- any excess distribution or gain will be allocated ratably over your holding period for the ordinary shares,
- 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 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.

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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 will instead 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.

If we are treated as a PFIC in any year with respect to you, you will be required to file an annual return on IRS Form 8621 regarding distributions received on H Shares or ADSs and any gain realized on the disposition of H Shares or ADSs.

**QEF Election.** We currently do not intend to prepare or provide you with certain tax information that would permit you to make a QEF Election to mitigate the adverse 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 mark-to-market election is available only for “marketable stock,” which is stock that is traded in other than de minimis quantities on at least 15 days during each calendar quarter on a qualified exchange or other market, as defined in the applicable U.S. Treasury regulations. There can be no assurances, however, that our H Shares or ADSs will be treated, or continue to be treated, as marketable stock.

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 H Shares or 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 H Shares or 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 H Shares or 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.

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.

### ***Information reporting regarding specified foreign financial assets***

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 such required reports, 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 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 24%) 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.

**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 SEC. 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. The SEC also maintains a Web site at [www.sec.gov](http://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.

**I. Subsidiary Information.**

Not applicable.

**ITEM 11. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK.**

Our market risk exposures primarily consist of fluctuations in oil and gas prices, exchange rates and interest rates.

**Commodity Price Risk**

We are exposed to commodity price risk related to price volatility of crude oil and refined oil products.

In 2022, the price of international crude oil market fluctuated and rose. The Company carried out crude oil (lending and return) hedging business in August and December 2021 respectively, and bought 2.15 million barrels of DUBAI SWAP; and positions were closed at the end of May and October 2022. In July, September, November 2021, and February and March 2022, the Company conducted crude oil (high sulfur price difference) hedging business, selling 2.7 million barrels of DTD SWAP and buying 2.7 million barrels of DUBAI SWAP. The position was closed at the end of the second quarter of 2022. The Company is engaged in the hedging business of refined oil products (crack spread of refined oil products), selling 1.653 million barrels of Gasoil 10 ppm Sin and buying 1.653 million barrels of DUBAI SWAP by the end of December; selling 604,000 barrels of Kerosene Sin and buying 604,000 barrels of DUBAI SWAP; and all positions were closed by the end of the fourth quarter. The commodity derivative business carried out belongs to hedging business. The implementation of the above businesses has no risk exposure, and the maximum amount of possible loss is RMB50,000 thousand. In 2022, the Company delivered USD57,876,800 in commodity financial derivatives, equivalent to RMB397,868,000, and the position at the end of the year was USD0. The combination of financial derivatives is matched by the hedged project as a whole, played the role of hedging real price risk.

See Item 3. Key Information – D. Risk Factors—Our operations may be adversely affected by the cyclical nature of the petroleum and petrochemical markets and by the volatility of prices of crude oil and petrochemical products.

**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 2021 or 2022.

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, 2022 and 2021.

	As of December 31, 2022						Total Recorded Amount	Fair Value
	2023	2024	2025	2026	2027			
	(RMB equivalent in thousands, except interest rates)							
<b>Fixed rate bank and other loans</b>								
In U.S. Dollars	—	—	—	—	—	—	—	—
Average interest rate	—	—	—	—	—	—	—	—
In RMB	1,550,000	—	—	—	—	1,550,000	1,550,000	
Average interest rate <sup>(1)</sup>	2.15%	—	—	—	—	2.15%	2.15%	
<b>Variable rate bank and other loans</b>								
In U.S. Dollars	—	—	—	—	—	—	—	—
Average interest rate <sup>(1)</sup>	—	—	—	—	—	—	—	—
In RMB	—	700,000	—	—	—	700,000	700,000	
Average interest rate <sup>(1)</sup>	—	1.08%	—	—	—	1.08%	1.08%	

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

	As of December 31, 2021						Total Recorded Amount	Fair Value
	2022	2023	2024	2025	2026			
	(RMB equivalent in thousands, except interest rates)							
<b>Fixed rate bank and other loans</b>								
In U.S. Dollars	—	—	—	—	—	—	—	—
Average interest rate	—	—	—	—	—	—	—	—
In RMB	1,500,000	—	—	—	—	1,500,000	1,500,000	
Average interest rate <sup>(1)</sup>	2.70%	—	—	—	—	2.70%	2.70%	
<b>Variable rate bank and other loans</b>								
In U.S. Dollars	—	—	—	—	—	—	—	—
Average interest rate <sup>(1)</sup>	—	—	—	—	—	—	—	—
In RMB	59,800	—	700,000	—	—	759,800	759,800	
Average interest rate <sup>(1)</sup>	3.70%	—	1.08%	—	—	1.29%	1.29%	

(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, 2022 and 2021.

	As of December 31, 2022						Total Recorded Amount	Fair Value
	2023	2024	2025	2026	2027	Thereafter		
	(RMB equivalent in thousands, except interest rates)							
<b>On-balance sheet financial instruments</b>								
Cash and cash equivalents:								
In Hong Kong Dollars	—	—	—	—	—	—	—	—
In U.S. Dollars	195,594	—	—	—	—	—	195,594	195,594
In Euro	—	—	—	—	—	—	—	—
In Japanese Yen	—	—	—	—	—	—	—	—

In Swiss Frank	—	—	—	—	—	—	—	—
Debt:								
Fixed rate bank and other loans in U.S. Dollars	—	—	—	—	—	—	—	—
Average interest rate(1)	—	—	—	—	—	—	—	—

	As of December 31, 2022							
	2023	2024	2025	2026	2027	Thereafter	Total Recorded Amount	Fair Value
	(RMB equivalent in thousands, except interest rates)							
Variable rate bank and other loans in U.S. Dollars	—	—	—	—	—	—	—	—
Average interest rate(1)	—	—	—	—	—	—	—	—

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

	As of December 31, 2021						Total Recorded Amount	Fair Value
	2022	2023	2024	2025	2026	Thereafter		
	(RMB equivalent in thousands, except interest rates)							
On-balance sheet financial instruments								
Cash and cash equivalents:								
In Hong Kong Dollars	—	—	—	—	—	—	—	—
In U.S. Dollars	165,864	—	—	—	—	—	165,864	165,864
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 U.S. Dollars	—	—	—	—	—	—	—	—
Average interest rate(1)	—	—	—	—	—	—	—	—

(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.

### A. Debt Securities.

Not applicable.

### B. Warrants and Rights.

Not applicable.

### C. Other Securities.

Not applicable.

### D. American Depositary Shares.

In connection with our ADR 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](#).

On March 15, 2023, we terminated the Restated Deposit Agreement, thereby terminating our ADR program. For one year after such date the Bank of New York Mellon will continue to act as depositary on behalf of the holders of our ADSs to facilitate the exchange of ADSs for underlying H Shares.

***12.D.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.

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<b>Persons depositing or withdrawing shares must pay:</b>	<b>For:</b>
\$5.00 (or less) per 100 ADSs (or portion of 100 ADSs)	Issuance and withdrawal of ADSs, including issuances resulting from a distribution of shares or rights or other property
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	Distribution of securities distributed to holders of deposited securities which are distributed by The Bank of New York Mellon to ADS registered holders
A fee of \$.05 (or less) per ADS (or portion thereof) Registration or transfer fees	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
Expenses of The Bank of New York Mellon	Cable, telex and facsimile transmissions (when expressly provided in the Deposit Agreement); Converting foreign currency to U.S. Dollars
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	As necessary
Any charges incurred by The Bank of New York Mellon or its agents for servicing the deposited securities	As necessary

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

From January 1, 2022 through March 31, 2023, a total of U.S.\$ 0 was paid by the Bank of New York Mellon on our behalf for our ADSs program.

The standard out-of-pocket maintenance costs for our ADSs program were U.S.\$ 140,106.94, which have been waived by the Bank of New York Mellon.

**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 (the “Restated Deposit Agreement”) with The Bank of New York Mellon, as depositary (the “Depositary”) and updated the form of American Depositary Receipt (“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 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.

On March 15, 2023, we terminated the Restated Deposit Agreement, thereby terminating our ADR program. For one year after such date the Bank of New York Mellon will continue to act as depositary on behalf of the holders of our ADSs to facilitate the exchange of ADSs for underlying H Shares.

**ITEM 15. CONTROLS AND PROCEDURES.**

***(a). 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 Committee, the Chairman of the Supervisory Committee. 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) and 15d-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.

***(b). Management’s Report on Internal Control over Financial Reporting.***

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 (2013)* issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) as of December 31, 2022. Based on that evaluation, our management has concluded that our internal control over financial reporting was effective as of December 31, 2022 based on these criteria.

KPMG Huazhen LLP, an independent registered public accounting firm, has audited the consolidated financial statements for the year ended December 31, 2022 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, 2022, there have been no 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.**

Our Board of Directors has determined that Ms. Li Yuanqin who is currently serving on our audit committee, is an audit committee financial expert and is an Independent Director (under the standards set forth in the NYSE rules and Rule 10A-3 of the Exchange Act).

**ITEM 16B. CODE OF ETHICS.**

Sinopec Group, the controlling shareholder of Sinopec Corp., adopted a Staff Code in 2014 to provide disciplines and requirements for its staff's conducts, including legal and ethical matters as well as the sensitivities involved in reporting illegal and unethical matters. The Staff Code covers such areas as health, safety and environment, conflict of interests, anti-corruption, protection and proper use of our assets and properties, as well as reporting requirements. The Staff Code also applies to all directors, officers and employees of each subsidiary of Sinopec Group, including us. We have provided all our directors and senior officers with a copy of the Staff Code and required them to comply with it in order to ensure our operations are proper and lawful. We have posted the Staff Code on the following website:  
<http://www.sinopec.com/listco/en/Resource/Pdf/ygsz2014b.pdf>.

**ITEM 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES.**

The following table summarizes the fees charged by KPMG Huazhen LLP, our principal accountant, for services rendered to us during 2021 and 2022 respectively.

	For the year ended December 31, (in thousands of RMB)	
	2021	2022
Audit fees (1)	6,837	6,837
Audit-Related fees (2)	—	—
Tax fees (3)	—	129
All other fees (4)	—	—
Total	6,837	6,966

- (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.
- (2) "Audit-Related fees" means the aggregate fees billed in each of the fiscal years listed for assurance and related services by the principal accountant that are reasonably related to the performance of the audit or review of our financial statements and are not reported under audit fees.
- (3) "Tax fees" means the aggregate fees billed in each of the fiscal years listed for professional services rendered by the principal accountant for tax compliance, and tax advice.
- (4) "All other fees" means the aggregate fees billed in each of the fiscal years listed for products and services provided by 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 KPMG Huazhen LLP. 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.

In 2022, 100% of the services and fees described above were approved by the audit committee, pursuant to its pre-approval policy.

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

Not applicable.

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

None.

**ITEM 16F. CHANGE IN REGISTRANT'S CERTIFYING ACCOUNTANT.**

Not applicable.

**ITEM 16G. CORPORATE GOVERNANCE.**

Not applicable.

**ITEM 16H. MINE SAFETY DISCLOSURE.**

Not applicable.

**ITEM 16I. DISCLOSURE REGARDING FOREIGN JURISDICTIONS THAT PREVENT INSPECTIONS**

On December 16, 2021, the PCAOB issued a report to notify the SEC of its determination that the PCAOB was unable to inspect or investigate completely registered public accounting firms headquartered in mainland China and Hong Kong, and our auditor was subject to that determination. In May 2022, we were conclusively listed by the SEC as a Commission-Identified Issuer under the HFCAA following the filing of our annual report on Form 20-F for the fiscal year ended December 31, 2021. On December 15, 2022, the PCAOB issued a report that vacated its December 16, 2021 determination and removed mainland China and Hong Kong from the list of jurisdictions where it is unable to inspect or investigate completely registered public accounting firms. For this reason, we do not expect to be identified as a Commission-Identified Issuer under the HFCAA after we file this annual report on Form 20-F.

As of the date of this annual report and to our best knowledge:

- (i) Sinopec Corp., our controlling shareholder, and its concert parties currently hold approximately 50.55% of our outstanding shares. Sinopec Corp. is controlled by China Petrochemical Corporation. The controlling shareholder of China Petrochemical Corporation is Sinopec Group Company, which is in turn controlled by the State-owned Assets Supervision and Administration Commission of the State Council of China. See “Item 4. Information on the Company-C. Organizational Structure.” Sinopec Corp. is operated by separate management and from time to time uses its interest as a shareholder to direct our policies and management;
- (ii) none of the members of our Board of Directors is an official of the Chinese Communist Party (the “Party”); and
- (iii) the following articles in the Articles of Association of Sinopec Shanghai Petrochemical Company Limited, as currently in effect, contain charters of the Party:
  - (a) Article 11: In accordance with the Company Law and the Constitution of the Communist Party of China (the “Party”), the Company hereby set up Party organizations. The Party organizations play the role of political core in the Company. The Company shall set up related Party working organs and maintain an adequate level of staffing to handle Party affairs as well as sufficient funding necessary for the activities of the Party organizations; and
  - (b) Article 126: If any matters to be resolved by the Board involve significant matters such as direction of reform and development, key objectives, and priority operational arrangements of the Company, the board of directors should seek advice from the Party committee. When the board of directors appoints the management personnel of the Company, the Party committee shall consider and provide comments on the candidates for management positions nominated by the board of directors or the president, or recommend candidates to the board of directors and/or president.

**PART III**

**ITEM 17. FINANCIAL STATEMENTS.**

SECCO was deemed a significant equity investee for the fiscal years ended December 31, 2020 and a non-significant equity investee for the fiscal years ended December 31, 2021 and December 31, 2022 under Rule 3-09 of Regulation S-X. As such, the financial statements of SECCO required by Rule 3-09 of Regulation S-X are provided as Exhibit 99.1 to this Annual Report on Form 20-F.

**ITEM 18. FINANCIAL STATEMENTS.**

See pages F-1 to F-119.

**ITEM 19. EXHIBITS.**

No.	Exhibit
1.1	<a href="#">Translation of the amended and restated Articles of Association of Sinopec Shanghai Petrochemical Company Limited as approved in the annual general meeting of the Company held on 16 June 2021 (incorporated by reference to our Form 6-K (File No.001-12158) filed with the Commission on June 21, 2021).</a>
2.	<a href="#">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).</a>

- 4.1 [Translation of the renewed Product Supply and Sales Services Framework Agreement among Sinopec Shanghai Petrochemical Company Limited, China Petroleum & Chemical Corporation and China Petrochemical Corporation as approved in the First Extraordinary General Meeting of Sinopec Shanghai Petrochemical Company Limited for 2016 on October 18, 2016 \(incorporated by reference to Exhibit 4.1 of our annual report on Form 20-F Amendment No.1 \(File No.001-12158\) filed with the Commission on September 14, 2017\).](#)
- 4.2 [Translation of the renewed Comprehensive Services Framework Agreement between Sinopec Shanghai Petrochemical Company Limited and China Petrochemical Corporation as approved in the First Extraordinary General Meeting of Sinopec Shanghai Petrochemical Company Limited for 2016 on October 18, 2016 \(incorporated by reference to Exhibit 4.2 of our annual report on Form 20-F Amendment No.1 \(File No.001-12158\) filed with the Commission on September 14, 2017\).](#)

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No.	Exhibit
4.3	<a href="#">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 (incorporated by reference to Exhibit 4.3 of our annual report on Form 20-F (File No.001-12158) filed with the Commission on April 30, 2014).</a>
4.4	<a href="#">English summary of principal terms of the Share Option Scheme as adopted at the second meeting of the eighth session of the board of directors of Sinopec Shanghai Petrochemical Company Limited on August 15, 2014 (incorporated by reference to Appendix I of our Form 6-K (File No.001-12158) filed with the Commission on November 6, 2014).</a>
8*	<a href="#">A list of subsidiaries of Sinopec Shanghai Petrochemical Company Limited.</a>
12.1*	<a href="#">Certification of President Required by Rule 13a-14(a).</a>
12.2*	<a href="#">Certification of Chief Financial Officer Required by Rule 13a-14(a).</a>
13.1*	<a href="#">Certification of President Required by Rule 13a-14(b) and Section 1350 of Chapter 63 of Title 18 of the United States Code.</a>
13.2*	<a href="#">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.</a>
99.1*	<a href="#">Financial statements of SECCO</a>
101.INS*	Inline XBRL Instance Document — the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document
101.SCH*	Inline XBRL Taxonomy Extension Schema Document
101.CAL*	Inline XBRL Taxonomy Extension Calculation Linkbase Document
101.DEF *	Inline XBRL Taxonomy Extension Definition Linkbase Document
101.LAB*	Inline XBRL Taxonomy Extension Label Linkbase Document
101.PRE*	Inline XBRL Taxonomy Extension Presentation Linkbase Document
104*	Cover Page Interactive Data File (embedded within the Inline XBRL document and included in Exhibit 101)
* Filed with this annual report on Form 20-F	

**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 Form 20-F on its behalf.

**SINOPEC SHANGHAI PETROCHEMICAL  
COMPANY LIMITED**

Date: April 26, 2023

/s/ DU JUN

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Du Jun, Chief Financial Officer

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Report of Independent Registered Public Accounting Firm

To the Shareholders and Board of Directors  
Sinopec Shanghai Petrochemical Company Limited:

Opinions on the Consolidated Financial Statements and Internal Control Over Financial Reporting

We have audited the accompanying consolidated statements of financial position of Sinopec Shanghai Petrochemical Company Limited and subsidiaries (the Company) as of December 31, 2022 and 2021, the related consolidated statements of profit or loss, consolidated statements of profit or loss and other comprehensive income, consolidated statements of changes in equity, and consolidated cash flow statements for the years then ended, and the related notes (collectively, the consolidated financial statements). We also have audited the Company's internal control over financial reporting as of December 31, 2022, based on criteria established in Internal Control – Integrated Framework (2013) issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO).

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of the Company as of December 31, 2022 and 2021, and the results of its operations and its cash flows for the years 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, 2022, based on criteria established in Internal Control – Integrated Framework (2013) issued by COSO.

Basis for Opinions

The Company's management is responsible for these consolidated 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 accompanying Management's Report on Internal Control over Financial Reporting. Our responsibility is to express an opinion on the Company's consolidated financial statements and an opinion on the Company's internal control over financial reporting based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud, and whether effective internal control over financial reporting was maintained in all material respects.

Our audits of the consolidated financial statements included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. 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 audits also included performing such other procedures as we considered necessary in the circumstances. We believe that our audits provide a reasonable basis for our opinions.

#### Definition and Limitations of Internal Control Over Financial Reporting

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 (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the Company; (2) 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 (3) 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.

#### Critical Audit Matters

The critical audit matters communicated below are matters arising from the current period audit of the consolidated financial statements that were communicated or required to be communicated to the audit committee and that: (1) relate to accounts or disclosures that are material to the consolidated financial statements and (2) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

#### Assessment of net realizable value of raw materials, work in progress and finished goods

As discussed in Notes 2.14, 4.2(a) and 21 to the consolidated financial statements, as of December 31, 2022, the gross carrying amount of raw materials, work in progress and finished goods, and provision for diminution in value were RMB 7,552,845 thousand and RMB 446,485 thousand, respectively. Inventories are valued at the lower of cost and net realizable value. The net realizable value is determined based on the estimated selling prices in the ordinary course of business less the estimated costs to completion, and other costs necessary to make the sale.

We identified the assessment of net realizable value of raw materials, work in progress and finished goods as a critical audit matter. Evaluation of estimated selling prices of inventories, estimated costs to completion, and other costs necessary to make the sale involved a high degree of auditor judgement.

The following are the primary procedures we performed to address this critical audit matter. We evaluated the design and tested the operating effectiveness of certain internal controls related to the process of determination of net realizable value of raw materials, work in progress and finished goods, including controls related to the determination of estimated selling prices, estimated costs to completion, and other costs necessary to make the sale; we evaluated the estimated selling prices at the reporting date for a sample of inventory items by comparison of the estimated selling price to the price from publicly available market data and the actual prices of sales transactions subsequent to the reporting date if available; and we evaluated the estimated costs to completion and other costs necessary to make the sale by comparing with the historical costs to completion and other costs necessary to make the sale for the same type of inventories on a sample basis.

Assessment of value in use of certain production facilities

As discussed in Notes 2.12 (b), 4.2(b) and 16 to the consolidated financial statements, the carrying amount of property, plant and equipment was RMB 12,179,504 thousand as of December 31, 2022. During the year ended December 31, 2022, the Company recognized impairment loss on property, plant and equipment in relation to certain production facilities under the intermediate petrochemicals segment of RMB 212,410 thousand. At the end of each reporting period, if any indication of impairment exists, the Company estimates the recoverable amount of an asset, or a cash-generating unit, at the higher of its fair value less costs of disposal and its value in use, to determine the impairment losses. The Company's estimated value in use includes assumptions on product sales growth rates, related costs growth rates ("forecasted growth rates") and discount rate.

We identified the assessment of value in use of certain production facilities as a critical audit matter. A high degree of subjectivity and auditor judgment was involved to evaluate the forecasted growth rates and the discount rate used to estimate value in use of these assets. The forecasted growth rates and the discount rate were challenging to test as minor changes to those assumptions would have a significant effect on the Company's assessment of value in use of these assets. In addition, specialized skills and knowledge were required to assess the discount rate used to estimate value in use of these assets.

The following are the primary procedures we performed to address this critical audit matter. We evaluated the design and tested the operating effectiveness of certain internal controls related to the Company's process in assessing the value in use of certain production facilities, including controls related to the determination of the forecasted growth rates and the discount rate; we assessed the forecasted growth rates adopted in the Company's value in use assessment by comparing them with historical results, future operation plans and external market data; we performed sensitivity analysis over the forecasted growth rates and the discount rate assumptions to assess their impact on the Company's impairment assessment. In addition, we involved valuation professionals with specialized skills and knowledge, who assisted in evaluating the discount rate used by comparing it against discount rate that was independently developed using publicly available industry data.

/s/ KPMG Huazhen LLP

We have served as the Company's auditor since 2021.

Shanghai, China  
April 26, 2023

**Report of Independent Registered Public Accounting Firm**

To the Board of Directors and Shareholders of Sinopec Shanghai Petrochemical Company Limited

***Opinion on the Financial Statements***

We have audited the consolidated statements of profit or loss, of profit or loss and other comprehensive income, of changes in equity and consolidated cash flow statement of Sinopec Shanghai Petrochemical Company Limited and its subsidiaries (the “Company”) for the year ended December 31, 2020, including the related notes (collectively referred to as the “consolidated financial statements”). In our opinion, the consolidated financial statements present fairly, in all material respects, the results of operations and cash flows of the Company for the year ended December 31, 2020 in conformity with International Financial Reporting Standards as issued by the International Accounting Standards Board.

***Basis for Opinion***

These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s consolidated financial statements based on our audit. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit of these consolidated financial statements in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud.

Our audit included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

/s/PricewaterhouseCoopers Zhong Tian LLP  
Shanghai, the People’s Republic of China  
April 28, 2021

We served as the Company’s auditor from 2013 to 2021.

Sinopec Shanghai Petrochemical Company Limited  
Financial statements for the years ended 31 December 2020, 2021 and 2022

Consolidated statements of profit or loss  
for the years ended 31 December 2020, 2021 and 2022

	Note	Years ended 31 December		
		2020 RMB'000	2021 RMB'000	2022 RMB'000
Revenue	5	74,623,575	89,198,492	82,443,156
Taxes and surcharges		(13,062,710)	(13,309,688)	(9,788,593)
Net sales		61,560,865	75,888,804	72,654,563
Cost of sales	10	(61,901,114)	(74,298,048)	(76,265,940)
Gross (loss)/profit		(340,249)	1,590,756	(3,611,377)
Selling and administrative expenses	10	(486,323)	(368,243)	(288,701)
Reversal/(provision) of impairment losses on financial assets	3.1 (c)	120,916	(1,355)	(5,366)
Other operating income	6	148,676	125,305	110,641
Other operating expenses	7	(24,686)	(44,712)	(25,775)
Other gains/(losses) - net	8	115,430	130,481	(22,788)
(Loss) / profit from operations		(466,236)	1,432,232	(3,843,366)
Finance income	9	431,228	508,755	541,830
Finance expenses	9	(98,954)	(94,186)	(98,502)
Finance income – net		332,274	414,569	443,328
Share of net profits/(losses) of associates and joint ventures accounted for using the equity method	20	724,740	874,285	(173,616)
Profit/(loss) before taxation		590,778	2,721,086	(3,573,654)
Income tax benefits/(expenses)	12	65,620	(644,480)	731,354
Profit/(loss) for the year		656,398	2,076,606	(2,842,300)

Sinopec Shanghai Petrochemical Company Limited  
Financial statements for the years ended 31 December 2020, 2021 and 2022

Consolidated statements of profit or loss  
for the years ended 31 December 2020, 2021 and 2022 (continued)

		Years ended 31 December		
	Note	2020 RMB'000	2021 RMB'000	2022 RMB'000
Profit/(loss) attributable to:				
– Equity shareholders of the Company		645,072	2,073,431	(2,846,156)
– Non-controlling interests		11,326	3,175	3,856
Profit/(loss) for the year		<u>656,398</u>	<u>2,076,606</u>	<u>(2,842,300)</u>
Earnings/(losses) per share attributable to equity shareholders of the Company for the year (expressed in RMB per share)				
Basic earnings/(losses) per share	13(a)	RMB 0.060	RMB 0.192	RMB (0.263)
Diluted earnings/(losses) per share	13(b)	RMB 0.060	RMB 0.192	RMB (0.263)

The notes on pages F-17 to F-119 form part of these financial statements.

Sinopec Shanghai Petrochemical Company Limited  
Financial statements for the years ended 31 December 2020, 2021 and 2022

Consolidated statements of profit or loss and other comprehensive income  
for the years ended 31 December 2020, 2021 and 2022

	Note	Years ended 31 December		
		2020 RMB'000	2021 RMB'000	2022 RMB'000
Profit/(loss) for the year		656,398	2,076,606	(2,842,300)
Other comprehensive income				
Items that are or may be reclassified subsequently to profit or loss:				
Share of other comprehensive income of associates accounted for using the equity method	31	(11,512)	16,639	(23,771)
Cash flow hedges: net movement in hedging reserve	31	—	125,159	201,519
Other comprehensive income for the year, net of tax		(11,512)	141,798	177,748
Total comprehensive income for the year		644,886	2,218,404	(2,664,552)
Attributable to:				
– Equity shareholders of the Company		633,560	2,215,229	(2,668,408)
– Non-controlling interests		11,326	3,175	3,856
Total comprehensive income for the year		644,886	2,218,404	(2,664,552)

The notes on pages F-17 to F-119 form part of these financial statements.

Sinopec Shanghai Petrochemical Company Limited  
Financial statements as at 31 December 2021 and 2022

Consolidated statements of financial position  
as at 31 December 2021 and 2022

	Note	As at 31 December 2021 RMB'000	2022 RMB'000
Non-current assets			
Property, plant and equipment	16	11,310,032	12,179,504
Right-of-use assets	15	385,643	379,805
Investment properties	17	352,188	336,863
Construction in progress	18	3,293,177	3,748,461
Investments accounted for using the equity method	20	4,088,888	3,504,393
Financial assets at fair value through other comprehensive income	25	5,000	5,000
Time deposits with banks	24	5,581,435	3,389,559
Deferred tax assets	12	184,143	991,850
Other non-current assets	14	787,807	835,400
		<u>25,988,313</u>	<u>25,370,835</u>
Current assets			
Inventories	21	5,923,525	7,294,060
Financial assets at fair value through other comprehensive income	25	1,047,690	582,354
Derivative financial instruments	3.1 (a)	81,405	—
Trade receivables	22	77,425	69,351
Other receivables	22	47,597	107,507
Prepayments		30,364	17,832
Value added tax recoverable		13,322	1,057,463
Amounts due from related parties	22	1,212,331	2,638,983
Cash and cash equivalents	23	5,112,010	889,413
Time deposits with banks	24	7,386,607	3,108,919
		<u>20,932,276</u>	<u>15,765,882</u>
Total assets		<u>46,920,589</u>	<u>41,136,717</u>



Sinopec Shanghai Petrochemical Company Limited  
Financial statements as at 31 December 2021 and 2022

Consolidated statements of financial position  
as at 31 December 2021 and 2022 (continued)

	Note	As at 31 December 2021 RMB'000	2022 RMB'000
Equity and liabilities			
Equity attributable to equity shareholders of the Company			
Share capital	30	10,823,814	10,823,814
Reserves	31	19,418,325	15,403,868
		<u>30,242,139</u>	<u>26,227,682</u>
Non-controlling interests		135,259	127,681
Total equity		<u>30,377,398</u>	<u>26,355,363</u>
Liabilities			
Non-current liabilities			
Borrowings	26	700,000	700,000
Lease liabilities	15	1,384	7,513
Deferred tax liabilities	12	33,344	30,895
Deferred income	29	12,720	44,608
		<u>747,448</u>	<u>783,016</u>

Sinopec Shanghai Petrochemical Company Limited  
Financial statements as at 31 December 2021 and 2022

Consolidated statements of financial position  
as at 31 December 2021 and 2022 (continued)

	Note	As at 31 December 2021 RMB'000	2022 RMB'000
Current liabilities			
Borrowings	26	1,559,800	1,550,000
Lease liabilities	15	3,229	8,738
Derivative financial instruments	3.1 (a)	23,804	—
Contract liabilities	28	424,607	372,760
Trade and other payables	27	3,095,694	2,926,534
Amounts due to related parties	27	6,304,816	7,887,809
Current tax liabilities		3,865,231	931,852
Staff salaries and welfares payable		260,096	317,891
Income tax payable	12	258,466	2,754
		<u>15,795,743</u>	<u>13,998,338</u>
Total liabilities		<u>16,543,191</u>	<u>14,781,354</u>
Total equity and liabilities		<u>46,920,589</u>	<u>41,136,717</u>

Approved and authorized for issue by the Board of Directors on 26 April 2023.

Wan Tao

Directors

Du Jun

The notes on pages F-17 to F-119 form part of these financial statements.

Sinopec Shanghai Petrochemical Company Limited  
Financial statements for the years ended 31 December 2020, 2021 and 2022

Consolidated statements of changes in equity  
for the years ended 31 December 2020, 2021 and 2022

	Note	Attributable to equity shareholders of the Company				Non-controlling interests RMB'000	Total equity RMB'000
		Share capital RMB'000 (note 30)	Other reserves RMB'000 (note 31)	Retained earnings RMB'000 (note 31)	Total RMB'000		
Balance at 1 January 2020		10,823,814	4,369,391	14,670,083	29,863,288	130,560	29,993,848
Changes in equity for 2020:							
Profit for the year		—	—	645,072	645,072	11,326	656,398
Other comprehensive income	31	—	(11,512)	—	(11,512)	—	(11,512)
Total comprehensive income for the year		—	(11,512)	645,072	633,560	11,326	644,886
Dividends proposed and approved	33	—	—	(1,298,858)	(1,298,858)	—	(1,298,858)
Dividend paid by subsidiaries to non-controlling interests		—	—	—	—	(4,901)	(4,901)
Appropriation of safety production fund	31	—	88,460	(88,460)	—	—	—
Balance at 31 December 2020		10,823,814	4,446,339	13,927,837	29,197,990	136,985	29,334,975

Sinopec Shanghai Petrochemical Company Limited  
Financial statements for the years ended 31 December 2020, 2021 and 2022

Consolidated statements of changes in equity  
for the years ended 31 December 2020, 2021 and 2022 (continued)

	Note	Attributable to equity shareholders of the Company				Non-controlling interests RMB'000	Total equity RMB'000
		Share capital RMB'000 (note 30)	Other reserves RMB'000 (note 31)	Retained earnings RMB'000 (note 31)	Total RMB'000		
Balance at 1 January 2021		10,823,814	4,446,339	13,927,837	29,197,990	136,985	29,334,975
Changes in equity for 2021							
Profit for the year		—	—	2,073,431	2,073,431	3,175	2,076,606
Other comprehensive income	31	—	141,798	—	141,798	—	141,798
Total comprehensive income for the year		—	141,798	2,073,431	2,215,229	3,175	2,218,404
Transfer to other reserves		—	2,498,808	(2,498,808)	—	—	—
Amounts transferred from hedging reserve to initial carrying amount of hedged items		—	(88,699)	—	(88,699)	—	(88,699)
Dividends proposed and approved	33	—	—	(1,082,381)	(1,082,381)	—	(1,082,381)
Dividends paid by subsidiaries to non-controlling interests		—	—	—	—	(4,901)	(4,901)
Appropriation of safety production fund	31	—	40,729	(40,729)	—	—	—
Balance at 31 December 2021		10,823,814	7,038,975	12,379,350	30,242,139	135,259	30,377,398

The notes on pages F-17 to F-119 form part of these financial statements.

Sinopec Shanghai Petrochemical Company Limited  
Financial statements for the years ended 31 December 2020, 2021 and 2022

Consolidated statements of changes in equity  
for the years ended 31 December 2020, 2021 and 2022 (continued)

	Note	Attributable to equity shareholders of the Company				Non-controlling interests RMB'000	Total equity RMB'000
		Share capital RMB'000 (note 30)	Other reserves RMB'000 (note 31)	Retained earnings RMB'000 (note 31)	Total RMB'000		
Balance at 1 January 2022		10,823,814	7,038,975	12,379,350	30,242,139	135,259	30,377,398
Changes in equity for 2022							
(Loss)/profit for the year		—	—	(2,846,156)	(2,846,156)	3,856	(2,842,300)
Other comprehensive income	31	—	177,748	—	177,748	—	177,748
Total comprehensive income for the year		—	177,748	(2,846,156)	(2,668,408)	3,856	(2,664,552)
Amounts transferred from hedging reserve to initial carrying amount of hedged items	3.1a(iii)	—	(237,979)	—	(237,979)	—	(237,979)
Dividends proposed and approved	33	—	—	(1,082,381)	(1,082,381)	—	(1,082,381)
Dividends paid by subsidiaries to non-controlling interests		—	—	—	—	(11,434)	(11,434)
Purchase of own shares	30(ii)	—	(25,689)	—	(25,689)	—	(25,689)
Appropriation of safety production fund	31	—	54,092	(54,092)	—	—	—
Balance at 31 December 2022		10,823,814	7,007,147	8,396,721	26,227,682	127,681	26,355,363

The notes on pages F-17 to F-119 form part of these financial statements.

Sinopec Shanghai Petrochemical Company Limited  
Financial statements for the years ended 31 December 2020, 2021 and 2022

Consolidated cash flow statements  
for the years ended 31 December 2020, 2021 and 2022

		Years ended 31 December		
	Note	2020 RMB'000	2021 RMB'000	2022 RMB'000
<b>Operating activities</b>				
Cash generated from / (used in) operations	23 (b)	1,995,087	4,411,653	(6,960,734)
Interest paid		(71,369)	(110,070)	(121,876)
Income tax paid		(243,870)	(351,627)	(376,765)
Net cash generated from / (used in) operating activities		<u>1,679,848</u>	<u>3,949,956</u>	<u>(7,459,375)</u>
<b>Cash flows from investing activities</b>				
Dividends received from joint ventures and associates		561,755	777,220	683,780
Interest received from entrusted loans		—	—	2,704
Interest received from structured deposits		132,690	97,921	11,124
Interest received from related parties		2,088	—	—
Interest received from banks excluded structured deposits		275,626	398,937	330,216
(Payments)/proceeds from settlement of derivative financial instruments		(912)	5,674	(14,679)
Payment for the purchase of property, plant and equipment and construction in progress		(1,840,986)	(3,224,000)	(2,836,912)
Net proceeds from disposal of property, plant and equipment		59,642	55,254	13,937
Cash received from time deposits with maturity less than one year		500,000	3,800,000	7,350,000
Cash received from time deposits with maturity more than one year		—	—	1,800,000
Cash received from maturity of structured deposits		10,900,000	8,150,000	1,000,000
Cash payment for investment in structured deposits		(7,600,000)	(8,150,000)	(1,000,000)
Cash payment for investment in entrusted loans		—	—	(150,000)
Cash received from investment in entrusted loans		—	—	150,000
Cash payment for investment deposits		—	—	(50,000)
Payment for investment in associates and a joint venture	20	—	—	(296,672)
Cash payment for investment in time deposits with maturity less than one year		(3,000,000)	(3,650,000)	—
Cash payment for investment in time deposits with maturity more than one year		(3,500,000)	(2,000,000)	(2,600,000)
Acquisition of a subsidiary, net of cash acquired		(340,315)	—	—
Payment for set up of an associate	20	(27,603)	(26,000)	—
Payment for set up of a joint venture	20	—	(50,000)	—
Proceeds from capital reduction of an associate		—	1,460,258	—
Payment for sales of financial assets at fair value through other comprehensive income		(9,513)	(4,685)	(3,148)
Net cash (used in) / generated from investing activities		<u>(3,887,528)</u>	<u>(2,359,421)</u>	<u>4,390,350</u>

Sinopec Shanghai Petrochemical Company Limited  
Financial statements for the years ended 31 December 2020, 2021 and 2022

Consolidated cash flow statements  
for the years ended 31 December 2020, 2021 and 2022 (continued)

	Note	Years ended 31 December		
		2020 RMB'000	2021 RMB'000	2022 RMB'000
Financing activities				
Proceeds from borrowings	23(c)	3,458,100	14,163,132	19,485,000
Proceeds from short-term bonds	23(c)	2,998,469	5,998,899	5,000,000
Repayments of borrowings	23(c)	(3,460,556)	(13,451,332)	(19,494,800)
Repayments of short-term bonds	23(c)	—	(9,000,000)	(5,000,000)
Principal elements of lease payments		(15,586)	(17,544)	(13,069)
Dividends paid by subsidiaries to non-controlling interests		(4,901)	(4,901)	(11,434)
Dividends paid to the Company's shareholders		(1,293,736)	(1,081,326)	(1,081,327)
Payment for repurchase of shares		—	—	(53,262)
Net cash generated from / (used in) financing activities		1,681,790	(3,393,072)	(1,168,892)
Net decrease in cash and cash equivalents		(525,890)	(1,802,537)	(4,237,917)
Cash and cash equivalents at the beginning of the year	23	7,449,699	6,916,408	5,112,010
Exchange (losses) / gains on cash and cash equivalents		(7,401)	(1,861)	15,320
Cash and cash equivalents at the end of the year	23	<u>6,916,408</u>	<u>5,112,010</u>	<u>889,413</u>

The notes on pages F-17 to F-119 form part of these financial statements.

Notes to the consolidated financial statements  
(Expressed in Renminbi Yuan unless otherwise indicated)

1 General Information

Sinopec Shanghai Petrochemical Company Limited ("the Company"), formerly Shanghai Petrochemical Company Limited, was established in the People's Republic of China ("the PRC") on 29 June 1993 with registered capital of RMB4,000,000 thousand, invested by its holding company-China National Petrochemical Corporation ("Sinopec Group"); these shares were converted from assets of former Shanghai Petrochemical Complex.

H shares were listed on the Hong Kong Stock Exchange on 26 July 1993, and listed on the New York Stock Exchange in the form of American Depositary Shares at the same time; the A shares were listed on the Shanghai Stock Exchange on 8 November 1993.

Sinopec Group completed its reorganization on 25 February 2000. After the reorganization, China Petroleum & Chemical Corporation ("Sinopec Corp.") was established. As part of the reorganization, Sinopec Group transferred its 4,000,000,000 of the Company's state-owned legal shares, which represented 55.56 percent of the issued share capital of the Company, to Sinopec Corp. Sinopec Corp. became the largest shareholder of the Company.

The Company changed its name to Sinopec Shanghai Petrochemical Company Limited on 12 October 2000.

Ordinary A shares of RMB 14,177 thousand and RMB9,637 thousand were registered on 27 September 2017 and 12 January 2018.

As at 31 December 2022, total share capital of the Company were RMB 10,823,814 thousand, 1 Yuan per share. Detailed changes to share capital refers to note 30. The Company and its subsidiaries ("the Group") is a highly integrated entity which processes crude oil into synthetic fibres, resins and plastics, intermediate petrochemicals and petroleum products.

Details of the Company's principal subsidiaries are set out in note 19.



2 Significant accounting policies

The principal accounting policies applied in the preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

2.1 Statement of compliance and basis of preparation

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable International Financial Reporting Standards (IFRSs), which collective term includes all applicable individual International Financial Reporting Standards, International Accounting Standards (IASs) and related Interpretations, promulgated by the International Accounting Standards Board (IASB). Significant accounting policies adopted by the Group are disclosed below.

The IASB has issued certain amendments to IFRSs that are first effective or available for early adoption for the current accounting period of the Group. Note 2.1 (c) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current accounting period reflected in these financial statements.

(b) Basis of preparation

The consolidated financial statements for the year ended 31 December 2022 comprise the Company and its subsidiaries (together referred to as the “Group”) and the Group’s interest in associates and a joint ventures.

The measurement basis used in the preparation of the financial statements is the historical cost basis except for certain financial assets and liabilities measured at fair value, including:

- derivative financial instruments (see note 2.13); and
- investment in debt and equity securities (see note 2.11).

The preparation of financial statements in conformity with IFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of IFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 4.

2 Significant accounting policies (continued)

2.1 Statement of compliance and basis of preparation (continued)

(c) Changes in accounting policies

The Group has applied the following amendments to IFRSs issued by the IASB to these financial statements for the current accounting period:

- Amendments to IAS 16, Property, plant and equipment: Proceeds before intended use
- Amendments to IAS 37, Provisions, contingent liabilities and contingent assets: Onerous contracts — *cost of fulfilling a contract*
- Amendments to IFRSs, Annual Improvements to IFRS Standards 2018-2020
- Amendments to IFRS 3, Reference to the Conceptual Framework

None of these developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

2.2 Subsidiaries

2.2.1 Consolidation

Subsidiaries are all entities over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

Inter-company transactions, balances and unrealized gains on transactions between group companies are eliminated. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Non-controlling interests in the results and equity of subsidiaries are shown separately in the consolidated statements of financial position, consolidated statements of profit or loss, statements of comprehensive income and changes in equity respectively.

(a) Business combinations

The acquisition method of accounting is used to account for all business combinations by the Group, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the:

- fair values of the assets transferred;
- liabilities incurred to the former owners of the acquired business;
- equity interests issued by the Group;
- fair value of any asset or liability resulting from a contingent consideration arrangement, and
- fair value of any pre-existing equity interest in the subsidiary.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. The Group recognizes any non-controlling interest in the acquired entity on an acquisition-by-acquisition basis either at fair value or at the non-controlling interest's proportionate share of the acquired entity's net identifiable assets.

Acquisition-related costs are expensed as incurred.

The excess of the:

- consideration transferred
- amount of any non-controlling interest in the acquired entity, and
- acquisition-date fair value of any previous equity interest in the acquired entity

2 Significant accounting policies (continued)

2.2 Subsidiaries (continued)

2.2.1 Consolidation (continued)

(a) Business combinations (continued)

Over the fair value of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the business acquired, the difference is recognized directly in the statements of profit or loss as a bargain purchase.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the Group's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

If the business combination is achieved in stages, the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date. Any gains or losses arising from such remeasurement are recognized in the statements of profit or loss.

## 2 Significant accounting policies (continued)

## 2.2 Subsidiaries (continued)

## 2.2.1 Consolidation (continued)

## (b) Changes in ownership interests

The Group treats transactions with non-controlling interests that do not result in loss of control as transactions with equity owners of the Group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received is recognized in a separate reserve within equity attributable to owners of the Group.

When the Group ceases to consolidate or equity account for an investment because of a loss of control, joint control or significant influence, any retained interest in the entity is remeasured to its fair value, with the change in carrying amount recognized in the statements of profit or loss. This fair value becomes the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognized in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related assets or liabilities. This means that amounts previously recognized in other comprehensive income are reclassified to profit or loss.

## 2.2.2 Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Investments in joint ventures and associates are accounted for using the equity method of accounting.

2 Significant accounting policies (continued)

2.3 Associates

Associates are all entities over which the Group has significant influence but not control or joint control. Investments in associates are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognized at cost, and the carrying amount is increased or decreased to recognize the investor's share of the profit or loss of the investee after the date of acquisition. The Group's investments in associates include goodwill identified on acquisition. Upon the acquisition of the ownership interest in an associate, any difference between the cost of the associate and the Group's share of the net fair value of the associate's identifiable assets and liabilities is accounted for as goodwill.

The Group's share of post-acquisition profit or loss is recognized in the statements of profit or loss, and its share of post-acquisition movements in other comprehensive income is recognized in other comprehensive income with a corresponding adjustment to the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognizes the amount in the statements of profit or loss.

Profits and losses resulting from upstream and downstream transactions between the Group and its associates are recognized in the Group's financial statements only to the extent of unrelated investor's interests in the associates. Unrealized losses are eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

Gain or loss on dilution of equity interest in associates are recognized in the statements of profit or loss.

2 Significant accounting policies (continued)

2.4 Joint arrangements

Under IFRS 11 'Joint Arrangements' investments in joint arrangements are classified as either joint operations or joint ventures. The classification depends on the contractual rights and obligations of each investor, rather than the legal structure of the joint arrangement. The Group has assessed the nature of its joint arrangements and determined them to be joint ventures. Joint ventures are accounted for using the equity method.

Under the equity method of accounting, interests in joint ventures are initially recognized at cost and adjusted thereafter to recognize the Group's share of the post-acquisition profits or losses and movements in other comprehensive income. The Group's investments in joint ventures include goodwill identified on acquisition. Upon the acquisition of the ownership interest in a joint venture, any difference between the cost of the joint venture and the Group's share of the net fair value of the joint venture's identifiable assets and liabilities is accounted for as goodwill. When the Group's share of losses in a joint venture equals or exceeds its interests in the joint ventures, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the joint ventures.

Unrealized gains on transactions between the Group and its joint ventures are eliminated to the extent of the Group's interest in the joint ventures. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of the joint ventures have been changed where necessary to ensure consistency with the policies adopted by the Group.

The carrying amount of equity-accounted investments is tested for impairment in accordance with the policy described in note 2.12.

2.5 Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors that makes strategic decisions.

## 2 Significant accounting policies (continued)

### 2.6 Foreign currency translation

#### (a) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which the entity operates ("the functional currency").

The consolidated financial statements are presented in RMB, which is the Company's functional and the Group's presentation currency.

#### (b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions, and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates, are generally recognized in the statements of profit or loss. They are deferred in equity if they relate to qualifying cash flow hedges and qualifying net investment hedges.

### 2.7 Property, plant and equipment

Property, plant and equipment is stated at historical cost less depreciation and impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Items may be produced while bringing an item of property, plant and equipment to the location and condition necessary for it to be capable of operating in the manner intended by management. The proceeds from selling any such items and the related costs are recognized in profit or loss.

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of the replaced part is derecognized. All other repairs and maintenance are charged to the statements of profit or loss during the financial period in which they are incurred.

Depreciation on property, plant and equipment is calculated using the straight-line method to allocate their cost to their residual values over their estimated useful lives, as follows:

- Buildings	12 to 40 years
- Plant and machinery	5 to 20 years
- Vehicles and other equipment	4 to 20 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 2.12 (b)).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized within Other gains/(losses) - net in the statements of profit or loss.



**2 Significant accounting policies (continued)****2.8 Construction in progress**

Construction in progress represents buildings, various plant and equipment under construction and pending installation, and is stated at cost less government grants that compensate the Company for the cost of construction, and impairment losses. Cost comprises direct costs of construction as well as interest charges, and foreign exchange differences on related borrowed funds to the extent that they are regarded as an adjustment to interest charges, during the period of construction. Construction in progress is transferred to property, plant and equipment when the asset is substantially ready for its intended use. No depreciation is provided in respect of construction in progress.

**2.9 Investment properties**

Investment properties are properties which are owned either to earn rental income and/or for capital appreciation.

Investment properties are stated in the statements of financial position at cost less accumulated depreciation and impairment losses (note 2.12(b)). Depreciation is provided over their estimated useful lives on a straight-line basis, after taking into account their estimated residual values.

Estimated useful lives of the Group's investment properties are 30-40 years.

**2.10 Other non-current assets**

Other non-current assets mainly represent intangible assets and long-term prepaid expense, which are amortized on a straight-line basis over the following periods:

Intangible assets - patents	2 to 28 years
Long-term prepaid expense - catalyst	1.5 to 10 years
Long-term prepaid expense - leasehold improvement	3 to 27 years

**2.11 Other investments in debt and equity securities**

The Group's policies for investments in debt and equity securities, other than investments in subsidiaries, associates and joint ventures, are set out below.

Investments in debt and equity securities are recognized/derecognized on the date the Group commits to purchase/sell the investment. The investments are initially stated at fair value plus directly attributable transaction costs, except for those investments measured at fair value through profit or loss (FVPL) for which transaction costs are recognized directly in profit or loss. For an explanation of how the Group determines fair value of financial instruments, see note 3.3. These investments are subsequently accounted for as follows, depending on their classification.

## 2 Significant accounting policies (continued)

## 2.11 Other investments in debt and equity securities (continued)

## (a) Investments other than equity investments

Non-equity investments held by the Group are classified into one of the following measurement categories:

- amortized cost, if the investment is held for the collection of contractual cash flows which represent solely payments of principal and interest. Interest income from the investment is calculated using the effective interest method (see note 2.27).
- fair value through other comprehensive income (FVOCI) - recycling, if the contractual cash flows of the investment comprise solely payments of principal and interest and the investment is held within a business model whose objective is achieved by both the collection of contractual cash flows and sale. Changes in fair value are recognized in other comprehensive income, except for the recognition in profit or loss of expected credit losses, interest income (calculated using the effective interest method) and foreign exchange gains and losses. When the investment is derecognized, the amount accumulated in other comprehensive income is recycled from equity to profit or loss.
- fair value through profit or loss (FVPL) if the investment does not meet the criteria for being measured at amortized cost or FVOCI (recycling). Changes in the fair value of the investment (including interest) are recognized in profit or loss.

## (b) Equity investments

An investment in equity securities is classified as FVPL unless the equity investment is not held for trading purposes and on initial recognition of the investment the Group makes an irrevocable election to designate the investment at FVOCI (non-recycling) such that subsequent changes in fair value are recognized in other comprehensive income. Such elections are made on an instrument-by-instrument basis, but may only be made if the investment meets the definition of equity from the issuer's perspective. Where such an election is made, the amount accumulated in other comprehensive income remains in the fair value reserve (non-recycling) until the investment is disposed of. At the time of disposal, the amount accumulated in the fair value reserve (non-recycling) is transferred to retained earnings. It is not recycled through profit or loss. Dividends from an investment in equity securities, irrespective of whether classified as at FVPL or FVOCI, are recognized in profit or loss as other income in accordance with the policy set out in note 2.28.

## 2.12 Credit losses and impairment of assets

## (a) Credit losses from financial instruments

The Group recognizes a loss allowance for expected credit losses (ECLs) on the following items:

- financial assets measured at amortized cost (including cash and cash equivalents, time deposits with banks, trade receivables and other receivables); and
- debt securities measured at FVOCI (recycling);

2 Significant accounting policies (continued)

2.12 Credit losses and impairment of assets (continued)

(a) Credit losses from financial instruments (continued)

Other financial assets measured at fair value, including equity securities designated at FVOCI (non-recycling) and derivative financial assets, are not subject to the ECL assessment.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive).

The expected cash shortfalls are discounted using the following discount rates where the effect of discounting is material:

- fixed-rate financial assets, trade and other receivables: effective interest rate determined at initial recognition or an approximation thereof;
- variable-rate financial assets: current effective interest rate.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk. In measuring ECLs, the Group takes into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions.

ECLs are measured on either of the following bases:

- 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and
- lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

Loss allowances for trade receivables are always measured at an amount equal to lifetime ECLs. ECLs on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date.

For all other financial instruments, the Group recognizes a loss allowance equal to 12-month ECLs unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECLs.

## 2 Significant accounting policies (continued)

## 2.12 Credit losses and impairment of assets (continued)

## (a) Credit losses from financial instruments (continued)

## Significant increases in credit risk

In assessing whether the credit risk of a financial instrument has increased significantly since initial recognition, the Group compares the risk of default occurring on the financial instrument assessed at the reporting date with that assessed at the date of initial recognition.

In making this reassessment, the Group considers that a default event occurs when (i) the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realizing security (if any is held); or (ii) the financial asset is 90 days past due.

The Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

- failure to make payments of principal or interest on their contractually due dates;
- an actual or expected significant deterioration in a financial instrument's external or internal credit rating (if available);
- an actual or expected significant deterioration in the operating results of the debtor; and
- existing or forecast changes in the technological, market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the Group.

Depending on the nature of the financial instruments, the assessment of a significant increase in credit risk is performed on either an individual basis or a collective basis. When the assessment is performed on a collective basis, the financial instruments are grouped based on shared credit risk characteristics, such as past due status and credit risk ratings.

ECLs are remeasured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognized as an impairment gain or loss in profit or loss. The Group recognizes an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for investments in debt securities that are measured at FVOCI (recycling), for which the loss allowance is recognized in other comprehensive income and accumulated in the fair value reserve (recycling).

2 Significant accounting policies (continued)

2.12 Credit losses and impairment of assets (continued)

(a) Credit losses from financial instruments (continued)

Basis of calculation of interest income

Interest income recognized in accordance with note 2.27 is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on the amortized cost (i.e. the gross carrying amount less loss allowance) of the financial asset.

At each reporting date, the Group assesses whether a financial asset is credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable events:

- significant financial difficulties of the debtor;
- a breach of contract, such as a default or past due event;
- it is becoming probable that the borrower will enter into bankruptcy or other financial reorganization;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; or
- the disappearance of an active market for a security because of financial difficulties of the issuer.

Write-off policy

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

Subsequent recoveries of an asset that was previously written off are recognized as a reversal of impairment in profit or loss in the period in which the recovery occurs.

## 2 Significant accounting policies (continued)

## 2.12 Credit losses and impairment of assets (continued)

## (b) Impairment of other non-current assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or, except in the case of goodwill, an impairment loss previously recognized no longer exists or may have decreased:

- property, plant and equipment;
- right-of-use assets;
- investment properties;
- construction in progress
- other non-current assets; and
- investments in subsidiaries, associates and joint ventures in the Company's statements of financial position.

At the end of each reporting period, if any indication of impairment exists, the Company estimates the recoverable amount of an asset, or a cash-generating unit, at the higher of its fair value less costs of disposal and its value in use, to determine the impairment losses.

- Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit). A portion of the carrying amount of a corporate asset (for example, head office building) is allocated to an individual cash-generating unit if the allocation can be done on a reasonable and consistent basis, or to the smallest group of cash-generating units if otherwise.

- Recognition of impairment losses

An impairment loss is recognized in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognized in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or group of units) and then, to reduce the carrying amount of the other assets in the unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal (if measurable) or value in use (if determinable).

- Reversals of impairment losses

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognized in prior years.

2 Significant accounting policies (continued)

2.12 Credit losses and impairment of assets (continued)

Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognized.

2.13 Derivative and hedging activities

Derivatives are initially recognized at fair value on the date a derivative contract is entered into, and they are subsequently remeasured to their fair value at the end of each reporting period. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument and, if so, the nature of the item being hedged. The Group designates certain derivatives as hedges of a particular risk associated with the cash flows of recognized assets and liabilities and highly probable forecast transactions (cash flow hedges).

At inception of the hedge relationship, the Group documents the economic relationship between hedging instruments and hedged items, including whether changes in the cash flows of the hedging instruments are expected to offset changes in the cash flows of hedged items. The Group documents its risk management objective and strategy for undertaking its hedge transactions.

The fair values of derivative financial instruments designated in hedge relationships are disclosed in note 3.1(a). Movements in the hedging reserve in shareholders' equity are shown in note 31. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months; it is classified as a current asset or liability when the remaining maturity of the hedged item is less than 12 months. Trading derivatives are classified as a current asset or liability.

Cash flow hedges that qualify for hedge accounting

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognized in the cash flow hedge reserve within equity. The gain or loss relating to the ineffective portion is recognized immediately in the statements of profit or loss, within Other gains/(losses) – net.

When swap contracts are used to hedge forecast transactions the Group may designate the full change in fair value of the swap contract as the hedging instrument. The gains or losses relating to the effective portion of the change in fair value of the entire swap contract are recognized in the cash flow hedge reserve within equity.

2 Significant accounting policies (continued)

2.13 Derivative and hedging activities (continued)

Amounts accumulated in equity are reclassified in the periods when the hedged item affects the statements of profit or loss as follows:

Where the hedged item subsequently results in the recognition of a non-financial asset (such as inventory), the deferred hedging gains and losses are included within the initial cost of the asset. The deferred amounts are ultimately recognized in the statements of profit or loss as the hedged item affects profit or loss (for example through cost of sales).

When a hedging instrument expires, or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative deferred gain or loss and deferred costs of hedging in equity at that time remains in equity until the forecast transaction occurs, resulting in the recognition of a non-financial asset such as inventory. When the forecast transaction is no longer expected to occur, the cumulative gain or loss and deferred costs of hedging that were reported in equity are immediately reclassified to Other gains/(losses) - net.

Derivatives that do not qualify for hedge accounting

Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognized immediately in the statements of profit or loss and are included in Other gains/(losses) - net.

2.14 Inventories

Inventories are valued at the lower of cost and net realizable value. Cost is determined using the weighted average cost method. The cost of finished goods and work in progress comprises raw materials, direct labor, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. The net realizable value is determined based on the estimated selling price in the ordinary course of business less the estimated costs to completion, and other costs necessary to make the sale.

2.15 Contract liabilities

A contract liability is recognized when the customer pays non-refundable consideration before the Group recognizes the related revenue (see note 2.26). A contract liability would also be recognized if the Group has an unconditional right to receive non-refundable consideration before the Group recognizes the related revenue. In such cases, a corresponding receivable would also be recognized (see note 2.16).

When the contract includes a significant financing component, the contract balance includes interest accrued under the effective interest method (see note 2.27).



2 Significant accounting policies (continued)

2.16 Trade and other receivables

A receivable is recognized when the Group has an unconditional right to receive consideration. A right to receive consideration is unconditional if only the passage of time is required before payment of that consideration is due. If revenue has been recognized before the Group has an unconditional right to receive consideration, the amount is presented as a contract asset.

Trade receivables that do not contain a significant financing component are initially measured at their transaction price.

Receivables are subsequently stated at amortized cost using the effective interest method less allowance for credit losses (see note 2.12(a)).

2.17 Cash and cash equivalents

In the consolidated cash flow statements, cash and cash equivalents include cash in hand, deposits held at call with banks, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are presented within borrowings in current liabilities in the statements of financial position. Cash and cash equivalents are assessed for expected credit losses (ECL) in accordance with the policy set out in note 2.12(a).

2.18 Share capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from the proceeds.

2.19 Safety production fund

Under China's law and regulation, the Group is required to accrue safety production fund at a certain percentage of the sales of dangerous goods. The fund is earmarked for improving the safety of production. The fund is accrued from retained earnings to other reserves and converted back to retained earnings when used.

2.20 Trade and other payables

Trade and other payables are obligations to pay for goods or services that have been acquired in the ordinary course of business from suppliers. Trade and other payables are classified as current liabilities if payment is due within one year or less (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade and other payables generally are financial liabilities and are recognized initially at fair value plus transaction costs and subsequently measured at amortized cost unless the effect of discounting would be immaterial, in which case they are stated at invoice amounts.

2 Significant accounting policies (continued)

2.21 Borrowings

Borrowings are initially recognized at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in the statements of profit or loss over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognized as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalized as a pre-payment for liquidity services and amortized over the period of the facility to which it relates.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the end of the reporting period.

2.22 Borrowings costs

General and specific borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalization.

Other borrowing costs are expensed in the period in which they are incurred.

2.23 Current and deferred income tax

The tax expense for the period comprises current and deferred tax. Tax is recognized in the statements of profit or loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity, respectively.

(a) Current income tax

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the statements of financial position date in the countries where the Company's subsidiaries, associates and joint ventures operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

2 Significant accounting policies (continued)

2.23 Current and deferred income tax (continued)

(b) Deferred income tax

Inside basis differences

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognized if they arise from the initial recognition of goodwill, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted by the statements of financial position date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized only to the extent that it is probable that future taxable profit will be available against which the temporary differences can be utilized.

Outside basis differences

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries, associates and joint arrangements, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future. Generally, the Group is unable to control the reversal of the temporary difference for associates. Only when there is an agreement in place that gives the Group the ability to control the reversal of the temporary difference in the foreseeable future, deferred tax liability in relation to taxable temporary differences arising from the associate's undistributed profits is not recognized.

Deferred income tax assets are recognized on deductible temporary differences arising from investments in subsidiaries, associates and joint arrangements only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilized.

(c) Offsetting

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income tax assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

2 Significant accounting policies (continued)

2.24 Employee benefits

(a) Short-term employee benefits

Salaries, annual bonuses, paid annual leave and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(b) Pension obligations

The PRC employees of the Group are covered by various PRC government-sponsored defined-contribution pension plans under which the employees are entitled to a monthly pension based on certain formulas. The relevant government agencies are responsible for the pension liability to these employees when they retire. The Group contributes on a monthly basis to these pension plans for the employees which are determined at a certain percentage of their salaries. Under these plans, the Group has no obligation for post-retirement benefits beyond the contribution made. Contributions to these plans are expensed as incurred and contributions paid to the defined contribution pension plans for a staff are not available to reduce the Group's future obligations to such defined-contribution pension plans even if the staff leaves the Group.

(c) Termination benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The Group recognizes termination benefits at the earlier of the following dates: (a) when the Group can no longer withdraw the offer of those benefits; and (b) when the entity recognizes costs for a restructuring that is within the scope of IAS 37 and involves the payment of terminations benefits. In the case of an offer made to encourage voluntary redundancy, the termination benefits are measured based on the number of employees expected to accept the offer. Benefits falling due more than 12 months after the end of the reporting period are discounted to present value.

2.25 Provisions and contingent liabilities

Provisions for environmental restoration, restructuring costs and legal claims are recognized when: the Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Restructuring provisions comprise lease termination penalties and employee termination payments. Provisions are not recognized for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

2 Significant accounting policies (continued)

2.25 Provisions and contingent liabilities (continued)

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

2.26 Revenue recognition

(a) Sales of petroleum and chemical products

The Group manufactures and sells petroleum and chemical products. Sales are recognized when control of the products has transferred, being when the products are delivered to or accepted by the customer. Delivery occurs when the products have been shipped to the specific location, the risks of obsolescence and loss have been transferred to the customer, and either the customer has accepted the products in accordance with the sales contract, or the Group has objective evidence that all criteria for acceptance have been satisfied. Advance from customers but goods not yet delivered is recorded as contract liabilities and is recognized as revenue when a customer obtains control over the relevant goods.

Revenue excludes value added tax and is after deduction of any estimated trade discounts.

The Group has elected to apply the practical expedient that contract costs incurred related to contracts with an amortization period of less than one year have been expensed as incurred. The Group also applies the practical expedient in paragraph 121 of IFRS 15 and does not disclose information about remaining performance obligations that have original expected durations of one year or less.

(b) Overseas shipping services

The Group arranges overseas shipping services for the customer and revenue is recognized over time and based on the actual shipping service provided to the end of the reporting period as a proportion of the total services to be provided, because the customer receives and uses the benefits simultaneously. This is determined based on the actual passages of time (days) relative to the total expected shipping days.

2 Significant accounting policies (continued)

2.27 Interest income

Interest income from financial assets at FVPL is included in Other gains/(losses) - net, see note 8 below. Interest income on financial assets at amortized cost and financial assets at FVOCI calculated using the effective interest method is recognized in the consolidated statements of profit or loss as part of other income.

Interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset except for financial assets that subsequently become credit-impaired. For credit-impaired financial assets the effective interest rate is applied to the net carrying amount of the financial asset (after deduction of the loss allowance).

Interest income is presented as Finance income where it is earned from financial assets that are held for cash management purposes, see note 9 below.

2.28 Dividend income

Dividend income is recognized when the right to receive payment is established.

2.29 Government grants

Grants from the government are recognized at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognized in the statements of profit or loss over the period necessary to match them with the costs that they are intended to compensate.

Grants that compensate the Group for the cost of an asset are deducted from the carrying amount of the asset and consequently are effectively recognized in the statements of profit or loss over the useful life of the asset by way of reduced depreciation expense.

2.30 Leases

The Group leases various land, buildings, equipment, vehicles and others. Rental contracts of buildings, equipment, vehicles and others are typically made for fixed periods of 1 to 30 years. Rental contracts of land use rights are typically made for fixed periods of 30 to 50 years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions.

Leases are recognized as a right-of-use asset and a corresponding liability at the date at which the leased asset is available for use by the Group.

## 2 Significant accounting policies (continued)

## 2.30 Leases (continued)

Assets and liabilities arising from a lease are initially measured on a present value basis. Lease liabilities include the net present value of the following lease payments:

- fixed payments (including in-substance fixed payments), less any lease incentives receivable,
- variable lease payment that are based on an index or a rate, initially measured using the index or rate as at the commencement date,
- amounts expected to be payable by the Group under residual value guarantees,
- the exercise price of a purchase option if the Group is reasonably certain to exercise that option, and
- payments of penalties for terminating the lease, if the lease term reflects the Group exercising that option.

The lease payments are discounted using the interest rate implicit in the lease. If that rate cannot be readily determined, which is generally the case for leases in the Group, the lessee's incremental borrowing rate is used, being the rate that the individual lessee would have to pay to borrow the funds necessary to obtain an asset of similar value to the right-of-use asset in a similar economic environment with similar terms, security and conditions.

To determine the incremental borrowing rate, the Group:

- where possible, uses recent third-party financing received by the individual lessee as a starting point, adjusted to reflect changes in financing conditions since third party financing was received
- uses a build-up approach that starts with a risk-free interest rate adjusted for credit risk for leases held by the Group, which does not have recent third party financing, and
- makes adjustments specific to the lease, e.g., term, country, currency and security.

Lease payments are allocated between principal and finance cost. The finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

Right-of-use assets are measured at cost comprising the following:

- the amount of the initial measurement of lease liability,
- any lease payments made at or before the commencement date less any lease incentives received,
- any initial direct costs, and
- restoration costs.

## 2 Significant accounting policies (continued)

### 2.30 Leases (continued)

Right-of-use assets are generally depreciated over the shorter of the asset's useful life and the lease term on a straight - line basis, as follows:

Land use rights	20 - 50 years
Buildings	2 - 8 years
Equipment	2 - 3 years
Others	2 - 4 years

Payments associated with short-term leases of equipment and vehicles are recognized on a straight-line basis as an expense in the statements of profit or loss. Short-term leases are leases with a lease term of 12 months or less. A single discount rate was applied to the portfolio of the leases with reasonably similar characteristics.

Lease income from operating leases where the Group is a lessor is recognized as income on a straight-line basis over the lease term. Initial direct costs incurred in obtaining an operating lease are added to the carrying amount of the underlying asset and recognized as expense over the lease term on the same basis as lease income. The respective leased assets are included in the statements of financial position based on their nature.

### 2.31 Dividend distribution

Dividend distribution to the Company's shareholders is recognized as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders.

### 2.32 Research and development costs

Research and development costs comprise all costs that are directly attributable to research and development activities or that can be allocated on a reasonable basis to such activities. Research and development costs are recognized as intangible assets when the following criteria are met:

- it is technically feasible to complete the research and development project so that it will be available for use or sale;
- management intends to complete the research and development project, and use or sell it;
- it can be demonstrated how the research and development project will generate economic benefits;
- there are adequate technical, financial and other resources to complete the development and the ability to use or sell the research and development project; and
- the expenditure attributable to the research and development project during its development phase can be reliably measured.

Other research and development expenditures that do not meet these criteria are recognized as an expense as incurred. Research and development costs previously recognized as an expense are not recognized as an asset in a subsequent period.



2 Significant accounting policies (continued)

2.33 Related parties

- (a) A person, or a close member of that person's family, is related to the Group if that person:
- (i) has control or joint control over the Group;
  - (ii) has significant influence over the Group; or
  - (iii) is a member of the key management personnel of the Group or the Group's parent.
- (b) An entity is related to the Group if any of the following conditions applies:
- (iv) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
  - (v) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
  - (vi) Both entities are joint ventures of the same third party.
  - (vii) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
  - (viii) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group. (ix) The entity is controlled or jointly controlled by a person identified in (i).
  - (x) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
  - (xi) The entity, or any member of a Group of which it is a part, provides key management personnel services to the Group or to the Group's parent.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

2.34 Rounding of amounts

All amounts disclosed in the consolidated financial statements and notes have been rounded off to the nearest thousand currency units unless otherwise stated.

### 3 Financial risk management

#### 3.1 Financial risk factors

The Group's activities exposed it to a variety of financial risks: market risk (including foreign exchange risk, cash flow and fair value interest rate risk and commodity price risk), credit risk and liquidity risk. The Group's overall risk management programmer focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Group's financial performance.

Where all relevant criteria are met, hedge accounting is applied to remove the accounting mismatch between the hedging instrument and the hedged item.

##### (a) Derivatives

The Group has the following derivative financial instruments in the following line items in the statements of financial position:

	As at 31 December	
	2021	2022
	RMB'000	RMB'000
<b>Current derivative financial instrument assets</b>		
Commodity swaps contracts applied hedge accounting	48,614	—
Commodity swaps contracts at fair value through profit or loss	32,791	—
Total derivative financial assets	81,405	—
<b>Current derivative financial instrument liabilities</b>		
Commodity swaps contracts at fair value through profit or loss	(23,804)	—
Total derivative financial liabilities	(23,804)	—

##### (i) Classification of derivatives

Derivatives are only used for economic hedging purposes and not as speculative investments. However, where derivatives do not meet the hedge accounting criteria, they are classified as 'held for trading' for accounting purposes and are accounted for at fair value through profit or loss. They are presented as current assets or liabilities to the extent they are expected to be settled within 12 months after the end of the reporting period.

The Group's accounting policy for its cash flow hedges is set out in note 2.13.

##### (ii) Fair value measurement

For information about the methods and assumptions used in determining the fair value of derivatives refer to note 3.3.

## 3 Financial risk management (continued)

## 3.1 Financial risk factors (continued)

## (a) Derivatives (continued)

## (iii) Hedging reserves

The following table provides a reconciliation of the hedging reserve in respect of commodity price risk and shows the effectiveness of the hedging relationships:

	Pre-tax amount RMB'000	Tax effect RMB'000	Post-tax amount RMB'000
<b>Balance at 1 January 2022</b>	48,613	(12,153)	36,460
Effective portion of the cash flow hedge recognized in other comprehensive income	375,701	(93,925)	281,776
Amounts reclassified to profit or loss	(107,009)	26,752	(80,257)
Reclassified to inventory	(317,305)	79,326	(237,979)
<b>Balance at 31 December 2022</b>	—	—	—

## (iv) Amounts recognized in the consolidated statements of profit or loss

In addition to the amounts disclosed in the reconciliation of hedging reserves above, the following amounts were recognized in the consolidated statements of profit or loss in relation to derivatives:

	2021 RMB'000	2022 RMB'000
Net gains/(losses) on commodity swaps contracts not qualifying as hedges included in other gains / (losses) - net	18,997	(35,434)
Net gains on foreign exchange forward contracts not qualifying as hedges included in other gains / (losses) - net	—	7,583
Net losses on foreign exchange option contracts not qualifying as hedges included in other gains / (losses) - net	(151)	—
<b>Total</b>	<b>18,846</b>	<b>(27,851)</b>

3 Financial risk management (continued)

3.1 Financial risk factors (continued)

(a) Derivatives (continued)

(iv) Amounts recognized in the consolidated statements of profit or loss (continued)

Hedge effectiveness

Hedge effectiveness is determined at the inception of the hedge relationship, and through periodic prospective effectiveness assessments, to ensure that an economic relationship exists between the hedged item and hedging instrument.

The Group enters into commodity swaps contracts that have similar critical terms as the hedged item, such as reference rate, payment dates, transaction price, oil variety and oil quantity.

Hedge ineffectiveness for commodity swaps contracts may occur due to the changes in the timing of the hedged transactions. There was no recognized ineffectiveness during the year ended 31 December 2022 in relation to the commodity swaps.

As at 31 December 2022, the Group did not have commodity contracts of oil designed as qualified cash flow hedges. As at 31 December 2021, the Group had certain commodity contracts of crude oil designed as qualified cash flow hedges, which will be matured over the next 10 months. The fair value of such cash flow hedges is RMB 48,614 thousand recognized as derivative financial assets in the consolidated statements of financial position.

(b) Market risk

(i) Foreign exchange risk

The Group's major operational activities are carried out in Mainland China and a majority of the transactions are denominated in RMB. Nevertheless, the Group is exposed to foreign exchange risk arising from the recognized assets and liabilities, and future transactions denominated in foreign currencies, primarily with respect to US dollar. The Group's finance department at its headquarter is responsible for monitoring the amount of assets and liabilities, and transactions denominated in foreign currencies to minimize the foreign exchange risk. For the years ended 31 December 2021 and 31 December 2022, the Group used foreign exchange forward contracts and foreign exchange option contracts to mitigate its exposure to foreign exchange risk respect to US dollar.

As at 31 December 2022, there were no foreign exchange forward contract and foreign exchange option contract that had not been matured (31 December 2021: Nil).

As at 31 December 2022, if US dollar and HK dollar had weakened/strengthened by 5% against RMB with all other variables held constant, the Group's net loss for the year ended 31 December 2022 would decrease/increase by RMB 1,751 thousand (31 December 2021: net profit would decrease/increase by RMB 2,292 thousand) before considering the impact of forward and option contracts as a result of foreign exchange gains/losses which is mainly resulted from the translation of US dollar denominated trade receivables and payables.

## 3 Financial risk management (continued)

## 3.1 Financial risk factors (continued)

## (b) Market risk (continued)

The aggregate net foreign exchange (losses) / gains recognized in the consolidated statements of profit or loss were:

	2021 RMB'000	2022 RMB'000
Net foreign exchange (losses)/gains included in Other gains/(losses) - net (note 8)	(1,861)	21,969

## (ii) Cash flow and fair value interest rate risk

The Group's interest rate risk arises from interest-bearing borrowings and short-term bonds. Borrowings obtained at variable rates expose the Group to cash flow interest rate risk. Borrowings obtained at fixed rates expose the Group to fair value interest rate risk. The Group determines the relative proportions of its fixed rate and floating rate contracts depending on the prevailing market conditions.

The Group's finance department at its headquarter continuously monitors the interest rate position of the Group. Increases in interest rates will increase the cost of new borrowing and the interest expenses with respect to the Group's outstanding floating rate borrowings, and therefore could have a material adverse effect on the Group's financial position. The Group makes adjustments timely with reference to the latest market conditions and may enter into interest rate swap agreements to mitigate its exposure to interest rate risk. For the years ended 31 December 2021 and 31 December 2022, the Group did not enter into any interest rate swap agreements.

## 3 Financial risk management (continued)

## 3.1 Financial risk factors (continued)

## (b) Market risk (continued)

At the reporting date, the interest rate profile of the Group's interest-bearing financial instruments was as follows.

	2021 RMB'000	2022 RMB'000
<b>Fixed rate:</b>		
Time deposits with maturity less than one year	7,350,000	3,000,000
Time deposits with maturity more than one year	5,500,000	3,300,000
Borrowings	(1,500,000)	(1,550,000)
Lease liabilities	(4,613)	(16,251)
	<u>11,345,387</u>	<u>4,733,749</u>
<b>Variable rate:</b>		
Cash and cash equivalents	5,112,010	889,413
Borrowings	(759,800)	(700,000)
	<u>4,352,210</u>	<u>189,413</u>

As at 31 December 2022, if interest rates on the floating rate financial instruments had risen/fallen by 50 basis points while all other variables had been held constant, the Group's net loss would have decreased / increased by approximately RMB 730 thousand (2021: RMB 16,252 thousand increased / decreased in net profit), mainly as a result of higher/lower interest interest on floating rate cash and cash equivalents.

## (iii) Commodity price risk

The Group principally engages in processing crude oil into synthetic fibers, resins and plastics, intermediate petrochemicals and petroleum products. The selling price of petroleum products is periodically adjusted by the government department based on the market price adjustment mechanism, and generally in connection with the crude oil price. The fluctuations in prices of crude oil, refined oil products and intermediate petrochemicals and petroleum products could have significant impact on the Group. The Group uses commodity swaps contracts to manage a portion of this risk.

As at 31 December 2021, the Group had certain unexpired commodity contracts of crude oil and refined oil designated as qualified cash flow hedges balances of which have been disclosed in note 3.1 (a). As at 31 December 2022, the Group had no unexpired commodity contracts of crude oil and refined oil designated as qualified cash flow hedges.

## 3 Financial risk management (continued)

## 3.1 Financial risk factors (continued)

## (c) Credit risk

## (i) Risk management

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Group. Credit risk is managed on group basis. It mainly arises from cash and cash equivalents, time deposits with banks, bills receivable, derivative financial assets, trade receivables measured at amortized cost and FVOCI, other receivables etc.

The Group expects that there is no significant credit risk associated with cash at bank (including time deposits and structured deposits), bills receivable and derivative financial assets because the counterparties are banks and financial institutions with a relatively higher credit rating, which the Group considers to represent low credit risk. Management does not expect that there will be any significant losses from non-performance by these counterparties.

In addition, the Group has policies to limit the credit exposure on trade receivables, other receivables. The Group assesses the credit quality of and sets credit limits on its customers by taking into account their financial position, the availability of guarantee from third parties, their credit history and other factors such as current market conditions. The credit history of the customers is regularly monitored by the Group. In respect of customers with a poor credit history, the Group will use written payment reminders, or shorten or cancel credit periods, to ensure the overall credit risk of the Group is limited to a controllable extent.

The Group considers the probability of default upon initial recognition of a financial asset and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period. To assess whether there is a significant increase in credit risk, the Group compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition. It considers available reasonable and supportive forward-looking information. Especially the following indicators are incorporated:

## 3 Financial risk management (continued)

## 3.1 Financial risk factors (continued)

## (c) Credit risk (continued)

## (i) Risk management (continued)

- internal credit rating;
- external credit rating (as far as available);
- actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the debtors' ability to meet its obligations;
- actual or expected significant changes in the operating results of the debtors;
- significant increases in credit risk on other financial instruments of the same debtors;
- significant changes in the value of the collateral supporting the obligation or in the quality of third-party guarantees or credit enhancements;
- significant changes in the expected performance and behaviour of the debtors, including changes in the payment status of debtors, etc.

Regardless of the analysis above, a significant increase in credit risk is presumed if a debtor is more than 30 days past due in making a contractual payment.

It has other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews regularly the recoverable amount of each individual trade receivables to ensure that adequate impairment losses are made for irrecoverable amounts. Significant concentrations of credit risk primarily arise when the Group has significant exposure to individual customers. As at 31 December 2022, 95.57% and 97.65% of the total trade receivables were due from the Group's largest customer and the five largest customers respectively within the Group (31 December 2021: 93.20% and 94.70%).

For other receivables, management makes periodic collective assessment as well as individual assessment on the recoverability of other receivables based on historical settlement records and forward-looking information. The management believes that there is no material credit risk inherent in the Group's outstanding balance of other receivable.

## (ii) Impairment of financial assets

The Group has three types of financial assets that are subject to the expected credit loss model:

- Trade receivables for sales of goods and from the providing services,
- Other financial assets carried at amortized cost, and
- Debt instruments carried at FVOCI.

While cash and cash equivalents, time deposits with banks and bills receivable are also subject to the impairment requirements of IFRS 9, the identified impairment loss was immaterial.



## 3 Financial risk management (continued)

## 3.1 Financial risk factors (continued)

## (c) Credit risk (continued)

## (ii) Impairment of financial assets (continued)

## Trade receivables

The Group applies the IFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables (including trade receivables with related parties) and financial assets at fair value through other comprehensive income.

To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and the days past due.

The expected credit loss rates are based on the payment profiles of sales over a period of 36 months before 31 December 2021 and 31 December 2022 respectively and the corresponding historical credit losses experienced within this period. The historical loss rates are adjusted to reflect current and forward-looking information on macroeconomic factors affecting the ability of the customers to settle the receivables.

Impairment losses on trade receivables are presented as provision of impairment losses on financial assets within operating (loss) / profit. Subsequent recoveries of amounts previously written off are credited against the same line item.

## Other financial assets at amortized cost

Other financial assets at amortized cost include other receivables.

As at 31 December 2021 and 31 December 2022, the internal credit rating of other receivables was all performing. The Group has assessed that the expected credit losses for these receivables are not material under the 12 months expected losses method.

Management considered that there was no significant increase in credit risk for other receivables including receivables from related parties by taking into account of their past history of making payments when due and current ability to pay, and thus the impairment provision recognized during the period was limited to 12 months expected losses.

The (reversal)/provision for loss allowance was recognized in the statements of profit or loss in reversal/(provision) of impairment losses on financial assets.

Trade and other receivables are written off where there is no reasonable expectation of recovery. Indicators that there is no reasonable expectation of recovery include, amongst others, the failure of a debtor to engage in a repayment plan with the Group, and a failure to make contractual payments for a period of greater than 120 days past due.

Impairment losses on trade and other receivables are presented as (provision)/ reversal of impairment losses within operating profit. Subsequent recoveries of amounts previously written off are credited against the same line item.

## 3 Financial risk management (continued)

## 3.1 Financial risk factors (continued)

## (c) Credit risk (continued)

## (ii) Impairment of financial assets (continued)

## Debt instruments carried at FVOCI

Debt instruments carried at FVOCI include trade receivables and bills receivable with a business model which is achieved both by collecting contractual cash flows and selling of these assets. The loss allowance for debt instruments is recognized in the statements of profit or loss and reduces the fair value loss otherwise recognized in OCI.

As at 31 December 2021 and 31 December 2022, no loss allowance was provided for financial assets at FVOCI.

## (iii) Provision of impairment losses on financial assets recognized in the consolidated statements of profit or loss

During the year, the following (losses) /recoveries were recognized in provision of impairment losses on financial assets in relation to impaired financial assets:

	2021 RMB'000	2022 RMB'000
Impairment losses		
- provision in loss allowance for trade receivables	(1,354)	(778)
- provision in loss allowance for other receivables	(1)	(4,727)
Impairment losses reversed	—	139
Provision of impairment losses on financial assets	<u>(1,355)</u>	<u>(5,366)</u>

## (iv) Financial assets at fair value through profit or loss

The Group is also exposed to credit risk in relation to investments such as derivative financial instruments, which are measured at fair value through profit or loss. The maximum exposure at the end of the reporting period is the carrying amount of these investments.

## 3 Financial risk management (continued)

## 3.1 Financial risk factors (continued)

## (d) Liquidity risk

Cash flow forecast is performed by the operating entities of the Group and aggregated by Group finance. Group finance monitors rolling forecasts of the Group's liquidity requirements to ensure it has sufficient cash to meet operational needs while maintaining sufficient headroom on its undrawn committed borrowing facilities from major financial institutions so that the Group does not breach borrowing limits or covenants on any of its borrowing facilities to meet the short-term and long-term liquidity requirements.

The liquidity of the Group is primarily dependent on its ability to maintain adequate cash inflow from operations, the renewal of its short-term bank loans and its ability to obtain adequate external financing to support its working capital and meet its debt obligation when they become due. As at 31 December 2022, the Group had credit facilities with several PRC financial institutions which provided the Group to draw down to RMB 9,200,000 thousand, within which amounted to RMB 6,950,000 thousand were unused. Management assessed that all the facilities could be renewed upon the expiration dates.

Surplus cash held by the operating entities over and above balance required for working capital management is transferred to the Group treasury. As at 31 December 2022, the Group held cash and cash equivalents of RMB 889,413 thousand (31 December 2021: RMB 5,112,010 thousand) (note 23), time deposits with banks - current of RMB 3,108,919 thousand (31 December 2021: RMB 7,386,607 thousand) (note 24) and trade receivables (including trade receivables with related parties and those carried at fair value through other comprehensive income ("FVOCI") of RMB 2,957,771 thousand (31 December 2021: RMB 1,568,800 thousand), that are expected to readily generate cash inflows for managing liquidity risk.

The table below analyzes the Group's financial liabilities into relevant maturity groupings based on the remaining period at the consolidated statements of financial position date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

	As at 31 December 2021					
	Contractual maturities of financial liabilities					
	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Over 5 years RMB'000	Total RMB'000	Carrying amount
Non-derivatives						
Borrowings	1,578,817	7,665	704,914	—	2,291,396	2,259,800
Lease liabilities	3,814	730	814	—	5,358	4,613
Bills payables	562,593	—	—	—	562,593	562,593
Trade payables	1,527,706	—	—	—	1,527,706	1,527,706
Other payables	1,003,860	—	—	—	1,003,860	1,003,860
Amounts due to related parties excluded non-financial liabilities	4,910,255	—	—	—	4,910,255	4,910,255
	9,587,045	8,395	705,728	—	10,301,168	10,268,827
Derivatives						
Derivative financial liabilities	23,804	—	—	—	23,804	23,804

## 3 Financial risk management (continued)

## 3.1 Financial risk factors (continued)

## (d) Liquidity risk (continued)

	As at 31 December 2022					Carrying amount
	Contractual maturities of financial liabilities				Total	
	Less than 1 year RMB'000	Between 1 and 2 years RMB'000	Between 2 and 5 years RMB'000	Over 5 years RMB'000	RMB'000	
<b>Non-derivatives</b>						
Borrowings	1,570,282	704,914	—	—	2,275,196	2,250,000
Lease liabilities	9,395	7,531	655	—	17,581	16,251
Bills payables	24,951	—	—	—	24,951	24,951
Trade payables	1,818,453	—	—	—	1,818,453	1,818,453
Other payables	1,083,130	—	—	—	1,083,130	1,083,130
Amounts due to related parties excluded non-financial liabilities	7,877,323	—	—	—	7,877,323	7,877,323
	<u>12,383,534</u>	<u>712,445</u>	<u>655</u>	<u>—</u>	<u>13,096,634</u>	<u>13,070,108</u>
<b>Derivatives</b>						
Derivative financial liabilities	—	—	—	—	—	—

## 3.2 Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Group actively and regularly reviews and manages its capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

The Group monitors its capital structure on the basis of an adjusted net debt-to-capital ratio. For this purpose, adjusted net debt is defined as total debt (which includes interest-bearing loans and borrowings, and lease liabilities) plus unaccrued proposed dividends, less cash and cash equivalents. Adjusted capital comprises all components of equity, other than amounts recognized in equity relating to cash flow hedges, less unaccrued proposed dividends.

The Group's adjusted net debt-to-capital ratio at 31 December 2022 was as follows:

	Note	2022 RMB'000
<b>Current liabilities:</b>		
Borrowings	26	1,550,000
Lease liabilities	15	8,738
		<u>1,558,738</u>
<b>Non-current liabilities:</b>		
Borrowings	26	700,000
Lease liabilities	15	7,513
Total Debt		<u>2,266,251</u>
Less: Cash and cash equivalents	23	<u>(889,413)</u>
<b>Adjusted net debt</b>		<u>1,376,838</u>

Total equity	26,355,363
Less: Hedging reserve	—
<b>Adjusted capital</b>	<b>26,355,363</b>
<b>Adjusted net debt-to-capital ratio</b>	<b>5%</b>

As cash and cash equivalents exceed total borrowings and short-term bonds, which was resulted primarily from profitability, there was no net debt as at 31 December 2021.

## 3 Financial risk management (continued)

## 3.3 Fair value estimation

The table below analyzes the Group's financial instruments carried at fair value as at 31 December 2021 and 2022 by the level of the inputs to valuation techniques used to measure fair value. Such inputs are categorized into three levels within a fair value hierarchy as follows:

- The fair value of financial instruments traded in active markets (such as publicly traded derivatives and equity securities) is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the Group is the current bid price. These instruments are included in level 1.
- The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined using valuation techniques that maximize the use of observable market data and rely as little as possible on entity-specific estimates. If all significant inputs required to fair value an instrument are observable, the instrument is included in level 2.
- If one or more of the significant inputs is not based on observable market data, the instrument is included in level 3. This is the case for unlisted equity securities.

As at 31 December 2021					
Note	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000	
Recurring fair value measurements					
Financial assets					
Financial assets measured at fair value through profit or loss					
- Commodity swaps contracts	3.1(a)	—	32,791	—	32,791
Financial assets at fair value through other comprehensive income					
- Trade and bills receivable	25	—	1,072,690	—	1,072,690
- Equity investments	25	—	—	5,000	5,000
- Commodity swaps contracts	3.1(a)	—	48,614	—	48,614
		<u>—</u>	<u>1,154,095</u>	<u>5,000</u>	<u>1,159,095</u>
Financial liabilities					
Financial liabilities measured at fair value through profit or loss					
- Commodity swaps contracts		—	23,804	—	23,804
		<u>—</u>	<u>23,804</u>	<u>—</u>	<u>23,804</u>
Amounts due to related parties – measured at fair value through profit or loss (FVPL)					
		<u>—</u>	<u>1,388,286</u>	<u>—</u>	<u>1,388,286</u>
As at 31 December 2022					
Note	Level 1 RMB'000	Level 2 RMB'000	Level 3 RMB'000	Total RMB'000	
Recurring fair value measurements					
Financial assets					
Financial assets measured at fair value through other comprehensive income					
- Trade and bills receivable	25	—	582,354	—	582,354
- Equity investments	25	—	—	5,000	5,000
		<u>—</u>	<u>582,354</u>	<u>5,000</u>	<u>587,354</u>

### 3 Financial risk management (continued)

#### 3.3 Fair value estimation (continued)

##### Valuation techniques and inputs used in Level 2 fair value measurements

The fair value of commodity swaps contract is the estimated amount that the Group would receive or pay to terminate the swap at the end of the reporting period, taking into account the current interest rates and the current creditworthiness of the swap counterparties.

The fair value of trade and bills receivable is estimated as the present value of the future cash flows, discounted at the market interest rates at the balance sheet date.

The fair value of amounts due to related parties is the estimated amount that the Group would settle the liability by returning certain quantity of crude oil at the end of the reporting period, referring to market price of the related crude oil. As at 31 December 2022, if market price of crude oil had risen/fallen by 10% while all other variables had been held constant, the Group's net loss would have increased / decreased by approximately RMB nil (2021: RMB 89,787 thousand decreased / increased in net profit ).

During the year ended 31 December 2022, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. The Group's policy is to recognize transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

Financial assets and financial liabilities not measured at fair value mainly represent trade receivables, other receivables, amounts due from related parties excluded prepayments, trade payables, amounts due to related parties, other payables (except for the staff salaries and welfare payables and taxes payables), borrowings and short-term bonds. The carrying amounts of these financial assets and liabilities not measured at fair value are a reasonable approximation of their fair value.

The following table presents the changes in level 3 items for the year ended 31 December 2022:

	Equity investments RMB'000	Structured deposits RMB'000	Total RMB'000
As at 31 December 2020	5,000	—	5,000
Acquisitions	—	8,150,000	8,150,000
Disposals	—	(8,247,921)	(8,247,921)
Fair value change	—	97,921	97,921
As at 31 December 2021	5,000	—	5,000
Acquisitions	—	1,000,000	1,000,000
Disposals	—	(1,011,124)	(1,011,124)
Fair value change	—	11,124	11,124
As at 31 December 2022	5,000	—	5,000

### 4 Critical accounting judgement and estimates

#### 4.1 Critical accounting judgements in applying the Group's accounting policies

In the process of applying the Group's accounting policies, management has made the following accounting judgement:

##### (a) Classification of financial assets

The classification depends on the Group's business model for managing the financial assets and the contractual terms of the cash flows. The Group determines the business model for managing financial assets at the level of the financial asset portfolio. The factors considered include the way to evaluate and report the performance of financial assets to key management personnel, the risks affecting the performance of financial assets and their management methods, and the way for relevant business management personnel to obtain remuneration, etc.





4 Critical accounting judgement and estimates (continued)

4.1 Critical accounting judgements in applying the Group's accounting policies (continued)

(a) Classification of financial assets (continued)

When evaluating whether the contractual cash flow of financial assets is consistent with the basic lending arrangements, the Group has the following main judgments: whether the time distribution or amount of the principal may change in the duration due to prepayment and other reasons; whether the interest only includes the time value of money, credit risk, other basic lending risks and the consideration of cost and profit. For example, does the amount of prepayment only reflect the outstanding principal and the interest based on the outstanding principal, as well as the reasonable compensation paid for the early termination of the contract.

4.2 Sources of estimation uncertainty

Significant sources of estimation uncertainty are as follows:

(a) Net realizable value ("NRV") of inventories

As described in note 2.14, inventories are valued at the lower of cost and net realizable value. The net realizable value is determined based on the estimated selling prices in the ordinary course of business less the estimated costs to completion, and other costs necessary to make the sale. These estimates are based on the current market condition and historical experience of selling products of similar nature. It could change significantly as a result of competitor actions in response to changes in market conditions.

Management reassesses these estimations at the end of each reporting period to ensure inventory is measured at the lower of cost and net realizable value.

## 4 Critical accounting judgement and estimates (continued)

## 4.2 Sources of estimation uncertainty (continued)

## (b) Impairments for non-current assets

As discussed in note 2.12, at the end of each reporting period, the Group estimates the recoverable amount of an asset or a cash-generating unit ("CGU") (a portion of which related to certain production facilities), at the higher of its fair value less costs of disposal and its value in use, to determine the impairment losses. If circumstances indicate that the carrying amount of the asset or CGU may not be recoverable, the asset or CGU may be considered "impaired", and an impairment loss may be recognized.

The recoverable amount of assets or CGUs is the higher of the fair value less costs of disposal and value in use. As the fair value of certain assets or CGUs may not be publicly available, the Group uses all readily available information in determining an amount that is a reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions for projections of product sales and operating costs and discount rate. In particular, in determining the value in use of the Group's specific CGUs, significant judgements are required on the accounting estimates which are based on the assumptions relating to product sales growth rates, related costs growth rates and discount rate applied.

## (c) Useful life and residual value of property, plant and equipment

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. Management reviews the estimated useful lives and estimated residual value 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 the Group's 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.

## 5 Segment information and revenue

## 5.1 Segment information

The Group manages its business by divisions, which are organized by business lines. In view of the fact that the Company and its subsidiaries operate substantially all in the PRC, no geographical segment information is presented.

In a manner consistent with the way in which information is reported internally to the Group's chief operating decision maker, Board of Directors, for the purposes of resource allocation and performance assessment, the Group has identified the following five reportable segments. No operating segments have been aggregated to form the following reportable segments.

## 5 Segment information and revenue (continued)

## 5.1 Segment information (continued)

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items mainly comprise interests in associates and joint ventures, deferred tax assets, cash and cash equivalents, time deposits, and incomes relating to these assets (such as share of net profits/(losses) of associates and joint ventures accounted for using the equity method and interest income), derivative financial assets, borrowings, short-term bonds and interest expenses, derivative financial liabilities, and deferred tax liabilities.

The Group principally operates in five operating segments: synthetic fibres, resins and plastics, intermediate petrochemicals, petroleum products and trading of petrochemical products. Synthetic fibres, resins and plastics, intermediate petrochemicals and petroleum products are produced through intermediate steps from the principal raw material of crude oil. The specific products of each segment are as follows:

- (i) The petroleum products segment is equipped with crude oil refinery facilities used to produce qualified refined gasoline, fuel, diesel oil, heavy oil and liquefied petroleum gas, and provide raw materials for the Group's downstream petrochemical processing facilities.
- (ii) The intermediate petrochemicals segment primarily produces p-xylene, benzene and ethylene oxide. The intermediate petrochemicals produced by the Group are both served as raw materials in the production of other petrochemicals, resins, plastics and synthetic fibres, and sold to external customers.
- (iii) The resins and plastics segment produces primarily polyester chips, polyethylene resins, polypropylene resins and PVA granules. The polyester chips are used to produce polyester fibres, coating and containers. Polyethylene resins and plastics are used to produce insulated cable, mulching films and moulded products such as housewares and toys. Polypropylene resins are used for films, sheets and moulded products such as housewares, toys, consumer electronics and automobile parts.
- (iv) The synthetic fibres segment produces primarily polyester, acrylic fibres and carbon fibres, which are mainly used in the textile and apparel industries.
- (v) The trading of petrochemical products segment is primarily engaged in importing and exporting of petrochemical products. The products are sourced from international and domestic suppliers.
- (vi) Other operating segments represent the operating segments that do not meet the quantitative threshold for determining reportable segments. These include investment property leasing, service provision and a variety of other commercial activities.

## 5 Segment information and revenue (continued)

## 5.1 Segment information (continued)

2020	Petroleum products RMB'000	Intermediate petrochemicals RMB'000	Resins and plastics RMB'000	Synthetic fibres RMB'000	Trading of petrochemical products RMB'000	Others RMB'000	Total RMB'000
Total segment revenue	49,711,547	19,777,574	9,576,944	1,480,576	12,023,744	1,583,236	94,153,621
Inter segment revenue	(6,631,343)	(11,526,322)	(101,057)	—	(438,634)	(832,690)	(19,530,046)
Revenue from external customers	43,080,204	8,251,252	9,475,887	1,480,576	11,585,110	750,546	74,623,575
Timing of revenue recognition							
- At a point in time	43,080,204	8,251,252	9,475,887	1,480,576	11,583,709	750,546	74,622,174
- Over time	—	—	—	—	1,401	—	1,401
	43,080,204	8,251,252	9,475,887	1,480,576	11,585,110	750,546	74,623,575
Segment result – (loss)/profit from operations	(2,198,705)	581,597	1,262,029	(364,211)	42,039	211,015	(466,236)

## 5 Segment information and revenue (continued)

## 5.1 Segment information (continued)

2021	Petroleum products RMB'000	Intermediate petrochemicals RMB'000	Resins and plastics RMB'000	Synthetic fibres RMB'000	Trading of petrochemical products RMB'000	Others RMB'000	Total RMB'000
Total segment revenue	65,528,687	26,454,844	10,176,285	1,381,443	12,972,922	1,625,705	118,139,886
Inter segment revenue	(10,454,529)	(15,619,770)	(170,255)	(445)	(1,912,789)	(783,606)	(28,941,394)
Revenue from external customers	55,074,158	10,835,074	10,006,030	1,380,998	11,060,133	842,099	89,198,492
Timing of revenue recognition							
- At a point in time	55,074,158	10,835,074	10,006,030	1,380,998	11,020,323	842,099	89,158,682
- Over time	—	—	—	—	39,810	—	39,810
	55,074,158	10,835,074	10,006,030	1,380,998	11,060,133	842,099	89,198,492
Segment result – profit/(loss) from operations	2,967,030	(635,155)	52,215	(854,077)	43,729	(141,510)	1,432,232

## 5 Segment information and revenue (continued)

## 5.1 Segment information (continued)

2022	Petroleum products RMB'000	Intermediate petrochemicals RMB'000	Resins and plastics RMB'000	Synthetic fibres RMB'000	Trading of petrochemical products RMB'000	Others RMB'000	Total RMB'000
Total segment revenue	62,729,318	26,112,700	7,416,830	413,981	12,938,663	1,641,243	111,252,735
Inter segment revenue	(11,575,451)	(15,536,795)	(71,778)	(98)	(922,077)	(703,380)	(28,809,579)
Revenue from external customers	51,153,867	10,575,905	7,345,052	413,883	12,016,586	937,863	82,443,156
Timing of revenue recognition							
- At a point in time	51,153,867	10,575,905	7,345,052	413,883	11,917,827	937,863	82,344,397
- Over time	—	—	—	—	98,759	—	98,759
	51,153,867	10,575,905	7,345,052	413,883	12,016,586	937,863	82,443,156
Segment result – profit/(loss) from operations	972	(1,456,647)	(1,252,524)	(1,015,255)	12,838	(132,750)	(3,843,366)

## Sinopec Shanghai Petrochemical Company Limited

## 5 Segment information and revenue (continued)

## 5.1 Segment information (continued)

	2020 RMB'000	2021 RMB'000	2022 RMB'000
Segment result – (loss)/profit from operations			
Petroleum products	(2,198,705)	2,967,030	972
Intermediate petrochemicals	581,597	(635,155)	(1,456,647)
Resins and plastics	1,262,029	52,215	(1,252,524)
Synthetic fibres	(364,211)	(854,077)	(1,015,255)
Trading of petrochemical products	42,039	43,729	12,838
Others	211,015	(141,510)	(132,750)
(Loss)/profit from operations	(466,236)	1,432,232	(3,843,366)
Finance income – net	332,274	414,569	443,328
Share of profit/(loss) of investments accounted for using the equity method	724,740	874,285	(173,616)
Profit/(loss) before taxation	<u>590,778</u>	<u>2,721,086</u>	<u>(3,573,654)</u>

## 5 Segment information and revenue (continued)

## 5.1 Segment information (continued)

## Other profit and loss disclosures

	2020			2021			2022		
	Depreciation and amortization RMB'000	Impairment loss and credit loss RMB'000	Inventory write-down RMB'000	Depreciation and amortization RMB'000	Impairment loss and credit loss RMB'000	Inventory write-down RMB'000	Depreciation and amortization RMB'000	Impairment loss and credit loss RMB'000	Inventory write-down RMB'000
Petroleum products	(917,637)	—	(138,537)	(975,492)	(94,420)	(782)	(928,687)	—	(37,900)
Intermediate									
petrochemicals	(465,425)	(55,204)	(15,418)	(523,484)	(297,632)	(136,694)	(414,999)	(215,355)	(248,518)
Resins and plastics	(138,204)	—	(26,382)	(86,183)	(61,242)	(168)	(106,845)	(25,102)	(134,138)
Synthetic fibres	(78,030)	88,550	(39,657)	(132,091)	(135,683)	(13,239)	(140,885)	(51,160)	(104,713)
Trading of petrochemical									
products	(19,938)	—	(788)	(39,125)	—	—	(35,345)	—	—
Others	(207,905)	—	(106)	(209,333)	(28,392)	—	(186,537)	(9)	—
	<u>(1,827,139)</u>	<u>33,346</u>	<u>(220,888)</u>	<u>(1,965,708)</u>	<u>(617,369)</u>	<u>(150,883)</u>	<u>(1,813,298)</u>	<u>(291,626)</u>	<u>(525,269)</u>



## 5 Segment information and revenue (continued)

## 5.1 Segment information (continued)

	As at 31 December	
	2021 Total assets RMB'000	2022 Total assets RMB'000
Allocated assets		
Petroleum products	13,317,338	16,021,111
Intermediate petrochemicals	3,781,785	3,803,989
Resins and plastics	1,395,867	1,359,796
Synthetic fibres	1,919,194	2,734,193
Trading of petrochemical products	1,348,751	1,391,104
Others	2,700,327	2,765,693
Allocated assets	24,463,262	28,075,886
Unallocated assets		
Investments accounted for using the equity method	4,088,888	3,504,393
Cash and cash equivalents	5,112,010	889,413
Time deposits with banks	12,968,042	6,498,478
Deferred tax assets	184,143	991,850
Derivative financial assets	81,405	—
Value added tax recoverable	13,322	1,057,463
Others	9,517	119,234
Unallocated assets	22,457,327	13,060,831
Total assets	46,920,589	41,136,717

## Sinopec Shanghai Petrochemical Company Limited

## 5 Segment information and revenue (continued)

## 5.1 Segment information (continued)

	As at 31 December	
	2021 Total liabilities RMB'000	2022 Total liabilities RMB'000
Allocated liabilities		
Petroleum products	9,749,806	8,159,960
Intermediate petrochemicals	1,257,436	801,787
Resins and plastics	1,327,587	1,309,344
Synthetic fibres	490,211	531,455
Trading of petrochemical products	1,257,750	1,370,346
Others	112,876	251,328
Allocated liabilities	14,195,666	12,424,220
Unallocated liabilities		
Borrowings	2,259,800	2,250,000
Deferred tax liabilities	33,344	30,895
Derivative financial liabilities	23,804	—
Others	30,577	76,239
Unallocated liabilities	2,347,525	2,357,134
Total liabilities	16,543,191	14,781,354

	2020 RMB'000	2021 RMB'000	2022 RMB'000
Additions to property, plant and equipment, construction in progress, right-of-use assets, other non-current assets			
Petroleum products	779,392	708,342	544,806
Intermediate petrochemicals	278,788	1,306,813	1,029,771
Resins and plastics	139,212	44,495	54,220
Synthetic fibres	496,125	1,748,868	1,573,781
Trading of petrochemical products	378,292	71,917	16,603
Others	222,080	234,023	235,406
	2,293,889	4,114,458	3,454,587

## 5 Segment information and revenue (continued)

## 5.2 Revenue

The Group's revenue from external customers are substantially all within Mainland China in 2020, 2021 and 2022. As at 31 December 2021 and 31 December 2022, assets are also substantially all within Mainland China.

Revenue of approximately RMB 52,190,120 thousand (2020: RMB38,651,385 thousand, 2021: RMB59,766,489 thousand) are derived from a single customer. These revenues are attributable to the petroleum products and other segments .

Details of concentrations of credit risk arising from these customers are set out in note 3.1(c).

## 6 Other operating income

	2020 RMB'000	2021 RMB'000	2022 RMB'000
Government grants (a)	61,296	35,944	33,055
Rental income from investment properties (note 17)	81,608	81,923	75,159
Others	5,772	7,438	2,427
	<u>148,676</u>	<u>125,305</u>	<u>110,641</u>

## (a) Government grants

Grants related to R&D, other tax refund and subsidies are included in the government grants line item. There are no unfulfilled conditions or other contingencies attaching to these grants.

## 7 Other operating expenses

	2020 RMB'000	2021 RMB'000	2022 RMB'000
Cost related to lease of investment properties	(15,625)	(13,439)	(12,037)
Others	(9,061)	(31,273)	(13,738)
	<u>(24,686)</u>	<u>(44,712)</u>	<u>(25,775)</u>

## 8 Other gains/(losses) – net

	2020 RMB'000	2021 RMB'000	2022 RMB'000
Net (losses) / gains on disposal of property, plant and equipment and other long-term assets	(1,212)	48,671	(26,767)
Gains from structured deposits (note a)	114,283	97,921	11,124
Net losses on foreign exchange option contracts	(376)	(151)	—
Net gains on foreign exchange forward contracts	—	—	7,583
Net gains/(losses) on commodity swaps contracts not qualified for hedging accounting	—	18,997	(35,434)
Losses from disposal of a subsidiary	—	—	—
Impairment losses for investment in an associate	—	(28,392)	—
Net foreign exchange gains / (losses)	12,248	(1,861)	21,969
Losses on sale of FVOCI	(9,513)	(4,685)	(3,148)
Gains from entrusted loan receivables	—	—	2,704
Net losses on disposal of inventories	—	(19)	(819)
	<u>115,430</u>	<u>130,481</u>	<u>(22,788)</u>

## (a) Gains from structured deposits

Structured deposits are financial products issued by banks, return of which are linked to the performance of the embedded index, like foreign exchange rate, interest rate and etc..

## (b) The effect of “6.18” No.1 ethylene glycol plant explosion accident

On 18 June 2022, a fire broke out in No.1 ethylene glycol plant of the intermediate petrochemicals segment of the Company, causing a fire on surrounding individual pipelines. Net losses due to the fire, including writing off of damaged fixed assets and inventories in the amount of RMB7,676 thousand and RMB819 thousand respectively, have been recorded in Other gains/(losses) - net, and compensation to casualties in the amount of RMB1,010 thousand have been recorded in other operating expenses (2020 and 2021: Nil).

## 9 Finance income and expenses

	2020 RMB'000	2021 RMB'000	2022 RMB'000
Interest income from time deposits with maturity more than 3 months	339,595	424,696	410,652
Interest income from time deposits with maturity less than 3 months	83,812	71,402	124,468
Others	7,821	12,657	6,710
Finance income	<u>431,228</u>	<u>508,755</u>	<u>541,830</u>
Interest and finance charges paid/payable for lease liabilities and financial liabilities not at fair value through profit or loss	(101,732)	(106,827)	(122,638)
Less: interest expense capitalized into construction in progress	8,292	12,641	24,136
Net interest expenses	<u>(93,440)</u>	<u>(94,186)</u>	<u>(98,502)</u>
Net foreign exchange losses	(5,514)	—	—
Finance expenses	<u>(98,954)</u>	<u>(94,186)</u>	<u>(98,502)</u>
Finance income – net	<u>332,274</u>	<u>414,569</u>	<u>443,328</u>

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## 10 Expense by nature

	2020 RMB'000	2021 RMB'000	2022 RMB'000
Cost of raw materials	42,082,307	54,457,558	55,997,717
Cost of trading products	11,467,420	10,929,127	11,910,488
Employee benefit expenses (note 11)	3,143,219	3,456,765	3,545,720
Depreciation and amortization:			
Property, plant and equipment (note 16)	1,553,039	1,621,459	1,494,176
Investment properties (note 17)	15,184	15,325	15,323
Other non-current assets (note 14)	226,263	294,617	270,881
Right-of-use assets (note 15)	32,653	34,307	32,918
Repairs and maintenance expenses	1,060,624	1,587,955	1,513,812
Changes of work in progress and finished goods	862,652	(235,402)	(78,255)
Transportation costs	274,002	238,405	193,144
Inventory write-down (note 21)	220,888	150,883	525,269
External processing fee	215,467	213,691	192,288
Commission expense (note 32)	104,598	110,552	90,341
Impairment loss of property, plant and equipment (note 16)	87,570	587,622	286,260
Impairment loss of investments accounted for using equity method (note 20)	—	28,392	—
Auditors' remuneration – audit services	7,800	6,837	6,837
Auditors' remuneration – non-audit services	—	129	129
Expenses relating to short - term leases	3,731	6,938	14,774

## 11 Employee benefit expenses

	2020 RMB'000	2021 RMB'000	2022 RMB'000
Wages and salaries	2,009,645	2,142,959	2,139,472
Social welfare costs	714,484	861,375	921,971
Others	419,090	452,431	484,277
Total employee benefit expense	<u>3,143,219</u>	<u>3,456,765</u>	<u>3,545,720</u>

- (a) Employees of the Group's subsidiaries in the PRC are required to participate in a defined contribution retirement scheme administered and operated by the local municipal government. The Group's subsidiaries in the PRC contribute funds which are calculated on certain percentages of the average employee salary as stipulated by the local municipal government to the scheme to fund the retirement benefits of the employees.

## 11 Employee benefit expenses (continued)

In addition, the Group provides a supplementary retirement plan for its staff at rates not exceeding 8% of the salaries. The Group has no other material obligation for the payment of pension benefits associated with these plans beyond the annual contributions described above.

For the year ended 31 December 2022, the Group's total contributions to defined contribution retirement plans was RMB 463,204 thousand.

(2020: RMB 342,073 thousand, 2021: RMB 431,818 thousand)

- (c) As at 31 December 2020, 31 December 2021 and 31 December 2022, there was no material outstanding contribution to the above defined contribution retirement plans.

## 12 Income tax benefits /(expenses)

	2020 RMB'000	2021 RMB'000	2022 RMB'000
Current income tax	(37,027)	(590,668)	(66,649)
Deferred taxation	102,647	(53,812)	798,003
Income tax benefits / (expenses)	<u>65,620</u>	<u>(644,480)</u>	<u>731,354</u>

A reconciliation of the expected income tax calculated at the applicable tax rate and profit / (loss) before taxation, with the actual income tax is as follows:

	Years ended 31 December		
	2020 RMB'000	2021 RMB'000	2022 RMB'000
Profit / (loss) before income tax	590,778	2,721,086	(3,573,654)
Expected PRC income tax at the statutory tax rate of 25%	(147,695)	(680,272)	893,414
Tax effect of share of net profits / (losses) of investments accounted for using the equity method	178,685	214,750	(46,787)
Tax effect of other non-taxable income	54,379	10,782	9,890
Tax effect of additional deductions for R&D expenses	11,863	12,168	17,779
Tax effect of non-deductible loss, expenses and costs	(51,543)	(185,945)	(67,330)
True up for final settlement of enterprise income taxes in respect of previous years	9,188	—	(54,017)
Tax losses for which no deferred income tax asset was recognized	(2,821)	(21,225)	(24,948)
Utilization of previously unrecognized tax losses	13,564	157	3,353
Tax effect of additional deduction for purchasing environmental protection equipment	—	12,446	—
Derecognition of previously recognized tax losses	—	(7,341)	—
Actual income tax benefits / (expenses)	<u>65,620</u>	<u>(644,480)</u>	<u>731,354</u>

## 12 Income tax benefits /(expenses) (continued)

The provision for PRC income tax is calculated at the rate of 25% (2020 and 2021: 25%) on the estimated taxable income of the year ended

31 December 2022 determined in accordance with relevant income tax rules and regulations. The Group did not carry out business overseas and therefore does not incur overseas income taxes.

## (a) Current taxation in the consolidated statements of financial position represents:

	2021 RMB'000	2022 RMB'000
At the beginning of the year	19,425	258,466
Provision for current income tax for the year	590,668	66,649
Payment during the year	(351,627)	(376,765)
At the end of the year	<u>258,466</u>	<u>(51,650)</u>
Representing		
Income tax	258,466	2,754
-Payable	—	(54,404)
-Prepaid	<u>258,466</u>	<u>(51,650)</u>

## (b) Movements in deferred tax assets and liabilities are as follows:

	Balance as at 1 January 2021 RMB'000	Credited/ (Charged) to profit or loss RMB'000	Credited/ (Charged) to reserves RMB'000	Balance as at 31 December 2021 RMB'000
<b>Deferred tax assets:</b>				
Impairment for bad and doubtful debts and provision for inventories	57,326	(977)	—	56,349
Provision for impairment losses in property, plant and equipment and construction in progress	226,435	131,776	—	358,211
Tax losses	87,799	(87,799)	—	—
Accruals and others	130,986	(48,808)	—	82,178
	<u>502,546</u>	<u>(5,808)</u>	<u>—</u>	<u>496,738</u>
<b>Deferred tax liabilities:</b>				
Difference in depreciation	(283,739)	(46,332)	—	(330,071)
Capitalization of borrowing costs	(2,043)	575	—	(1,468)
Derivative financial instruments	—	(2,247)	(12,153)	(14,400)
	<u>(285,782)</u>	<u>(48,004)</u>	<u>(12,153)</u>	<u>(345,939)</u>
Deferred tax assets – net	252,121	(55,825)	(12,153)	184,143
Deferred tax liabilities – net	(35,357)	2,013	—	(33,344)

## 12 Income tax benefits /(expenses) (continued)

(b) Movements in deferred tax assets and liabilities are as follows (continued):

	Balance as at 1 January 2022 RMB'000	Credited/ (Charged) to profit or loss RMB'000	Credited/ (Charged) to reserves RMB'000	Balance as at 31 December 2022 RMB'000
<b>Deferred tax assets:</b>				
Impairment for bad and doubtful debts and provision for inventories	56,349	71,761	—	128,110
Provision for impairment losses in property, plant and equipment and construction in progress	358,211	70,499	—	428,710
Tax losses	—	872,648	—	872,648
Accruals and others	82,178	(55,873)	—	26,305
	<u>496,738</u>	<u>959,035</u>	<u>—</u>	<u>1,455,773</u>
<b>Deferred tax liabilities:</b>				
Difference in depreciation	(330,071)	(163,492)	—	(493,563)
Capitalization of borrowing costs	(1,468)	213	—	(1,255)
Derivative financial instruments	(14,400)	2,247	12,153	—
	<u>(345,939)</u>	<u>(161,032)</u>	<u>12,153</u>	<u>(494,818)</u>
Deferred tax assets – net	184,143	795,554	12,153	991,850
Deferred tax liabilities – net	(33,344)	2,449	—	(30,895)

The Group recognizes deferred tax assets only to the extent that it is probable that future taxable income will be available against which the assets can be utilized. Based on the level of historical taxable income and projections for future taxable income over the periods which the deferred tax assets will be utilized, management believes that it is probable the Group will realize the benefits of these temporary differences for which deferred tax assets have been recognized.



## 12 Income tax benefits /(expenses) (continued)

## (c) Deferred tax assets not recognized:

As at 31 December 2022, certain subsidiaries of the Company did not recognize the deferred tax assets in respect of the impairment losses on property, plant and equipment amounting to RMB 29,856 thousand (31 December 2021: RMB29,969 thousand), because it was not probable that the related tax benefit would be realized.

As at 31 December 2022, certain subsidiaries of the Company did not recognize the deferred tax assets in respect of tax losses of RMB 393,896 thousand (31 December 2021: RMB350,574 thousand) carried forward for PRC income tax purpose because it was not probable that the related tax benefit would be realized.

Tax losses carried forward that are not recognized as deferred tax assets will expire in the following years:

	2021 RMB'000	2022 RMB'000
2022	65,331	—
2023	66,965	65,585
2024	91,901	91,901
2025	41,475	41,475
2026	84,902	95,144
2027	—	99,791
	<u>350,574</u>	<u>393,896</u>

## 13 Earnings/(losses) per share

## (a) Basic earnings/(losses) per share

Basic earnings/(losses) per share is calculated by dividing the profit/(loss) attributable to equity shareholders of the Company by the weighted average number of ordinary shares in issue during the year.

	2020 RMB'000	2021 RMB'000	2022 RMB'000
Net profit/(loss) attributable to equity shareholders of the Company	645,072	2,073,431	(2,846,156)
Weighted average number of ordinary shares in issue (thousand of shares)	10,823,814	10,823,814	10,819,622
Basic earnings/(losses) per share (RMB per share)	<u>RMB 0.060</u>	<u>RMB 0.192</u>	<u>RMB(0.263)</u>

Weighted average number of ordinary shares (thousand of shares)

	2020	2021	2022
Issued ordinary shares at 1 January	10,823,814	10,823,814	10,823,814
Effect of shares repurchased (note 30)	—	—	(4,192)
Weighted average number of ordinary shares at 31 December	<u>10,823,814</u>	<u>10,823,814</u>	<u>10,819,622</u>

## (b) Diluted earnings/(losses) per share

There were no dilutive potential ordinary shares for the years ended 31 December 2020, 2021 and 2022, therefore diluted earnings/(losses) per share is the same as basic earnings/(losses) per share.



## 14 Other non-current assets

	Intangible assets RMB'000	Long-term prepaid expense RMB'000	Investment deposits RMB'000	Total RMB'000
<b>As at 1 January 2021</b>				
Cost	85,908	1,069,157	—	1,155,065
Accumulated amortization	(71,139)	(658,967)	—	(730,106)
Net book amount	<u>14,769</u>	<u>410,190</u>	<u>—</u>	<u>424,959</u>
<b>Year ended 31 December 2021</b>				
Opening net book amount	14,769	410,190	—	424,959
Additions	—	657,465	—	657,465
Charge for the year	(2,925)	(291,692)	—	(294,617)
Closing net book amount	<u>11,844</u>	<u>775,963</u>	<u>—</u>	<u>787,807</u>
<b>As at 31 December 2021</b>				
Cost	85,908	1,726,622	—	1,812,530
Accumulated amortization	(74,064)	(950,659)	—	(1,024,723)
Net book amount	<u>11,844</u>	<u>775,963</u>	<u>—</u>	<u>787,807</u>
<b>Year ended 31 December 2022</b>				
Opening net book amount	11,844	775,963	—	787,807
Additions	—	268,474	50,000	318,474
Charge for the year	(2,924)	(267,957)	—	(270,881)
Closing net book amount	<u>8,920</u>	<u>776,480</u>	<u>50,000</u>	<u>835,400</u>
<b>As at 31 December 2022</b>				
Cost	85,908	1,995,096	50,000	2,131,004
Accumulated amortization	(76,988)	(1,218,616)	—	(1,295,604)
Net book amount	<u>8,920</u>	<u>776,480</u>	<u>50,000</u>	<u>835,400</u>

For the year ended 31 December 2022, the amortization of intangible assets and long-term prepaid expense of RMB 270,881 thousand (2020: RMB226,263 thousand, 2021: RMB294,617 thousand) has been charged in Cost of sales.

## 15 Leases

## (a) Amounts recognized in the consolidated statements of financial position

The consolidated statements of financial position shows the following amounts relating to leases:

	As at 31 December	
	2021	2022
	RMB'000	RMB'000
<b>Right-of-use assets</b>		
Land use rights	380,764	363,720
Buildings	3,288	14,540
Equipment	625	373
Others	966	1,172
	<u>385,643</u>	<u>379,805</u>
<b>Lease liabilities</b>		
Current	3,229	8,738
Non-current	1,384	7,513
	<u>4,613</u>	<u>16,251</u>

For the year ended 31 December 2022, additions to the right-of-use assets were RMB27,275 thousand (2020: RMB 109,238 thousand, including 102,283 thousand generated by the acquisition of a subsidiary, 2021: RMB 9,534 thousand). At 31 December 2022, the lease liabilities were repayable as follows:

	2022
	RMB'000
Within 1 year	8,738
After 1 year but within 2 years	6,945
After 2 years but within 5 years	568
	<u>16,251</u>

## 15 Leases (continued)

## (b) Amounts recognized in the consolidated statements of profit or loss

The consolidated statements of profit or loss shows the following amounts relating to leases:

	2020 RMB'000	2021 RMB'000	2022 RMB'000
<b>Depreciation charge of right-of-use assets</b>			
Land use rights	(15,965)	(17,044)	(17,044)
Buildings	(15,481)	(15,677)	(14,089)
Equipment	(449)	(399)	(547)
Others	(758)	(1,187)	(1,238)
	<u>(32,653)</u>	<u>(34,307)</u>	<u>(32,918)</u>
Interest expense (included in Finance expenses)	(887)	(537)	(1,039)
Expense relating to short-term leases (included in Cost of sales)	(3,731)	(6,938)	(14,774)

The total cash outflow for leases in 2022 was RMB 27,843 thousand (2020: RMB20,204 thousand, 2021: RMB24,482 thousand).

## 16 Property, plant and equipment

	Buildings RMB'000	Plant and machinery RMB'000	Vehicles and other equipment RMB'000	Total RMB'000
<b>Cost:</b>				
<b>At 1 January 2021</b>	3,481,210	42,742,330	1,958,220	48,181,760
Additions	—	161,118	15,646	176,764
Transferred from construction in progress (note 18)	130,947	1,476,065	92,962	1,699,974
Reclassification	267,662	(275,880)	8,218	—
Disposals	(4,717)	(737,634)	(62,782)	(805,133)
Transferred from investment properties (note 17)	1,164	—	—	1,164
Transferred to construction in progress (note 18)	(2,091)	(1,260)	(15,404)	(18,755)
Transferred to investment properties (note 17)	(83)	(7)	—	(90)
<b>At 31 December 2021 and 1 January 2022</b>	3,874,092	43,364,732	1,996,860	49,235,684
Additions	132	187,460	39,934	227,526
Transferred from construction in progress (note 18)	609,303	1,768,395	90,219	2,467,917
Reclassification	9,088	(47,399)	38,311	—
Disposals	(2,596)	(393,686)	(51,813)	(448,095)
Transferred from investment properties (note 17)	47	—	—	47
Others	1,208	—	—	1,208
<b>At 31 December 2022</b>	4,491,274	44,879,502	2,113,511	51,484,287
<b>Accumulated depreciation:</b>				
<b>At 1 January 2021</b>	(2,396,564)	(31,700,912)	(1,457,854)	(35,555,330)
Charge for the year	(88,234)	(1,419,669)	(113,556)	(1,621,459)
Reclassification	(214,041)	216,706	(2,665)	—
Written back on disposals	3,652	626,865	55,709	686,226
Transferred from investment properties (note 17)	(1,088)	—	—	(1,088)
Transfer to construction in progress (note 18)	46	735	5,642	6,423
Transferred to investment properties (note 17)	80	7	—	87
<b>At 31 December 2021 and 1 January 2022</b>	(2,696,149)	(32,276,268)	(1,512,724)	(36,485,141)
Charge for the year	(95,661)	(1,270,423)	(128,092)	(1,494,176)
Reclassification	(787)	6,340	(5,553)	—
Written back on disposals	2,469	344,469	50,036	396,974
Transferred from investment properties (note 17)	(45)	—	—	(45)
<b>At 31 December 2022</b>	(2,790,173)	(33,195,882)	(1,596,333)	(37,582,388)

## 16 Property, plant and equipment (continued)

	Buildings RMB'000	Plant and machinery RMB'000	Vehicles and other equipment RMB'000	Total RMB'000
<b>Impairment losses:</b>				
<b>At 1 January 2021</b>	(53,792)	(850,967)	(8,649)	(913,408)
Charge for the year	(793)	(586,147)	(682)	(587,622)
Written back on disposals	—	60,018	501	60,519
Reclassification	(26,133)	26,270	(137)	—
<b>At 31 December 2021 and 1 January 2022</b>	(80,718)	(1,350,826)	(8,967)	(1,440,511)
Charge for the year	(984)	(283,624)	(1,652)	(286,260)
Written back on disposals	—	4,264	112	4,376
Reclassification	(2,146)	2,202	(56)	—
<b>At 31 December 2022</b>	(83,848)	(1,627,984)	(10,563)	(1,722,395)
<b>Net book value:</b>				
<b>At 31 December 2022</b>	1,617,253	10,055,636	506,615	12,179,504
<b>At 31 December 2021</b>	1,097,225	9,737,638	475,169	11,310,032

- (i) The Group recognized impairment loss on property, plant and equipment in relation to certain production facilities of RMB 212,410 thousand for the year ended 31 December 2022. Due to deteriorating market conditions, the increasing production cost is not expected to be covered by the estimated selling price of the products, the Group identified an impairment indicator for property, plant and equipment in relation to certain production facilities, including No.1 ethylene glycol plant and No.2 ethylene glycol plant under intermediate petrochemicals segment, and performed an impairment assessment of these assets based on their estimated recoverable amounts, as a result the carrying amount of these assets were written down to their recoverable amount of RMB 265,377 thousand.

The recoverable amounts of above production facilities are estimated using the present value of future cash flows based on the financial budgets approved by management covering a five-year period. Forecasted cash flows are developed using several key assumptions, including the product sales growth rates, related costs growth rates ("forecasted growth rates") and discount rate. The forecasted growth rates are based on past business performance and market participants' expectations for market development, which are consistent with the forecasts included in industry reports. The discount rate used is a pre-tax ratio of 9% and reflects specific risks relating to the Group.

## 16 Property, plant and equipment (continued)

- (ii) During the year ended 31 December 2022, a number of production facilities were idle or obsolete. The Group does not expect to have future economic benefits recoverable from the use of those production facilities. There is no alternative use of those production facilities which is specifically designed. The recoverable amounts of property, plant and equipment related to those production facilities are estimated to be their residual value. As a result, impairment loss of RMB49,230 thousand under synthetic fibres segment and RMB24,620 thousand under resins and plastics segment was made against the carrying amounts of those assets.

As a result of these assessments, an impairment loss of RMB 286,260 thousand on property, plant and equipment was recognized in “cost of sales” for the year ended 31 December 2022.

For the year ended 31 December 2021, impairment loss of RMB 587,622 thousand on property, plant and equipment was recognized in Cost of sales for the excess of carrying amount over its recoverable amount.

For the year ended 31 December 2020, impairment loss of RMB 87,570 thousands has been recognized in Cost of sales for the excess of carrying amount over its recoverable amount.

## 17 Investment properties

	RMB'000
<b>Cost:</b>	
<b>As at 1 January 2021</b>	627,488
Transferred from property plant and equipment (note 16)	90
Transferred to property plant and equipment (note 16)	(1,164)
<b>At 31 December 2021 and 1 January 2022</b>	<u>626,414</u>
Transferred to property plant and equipment (note 16)	(47)
<b>At 31 December 2022</b>	<u>626,367</u>
<b>Accumulated depreciation:</b>	
<b>At 1 January 2021</b>	(259,902)
Charge for the year	(15,325)
Transferred from property plant and equipment (note 16)	(87)
Transferred to property plant and equipment (note 16)	1,088
<b>At 31 December 2021 and 1 January 2022</b>	<u>(274,226)</u>
Charge for the year	(15,323)
Transferred from property plant and equipment (note 16)	—
Transferred to property plant and equipment (note 16)	45
<b>At 31 December 2022</b>	<u>(289,504)</u>
<b>Net book value:</b>	
<b>At 31 December 2022</b>	<u>336,863</u>
<b>At 31 December 2021</b>	<u>352,188</u>

As at 31 December 2022, the Group has no contractual obligations for future repairs and maintenance (31 December 2020 and 31 December 2021: Nil).

Investment properties represent certain floors of an office building leased to other entities including related parties.



## 17 Investment properties (continued)

- a. The fair value of the investment properties of the Group as at 31 December 2022 was estimated by the directors to be approximately RMB 1,236,686 thousand by reference to market values of similar properties in the nearby area (31 December 2021: RMB 1,217,987 thousand). This fair value estimation was at level 3 of fair value hierarchy by using market observable inputs. The investment properties have not been valued by external independent appraisers.
- b. Rental income of RMB 75,159 thousand was recognized in other operating income by the Group for the year ended 31 December 2022 (2020: RMB81,608 thousand, 2021: RMB 81,923 thousand).

## c. Leasing arrangements

The investment properties are leased out under operating leases. The leases typically run for an initial period of 1 to 3 years, with an option to renew the lease after that date at which time all terms are renegotiated. Lease payments are usually renegotiated every year to reflect market rentals.

Undiscounted lease payments under non-cancellable operating leases in place at the reporting date will be receivable by the Group in future periods as follows :

	2021 RMB'000	2022 RMB'000
Within 1 year	49,420	52,138
Between 1 and 2 years	39,137	6,638
Above 2 years	—	6,522
	<u>88,557</u>	<u>65,298</u>

## 18 Construction in progress

	2021 RMB'000	2022 RMB'000
<b>As at 1 January</b>	<b>1,710,124</b>	<b>3,293,177</b>
Additions	3,270,695	2,927,950
Disposal	—	(4,749)
Transferred to property plant and equipment (note 16)	(1,699,974)	(2,467,917)
Transferred from property plant and equipment (note 16)	12,332	—
<b>As at 31 December</b>	<b><u>3,293,177</u></b>	<b><u>3,748,461</u></b>

As at 31 December 2022, the impairment loss in construction in progress was RMB 24,486 thousand (31 December 2020: RMB24,486 thousand, 31 December 2021: RMB24,486 thousand).

For the year ended 31 December 2022, the group had no impairment write-off due to the disposal of construction in progress (2020: RMB 10,175 thousand, 2021: Nil).

For the year ended 31 December 2022, the Group capitalized borrowing costs amounting to RMB 24,136 thousand (2021: RMB12,641 thousand) on qualifying assets. Borrowing costs were capitalized at the weighted average rate of its borrowings of 1.78% (2020: 2.79%, 2021: 2.85%).

## Sinopec Shanghai Petrochemical Company Limited

## 19 Subsidiaries

The following list contains only the particulars of subsidiaries which principally affected the results, assets or liabilities of the Group. The class of shares held is ordinary unless otherwise stated.

Name of company	Place of incorporation and business	Proportion of ownership interest					Principal activity
		Particulars of paid-up capital '000		Group's effective interest	Held by the Company	Held by a subsidiary	
Shanghai Petrochemical Investment Development Company Limited ("Toufa")	Mainland China	RMB1,000,000		100.00	100.00	—	Investment management
China Jinshan Associated Trading Corporation ("Jinmao")							Import and export of petrochemical products and equipment
	Mainland China	RMB	25,000	67.33	67.33	—	
Shanghai Jinchang Engineering Plastics Company Limited ("Jinchang")							Production of polypropylene compound products
	Mainland China	USD	9,154	74.25	—	74.25	
Shanghai Golden Phillips Petrochemical Company Limited ("Jinfei")							Production of polyethylene products
	Mainland China	RMB	415,623	100.00	—	100.00	
Shanghai Jinshan Trading Corporation ("JMGJ")							Import and export of petrochemical products
	Mainland China	RMB	100,000	67.33	—	67.33	
Zhejiang Jinlian Petrochemical Storage and Transportation Co., Ltd. ("Jinlian")							Trading of petrochemical products
	Mainland China	RMB	400,000	100.00	—	100.00	

## 19 Subsidiaries (continued)

a. On 30 June 2020, one of the Company's subsidiaries, Toufa acquired 100% share of Zhejiang Zhonghang Oil Petrochemical Storage and Transportation Co., Ltd., renamed as Jinlian, from China Aviation Oil Group Logistics Co., Ltd., with the total purchase consideration of RMB340,369 thousand.

## 20 Investments accounted for using the equity method

The amounts recognized in the consolidated statements of financial position are as follows:

	As at 31 December	
	2021	2022
	RMB'000	RMB'000
<b>Associates</b>		
– Share of net assets	3,812,845	3,027,632
<b>Joint ventures</b>		
– Share of net assets	276,043	476,761
<b>As at 31 December</b>	<b>4,088,888</b>	<b>3,504,393</b>

The amounts recognized in the share of net profits / (losses) of associates and joint ventures accounted for using the equity method are as follows:

	2020	2021	2022
	RMB'000	RMB'000	RMB'000
Associates	678,077	825,132	(188,549)
Joint ventures	46,663	49,153	14,933
	<u>724,740</u>	<u>874,285</u>	<u>(173,616)</u>

## 20 Investments accounted for using the equity method (continued)

## (a) Investment in associates

	2021 RMB'000	2022 RMB'000
<b>As at 1 January</b>	<b>5,146,160</b>	<b>3,812,845</b>
Additions (note i)	26,000	96,672
Decrease caused by associate's capital reduction (note ii)	(1,460,258)	—
Share of net profits / (losses)	825,132	(188,549)
Other comprehensive income	16,639	(23,771)
Cash dividends distribution	(712,436)	(669,565)
Impairment (note iii)	(28,392)	—
<b>As at 31 December</b>	<b><u>3,812,845</u></b>	<b><u>3,027,632</u></b>

Set out below are the material associates of the Group as at 31 December 2022. The associates as listed below have share capital consisting solely of ordinary shares, which are held directly by the Group; the country of incorporation or registration is also their principal place of business.

## 20 Investments accounted for using the equity method (continued)

## (a) Investment in associates (continued)

The following list contains only the particulars of material associates, all of which are unlisted corporate entities whose quoted market price is not available:

Name of company	Form of business structure	Place of incorporation and business	Particulars of paid-up capital '000	Proportion of ownership interest			Principal activity
				Group's effective interest	Held by the Company	Held by a subsidiary	
Shanghai Secco Petrochemical Company Limited ("Shanghai Secco") (note ii)	Incorporated	Mainland China	RMB 3,115,180	20.00%	20.00%	—	Manufacturing and distribution of chemical products
Shanghai Chemical Industry Park Development Company Limited ("Chemical Industry")	Incorporated	Mainland China	RMB 2,372,439	38.26%	38.26%	—	Planning, development and operation of the Chemical Industry Park in Shanghai, PRC
Shanghai Jinsen Hydrocarbon Resins Company Limited ("Jinsen")	Incorporated	Mainland China	RMB 193,695	40.00%	—	40.00%	Production of resins products
Shanghai Azbil Automation Company Limited ("Azbil")	Incorporated	Mainland China	RMB 24,440	40.00%	—	40.00%	Service and maintenance of building automation systems and products
Shanghai Shidian Energy Company Limited ("Shidian Energy") (note i)	Incorporated	Mainland China	RMB 1,000,000	40.00%	—	40.00%	Electric power supply

There are no contingent liabilities relating to the Group's interest in the associates.

20 Investments accounted for using the equity method (continued)

(a) Investment in associates (continued)

- i. Pursuant to the articles of association of Shidian Energy in August 2019, Toufa agreed to make a capital contribution of RMB 400,000 thousand to acquire 40% share of Shidian Energy. In 2022, Toufa contributed RMB 80,000 thousand to Shidian Energy and the total investment amounted to RMB 400,000 thousand as at 31 December 2022 (31 December 2020: RMB 320,000 thousand, 31 December 2021: RMB 320,000 thousand).
- ii. According to the resolution of the Board of Directors on 9 July 2021, the Company, Sinopec Corp., and Sinopec Shanghai Gaoqiao Petrochemical Company Limited ("Gaoqiao Company") approved to reduce their paid-in capital in Shanghai Secco, an associate of the Company, by a total amount of RMB 7,300,811,000 in proportion to their shareholding ratios of 20%, 30% and 50% respectively. Among them, the Company reduced its investment cost in Shanghai Secco by approximately RMB 1,460,258 thousand and the Company has received the amount of the capital reduction in December 2021.
- iii. During the year ended 31 December 2021, the directors of the Company reviewed the carrying value of the Group's associate and joint ventures. The entire carrying amount of the interests in an associate is tested for impairment in accordance with IAS 36 Impairment of Assets as a single asset by comparing its recoverable amount with its carrying amount. Since the recoverable amount of investment in an associate Jinsen is lower when compared with its carrying amount, impairment loss of RMB 28,392 thousand is recognized during the year ended 31 December 2021. The recoverable amount of the investment in an associate was based on its fair value less costs to sell. The fair value was estimated with reference to the transaction price of a recent share transaction of the associate.

All of the above associates are accounted for using the equity method in the consolidated financial statements.

## 20 Investments accounted for using the equity method (continued)

## (a) Investment in associates (continued)

Summarized financial information of the material associates, adjusted for any differences in accounting policies, and reconciled to the carrying amounts in the consolidated financial statements, are disclosed below:

Summarized financial information for material associates

Set out below are the summarized financial information for the above associates.

Summarized statements of financial position for material associates

As at 31 December 2021	Shanghai Secco RMB'000	Chemical Industry RMB'000	Jinsen RMB'000	Azbil RMB'000	Shidian Energy RMB'000
<b>Current</b>					
– Current assets	6,066,119	4,133,397	63,192	274,697	804,470
– Current liabilities	(5,433,872)	(1,789,223)	(10,476)	(111,472)	(34,565)
<b>Non-current</b>					
– Non-current assets	5,735,360	4,431,463	58,737	15,698	121,051
– Non-current liabilities	(66)	(619,306)	—	(7,506)	(15,827)
<b>Net assets</b>	<u>6,367,541</u>	<u>6,156,331</u>	<u>111,453</u>	<u>171,417</u>	<u>875,129</u>
Group's effective interest	20.00%	38.26%	40.00%	40.00%	40.00%
Group's share of net assets	1,273,508	2,355,412	44,581	68,567	350,052
Unrealized upstream and downstream transaction	(3,157)	—	—	—	(15,979)
Unentitled portion (note i)	—	(331,826)	—	—	—
Impairment loss	—	—	(28,392)	—	—
<b>Carrying value</b>	<u>1,270,351</u>	<u>2,023,586</u>	<u>16,189</u>	<u>68,567</u>	<u>334,073</u>

## 20 Investments accounted for using the equity method (continued)

## (a) Investment in associates (continued)

## Summarized statements of financial position for material associates (continued)

As at 31 December 2022	Shanghai Secco RMB'000	Chemical Industry RMB'000	Jinsen RMB'000	Azbil RMB'000	Shidian Energy RMB'000
<b>Current</b>					
– Current assets	4,941,394	4,327,622	49,810	276,707	950,614
– Current liabilities	(8,977,030)	(1,765,771)	(17,905)	(125,216)	(38,133)
<b>Non-current</b>					
– Non-current assets	5,683,409	4,480,448	50,360	12,338	166,068
– Non-current liabilities	(1)	(651,729)	—	(5,518)	(35,355)
<b>Net assets</b>	<u>1,647,772</u>	<u>6,390,570</u>	<u>82,265</u>	<u>158,311</u>	<u>1,043,194</u>
Group's effective interest	20.00%	38.26%	40.00%	40.00%	40.00%
Group's share of net assets	329,554	2,445,032	32,906	63,324	417,278
Unrealized upstream and downstream transaction	4,342	—	—	—	(12,615)
Unentitled portion (note i)	—	(329,890)	—	—	—
Impairment loss	—	—	(28,392)	—	—
<b>Carrying value</b>	<u>333,896</u>	<u>2,115,142</u>	<u>4,514</u>	<u>63,324</u>	<u>404,663</u>

Note i: Unentitled portion represented the earnings from sales of the lands injected by Government in Chemical Industry that cannot be shared by other shareholders.



Sinopec Shanghai Petrochemical Company Limited

20 Investments accounted for using the equity method (continued)

(a) Investment in associates (continued)

Summarized statements of comprehensive income for material associates

2020	Shanghai Secco RMB'000	Chemical Industry RMB'000	Jinsen RMB'000	Azbil RMB'000	Shidian Energy RMB'000
Revenue	21,626,059	1,683,096	187,580	340,905	472,640
Post-tax profit/(loss) from continuing operations	2,412,802	404,117	(8,232)	48,264	36,696
Other comprehensive income	—	(30,089)	—	—	—
Total comprehensive income	2,412,802	374,028	(8,232)	48,264	36,696
Dividend received from the associate	473,600	32,522	—	9,200	—

## 20 Investments accounted for using the equity method (continued)

## (a) Investment in associates (continued)

	Shanghai Secco RMB'000	Chemical Industry RMB'000	Jinsen RMB'000	Azbil RMB'000	Shidian Energy RMB'000
<b>2021</b>					
Revenue	29,723,223	1,709,110	165,499	427,378	489,490
Post-tax profit/(loss) from continuing operations	3,125,904	396,761	(16,657)	61,711	33,269
Other comprehensive income	—	43,488	—	—	—
<b>Total comprehensive income</b>	<b>3,125,904</b>	<b>440,249</b>	<b>(16,657)</b>	<b>61,711</b>	<b>33,269</b>
<b>Dividend received from the associate</b>	<b>634,341</b>	<b>52,225</b>	<b>—</b>	<b>19,200</b>	<b>—</b>
	Shanghai Secco RMB'000	Chemical Industry RMB'000	Jinsen RMB'000	Azbil RMB'000	Shidian Energy RMB'000
<b>2022</b>					
Revenue	24,096,829	1,806,888	119,098	384,655	508,704
Post-tax (loss)/profit from continuing operations	(1,947,579)	441,369	(29,188)	46,894	28,065
Other comprehensive income	—	(62,130)	—	—	—
<b>Total comprehensive income</b>	<b>(1,947,579)</b>	<b>379,239</b>	<b>(29,188)</b>	<b>46,894</b>	<b>28,065</b>
<b>Dividend received from the associate</b>	<b>554,438</b>	<b>55,477</b>	<b>—</b>	<b>24,000</b>	<b>24,000</b>

## 20 Investments accounted for using the equity method (continued)

## (a) Investment in associates (continued)

Aggregate information of associates that are not individually material:

	2021 RMB'000	2022 RMB'000
Aggregate carrying value of investments at 31 December	100,079	106,093
Aggregate amounts of the Group's share of those associates:		
Profit for the year	5,655	876
Total comprehensive income	5,655	876
Dividend received from the associate	6,670	11,650

## (b) Investment in joint ventures

	2021 RMB'000	2022 RMB'000
As at 1 January	241,674	276,043
Addition (note i)	50,000	200,000
Share of profit	49,153	14,933
Cash dividends distribution	(64,784)	(14,215)
As at 31 December	276,043	476,761

## Sinopec Shanghai Petrochemical Company Limited

## 20 Investments accounted for using the equity method (continued)

## (b) Investment in joint ventures (continued)

Details of the Group's interest in the joint venture, which is accounted for using the equity method in the consolidated financial statements, are as follows:

The following list contains only the particulars of material joint ventures, all of the Group's joint ventures are unlisted corporate entities whose quoted market price is not available:

Name of joint venture	Form of business structure	Place of incorporation and business	Particulars of paid-up capital '000		Proportion of ownership interest			Principal activity
					Group's effective interest	Held by the Company	Held by a subsidiary	
Linde-SPC Gases Company Limited ("Linde"), formerly known as "BOC-SPC Gases Company Limited")	Incorporated	Mainland China	USD 32,000		50.00%	—	50.00%	Production and sales of industrial gases
Shanghai Petrochemical Pressure Vessel Testing Center ("JYJC")	Incorporated	Mainland China	RMB 10,000		50.00%	—	50.00%	Providing inspection and testing service
Shanghai Petrochemical Yangu Gas Development Company Limited ("Yangu Gas")	Incorporated	Mainland China	USD 10,560		50.00%	—	50.00%	Production and sales of industrial gases
Shanghai Jinshan Baling New Materials Co., Ltd. ("Baling Materials") (note i) ("Linde"), formerly known as "BOC-SPC Gases Company Limited")	Incorporated	Mainland China	RMB 500,000		50.00%	—	50.00%	Production and sales of new styrene thermoplastic elastomer materials

## 20 Investments accounted for using the equity method (continued)

## (b) Investment in joint ventures (continued)

- i. In September 2021, Sinopec Baling Petrochemical Co., Ltd and the Company jointly established Baling Materials, the Company agreed to make cash contribution of RMB 400,000 thousand to acquire 50% share of Baling Materials. In 2022, the Group made new investment of RMB 200,000 thousand into Barling Materials. As at 31 December 2022, the Company has made a paid-up capital contribution of RMB 250,000 thousand.

Summarized financial information for joint ventures

Set out below are the summarized financial information for joint ventures which are accounted for using the equity method.

Summarized statements of financial position for joint ventures

**As at 31 December 2021**

	Linde RMB'000	JYJC RMB'000	Yangu Gas RMB'000	Baling Materials RMB'000
<b>Current</b>				
Cash and cash equivalents	226,860	16,914	72,916	6,062
Other current assets (excluding cash)	74,652	5,065	11,149	28,418
Total current assets	301,512	21,979	84,065	34,480
Total current liabilities	(62,356)	(3,356)	(3,262)	—
<b>Non-current</b>				
Total non-current assets	109,366	1,577	19,034	65,520
Total non-current liabilities	(16,303)	—	—	—
<b>Net assets</b>	<b>332,219</b>	<b>20,200</b>	<b>99,837</b>	<b>100,000</b>
Group's effective interest	50%	50%	50%	50%
Interest in joint ventures	166,110	10,100	49,919	50,000
Unrealized downstream transactions	(86)	—	—	—
<b>Carrying value</b>	<b>166,024</b>	<b>10,100</b>	<b>49,919</b>	<b>50,000</b>

**As at 31 December 2022**

	Linde RMB'000	JYJC RMB'000	Yangu Gas RMB'000	Baling Materials RMB'000
<b>Current</b>				
Cash and cash equivalents	237,902	11,482	62,639	13,948
Other current assets (excluding cash)	73,026	9,167	6,423	60,243
Total current assets	310,928	20,649	69,062	74,191
Total current liabilities	(32,670)	(2,437)	(2,392)	(153,952)
<b>Non-current</b>				
Total non-current assets	92,325	1,478	13,765	626,761
Total non-current liabilities	(17,016)	—	—	(47,000)
<b>Net assets</b>	<b>353,567</b>	<b>19,690</b>	<b>80,435</b>	<b>500,000</b>
Group's effective interest	50%	50%	50%	50%
Interest in joint ventures	176,784	9,845	40,218	250,000
Unrealized downstream transactions	(86)	—	—	—

Carrying value	<u>176,698</u>	<u>9,845</u>	<u>40,218</u>	<u>250,000</u>
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## 20 Investments accounted for using the equity method (continued)

## (b) Investment in joint ventures (continued)

## Summarized statements of comprehensive income for joint ventures

The information above reflects the amounts presented in the financial statements of the joint ventures (and not the Group's share of those amounts) adjusted for differences in accounting policies between the Group and the joint ventures.

## 2020

	Linde RMB'000	JYJC RMB'000	Yangu Gas RMB'000
Revenue	420,160	21,674	58,463
Depreciation and amortization	(45,756)	(350)	(8,313)
Interest income	2,246	304	1,483
Interest expense	—	—	—
Profit from continuing operations	108,677	2,279	1,830
Income tax expenses	(26,290)	(177)	—
Post-tax profit from continuing operations	82,387	2,102	1,830
Other comprehensive income	—	—	—
Total comprehensive income	82,387	2,102	1,830
Dividend received from joint venture	38,234	1,049	1,000

## 2021

	Linde RMB'000	JYJC RMB'000	Yangu Gas RMB'000	Baling Materials RMB'000
Revenue	428,971	27,190	60,222	—
Depreciation and amortization	(44,307)	(386)	(5,162)	—
Interest income	3,489	304	1,516	—
Profit from continuing operations	116,768	2,250	4,144	—
Income tax (expenses)/benefits	(29,316)	1,125	—	—
Post-tax profit from continuing operations	87,452	3,375	4,144	—
Other comprehensive income	—	—	—	—
Total comprehensive income	87,452	3,375	4,144	—
Dividend received from joint venture	63,044	940	800	—

## 20 Investments accounted for using the equity method (continued)

## (b) Investment in joint ventures (continued)

## Summarized statements of comprehensive income for joint ventures (continued)

**2022**

	Linde RMB'000	JYJC RMB'000	Yangu Gas RMB'000	Baling Materials RMB'000
Revenue	375,795	25,129	26,091	—
Depreciation and amortization	(20,902)	(341)	(8,061)	—
Interest income	4,799	351	1,029	—
Profit/ (loss) from continuing operations	58,338	1,996	(15,802)	—
Income tax expenses	(14,590)	(76)	—	—
Post-tax profit/ (loss) from continuing operations	43,748	1,920	(15,802)	—
Other comprehensive income	—	—	—	—
Total comprehensive income	43,748	1,920	(15,802)	—
Dividend received from joint venture	11,200	1,215	1,800	—

- (c) For the year ended December 31, 2022, equity method investments held by the Company in aggregate have met the significance criteria as defined under Rule 4-08(g) of Regulation S-X. Shanghai Secco was deemed a significant equity investee for the fiscal years ended December 31, 2020 and a non-significant equity investee for the fiscal years ended December 31, 2021 and December 31, 2022 under Rule 3-09 of Regulation S-X. As such, the financial statements of Shanghai Secco required by Rule 3-09 of Regulation S-X are provided as Exhibit 99.1 to this Annual Report on Form 20-F. Financial information for the Company's equity method investments other than Shanghai Secco are summarized as a group as follow:

	2020 RMB'000	2021 RMB'000	2022 RMB'000
Revenue	4,548,574	4,863,742	3,759,076
Gross profit	825,799	828,183	670,678
Profit from continuing operations	753,799	798,867	670,678
Profit after taxation	593,211	586,612	512,758
Profit after taxation attributable to the Group	243,953	240,882	208,401

	As of 31 December 2022	
	2021 RMB'000	2022 RMB'000
Current assets	6,083,530	6,436,238
Non-current assets	5,000,852	5,909,304
Current liabilities	(2,086,793)	(2,185,434)
Non-current liabilities	(707,374)	(978,325)
Non-controlling interests	1,508,175	1,578,714



## 21 Inventories

## (a) Inventories in the consolidated statements of financial position comprise:

	As at 31 December 2021			As at 31 December 2022		
	Gross carrying amount RMB'000	Provision for diminution in value of inventories RMB'000	Carrying amount RMB'000	Gross carrying amount RMB'000	Provision for diminution in value of inventories RMB'000	Carrying amount RMB'000
Raw materials	4,391,555	(13,406)	4,378,149	5,700,215	(26,491)	5,673,724
Work in progress	795,791	(105,450)	690,341	756,007	(237,959)	518,048
Finished goods	709,990	(45,950)	664,040	1,096,623	(182,035)	914,588
Spare parts and consumables	249,456	(58,461)	190,995	246,161	(58,461)	187,700
	<u>6,146,792</u>	<u>(223,267)</u>	<u>5,923,525</u>	<u>7,799,006</u>	<u>(504,946)</u>	<u>7,294,060</u>

## (b) The analysis of the amount of inventories recognized as expenses and included in profit or loss is as follows:

The cost of inventories recognized in Cost of sales amounted to RMB 72,419,098 thousand for the year ended 31 December 2022 (2020: RMB53,622,798 thousand, 2021: RMB70,704,868 thousand) which excluded an inventory provision of RMB 525,269 thousand (2020: RMB220,888 thousand, 2021: RMB150,883 thousand).

For the year ended 31 December 2022, the Group sold certain finished goods and utilized certain spare parts and consumables which were previously provided for. The related provision of RMB243,590 thousand was reversed and included in cost of sales in the consolidated statement of profit or loss (2020: RMB147,817 thousand, 2021: RMB156,149 thousand).

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## 22 Trade and other receivables

	As at 31 December 2021 RMB'000	As at 31 December 2022 RMB'000
Trade receivables	79,413	72,110
Less: loss allowance	(1,988)	(2,759)
	77,425	69,351
Amounts due from related parties excluded prepayments and bills receivable (*)	1,153,111	2,583,289
Less: loss allowance (*)	—	(2,802)
Total trade receivables	1,230,536	2,649,838
Other receivables	47,737	109,440
Less: loss allowance	(140)	(1,933)
	47,597	107,507
Financial assets measured at amortized cost	1,278,133	2,757,345
Amounts due from related parties - prepayments (*)	34,220	58,496
Amounts due from related parties - bills receivables (*) (note 25)	25,000	—
	1,337,353	2,815,841
Amounts due from related parties (summary of *)	1,212,331	2,638,983

All of the trade and other receivables are expected to be recovered or recognized as expenses within one year.

Amounts due from related parties mainly represent trade-related balances, unsecured in nature and bear no interest.

The aging analysis based on invoice date of trade receivables and amounts due from related parties excluded prepayments and bills receivable (net of allowance for doubtful debts) is as follows:

	As at 31 December 2021 RMB'000	As at 31 December 2022 RMB'000
Within one year	1,230,360	2,649,673
Over one year but within two years	27	165
Over two years	149	—
	1,230,536	2,649,838

Sinopec Shanghai Petrochemical Company Limited

22 Trade and other receivables (continued)

Movements in the loss allowance account in respect of trade and other receivables during the period is as follows:

	Years ended 31 December	
	2021	2022
	RMB'000	RMB'000
Balance at 1 January	773	2,128
Impairment losses recognized during the year	1,355	5,366
Balance at 31 December	<u>2,128</u>	<u>7,494</u>

As at 31 December 2021 and 31 December 2022, no trade receivable was pledged as collateral.

Sale to third parties is generally on cash basis or on letter of credit. Subject to negotiation, credit is generally only available for major customers with well-established trading records.

23 Cash and cash equivalents

(a) Cash and cash equivalents comprise:

	As at 31 December 2021 RMB'000	As at 31 December 2022 RMB'000
Cash deposits with a related party (note i)	3,243	—
Cash at bank and on hand	<u>5,108,767</u>	<u>889,413</u>
Cash and cash equivalents in the consolidated statements of financial position	<u>5,112,010</u>	<u>889,413</u>

- i. Cash deposits with a related party were cash deposits at Sinopec Finance Company Limited ("Sinopec Finance").

## 23 Cash and cash equivalents (continued)

## (b) Cash generated from / (used in) cash

## Reconciliation of profit/(loss) before taxation to cash generated from operations

	2020 RMB'000	2021 RMB'000	2022 RMB'000
Profit/(loss) before taxation	590,778	2,721,086	(3,573,654)
Adjustments items:			
Interest income from time deposits with maturity more than 3 months	(339,505)	(424,696)	(410,652)
Share of (profits)/losses of investments accounted for using the equity method	(724,740)	(874,285)	173,616
Net losses/(gains) on foreign exchange option contracts and commodity swaps contracts not qualifying as hedges	376	(18,846)	27,851
Gains from structured deposits	(114,283)	(97,921)	(11,124)
Gains from entrusted loan receivables	—	—	(2,704)
Losses on sale of FVOCI	9,513	4,685	3,148
Interest expense	64,169	94,186	98,502
Foreign exchange losses/(gains)	5,514	1,861	(15,320)
Depreciation of property, plant and equipment	1,553,039	1,621,459	1,494,176
Depreciation of investment property	15,184	15,325	15,323
Depreciation of right-of-use assets	32,653	34,307	32,918
Amortization of other non-current assets	226,263	294,617	270,881
Impairment loss on property, plant and equipment	87,570	587,622	286,260
Impairment loss on investment accounted for using the equity method	—	28,392	—
Losses / (gains) on disposal of property, plant and equipment and other long-term assets-net	1,212	(48,671)	26,767
Profit/(loss) on operation before change of working capital	1,407,743	3,939,121	(1,584,012)
Decrease/(increase) in inventories	2,865,687	(2,034,779)	(1,370,535)
Decrease in operation receivables	308,333	49,586	511,325
Decrease in operation payables	(1,008,800)	(70,235)	(4,673,853)
(Decrease)/increase in balances to related parties – net	(1,577,876)	2,527,960	156,341
Cash generated from/(used in) operations	1,995,087	4,411,653	(6,960,734)

- 23 Cash and cash equivalents (continued)
- (c) Reconciliation of liabilities arising from financing activities

	Borrowings RMB'000	Lease liabilities RMB'000	Short-term bonds RMB'000	Total RMB'000
<b>As at 31 December 2020 and 1 January 2021</b>	1,548,000	12,471	3,017,811	4,578,282
<b>Changes from financing cash flows:</b>				
Proceeds from new bank loans	14,163,132	—	—	14,163,132
Repayment of bank loans	(13,451,332)	—	—	(13,451,332)
Proceeds from short-term bonds	—	—	5,998,899	5,998,899
Repayments of short-term bonds	—	—	(9,000,000)	(9,000,000)
Principal elements of lease payments	—	(17,544)	—	(17,544)
Total changes from financing cash flows	711,800	(17,544)	(3,001,101)	(2,306,845)
<b>Other changes:</b>				
Addition of lease liabilities	—	9,686	—	9,686
Issuance costs on short-term bonds	—	—	1,101	1,101
Interest expense	—	—	28,340	28,340
Others	—	—	(46,151)	(46,151)
Total other changes	—	9,686	(16,710)	(7,024)
<b>As at 31 December 2021 and 1 January 2022</b>	2,259,800	4,613	—	2,264,413
<b>Changes from financing cash flows:</b>				
Proceeds from new bank loans	19,485,000	—	—	19,485,000
Repayment of bank loans	(19,494,800)	—	—	(19,494,800)
Proceeds from short-term bonds	—	—	5,000,000	5,000,000
Repayments of short-term bonds	—	—	(5,000,000)	(5,000,000)
Principal elements of lease payments	—	(13,069)	—	(13,069)
Total changes from financing cash flows	(9,800)	(13,069)	—	(22,869)
<b>Other changes:</b>				
Addition of lease liabilities	—	24,707	—	24,707
Total other changes	—	24,707	—	24,707
<b>As at 31 December 2022</b>	2,250,000	16,251	—	2,266,251

## 23 Cash and cash equivalents (continued)

## (d) Total cash outflow for leases

Amounts included in the consolidated statements of cash flows for leases comprise the following:

	2020 RMB'000	2021 RMB'000	2022 RMB'000
Within operating cash flows	(4,618)	(6,938)	(14,774)
Within financing cash flows	(15,586)	(17,544)	(13,069)
	<u>(20,204)</u>	<u>(24,482)</u>	<u>(27,843)</u>

These amounts relate to the following:

	2020 RMB'000	2021 RMB'000	2022 RMB'000
Lease rentals paid	(20,204)	(24,482)	(27,843)

## 24 Time deposits with banks

	As at 31 December	
	2021 RMB'000	2022 RMB'000
Time deposits with maturity less than one year	7,386,607	3,108,919
Time deposits with maturity more than one year	5,581,435	3,389,559
	<u>12,968,042</u>	<u>6,498,478</u>

As at 31 December 2022, interest rates of time deposits with maturity less than one year ranged from 3.85% to 4.13% per annum (31 December 2021: 3.40% to 3.50% per annum), which were presented as current assets. Time deposits with maturity of more than one year were time deposits of three or five years with the interest rates from 3.55% to 4.20% per annum, which were presented as non-current assets in the consolidated statement of financial position (31 December 2021: 3.45% to 4.20% per annum).

## 25 Financial assets at fair value through other comprehensive income

	As at 31 December	
	2021	2022
	RMB'000	RMB'000
Trade and bills receivable (i)		
- Amounts due from related parties (note 22)	25,000	—
- Others	1,047,690	582,354
	1,072,690	582,354
Equity investments	5,000	5,000
	1,077,690	587,354

- (i) As at 31 December 2021 and 2022, certain trade receivables and bills receivable were classified as financial assets at FVOCI, as the Group's business model is achieved both by collecting contractual cash flows and selling of these assets.
- (ii) As at 31 December 2022, the Group discounted certain bank acceptance bills to banks for cash proceeds and endorsed certain bank acceptance bills to suppliers on a full recourse basis for settling trade payables of the same amount. The Group has derecognized these bills receivable and the payables to suppliers in their entirety. These derecognized bank acceptance bills had a maturity date less than twelve months from the end of the reporting period. In the opinion of the directors, the Group has transferred substantially all the risks and rewards of ownership of these bills to its suppliers, and the Group has limited exposure in respect of the settlement obligation of these bills receivable under the relevant PRC rules and regulations should the issuing banks fail to settle the bills on maturity date. The Group considered the issuing banks of the bills are of good credit rating and the non-settlement of these bills by the issuing banks on maturity is not probable.

As at 31 December 2022, the Group's maximum exposure to loss and undiscounted cash outflow, which is the same as the amounts payable by the Group to banks or suppliers in respect of the discounted bills and endorsed bills, should the issuing banks fail to settle the bills on maturity date, amounted to RMB 196,667 thousand and RMB 178,369 thousand respectively.

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## 26 Borrowings

	As at 31 December 2021 RMB'000	As at 31 December 2022 RMB'000
Credit loans due within one year		
- Short term bank loan	1,559,800	1,550,000
Credit loans due over one year but within three years		
- Long-term borrowing from a related party (note 3 2(c))	700,000	700,000
	<u>2,259,800</u>	<u>2,250,000</u>

(a) The analysis of the repayment schedule of borrowings are as follows:

	2021 RMB'000	2022 RMB'000
Within 1 year or on demand	1,559,800	1,550,000
Over one year but within two years	—	700,000
Over two years but within three years	700,000	—
	<u>2,259,800</u>	<u>2,250,000</u>

The weighted average interest rate for the Group's short-term bank loan was 2.35% as at 31 December 2022 (2020: 2.79%, 2021: 2.74%). The interest rate of the Group's long-term borrowings was 1.08% as at 31 December 2022 (2020: Nil, 2021: 1.08%).

As at 31 December 2021 and 31 December 2022, no borrowings were secured by property, plant and equipment .



## 27 Trade and other payables

	As at 31 December	
	2021	2022
	RMB'000	RMB'000
Trade payables	1,527,706	1,818,453
Bills payable	562,593	24,951
Amounts due to related parties exclude advances received (*)	4,910,255	7,877,323
	7,000,554	9,720,727
Dividends payable	30,577	31,631
Construction payable	487,283	831,422
Accrued expenses	400,391	143,299
Other liabilities	87,144	76,778
	1,005,395	1,083,130
Financial liabilities measured at amortized cost	8,005,949	10,803,857
Amounts due to related parties – advances received (*)	6,275	10,486
Amounts due to related parties – measured at fair value through profit or loss (FVPL) (*) (note i)	1,388,286	—
	9,400,510	10,814,343
Total amount due to related parties (summary of *)	6,304,816	7,887,809

All trade and other payables (including amounts due to related parties) are expected to be settled or recognized as income within one year or are repayable on demand.

(i) Amounts due to related parties – measured at FVPL represents the obligation that the Company needs to return the crude oil to its related party with maturity of less than 1 year, which is measured at fair value through profit or loss.

As at 31 December 2021 and 31 December 2022, all trade and other payables of the Group were non-interest bearing, and their fair value, approximated their carrying amounts due to their short maturities.

Majority of amount due to related parties were trade payable for purchasing crude oil from related parties .

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27 Trade and other payables (continued)

As at 31 December 2021 and 31 December 2022, the ageing analysis of the trade payables (including amounts due to related parties of trading in nature) and bills payable based on invoice date were as follows:

	As at 31 December	
	2021 RMB'000	2022 RMB'000
Within one year	6,990,653	9,708,441
Over one year within two years	9,527	2,524
Over two years	374	9,762
	<u>7,000,554</u>	<u>9,720,727</u>

28 Contract liabilities

	As at 31 December	
	2021 RMB'000	2022 RMB'000
Contract liabilities	<u>424,607</u>	<u>372,760</u>

The contract liabilities of the Group are advance for goods from customers. Related performance obligations are expected to be satisfied and revenue is recognized within one year. Revenue amounted to RMB 424,607 thousand has been recognized in the current year relates to carried-forward contract liabilities (2020: RMB 579,750 thousand, 2021: RMB 495,404 thousand).

29 Deferred income

	2021 RMB'000	2022 RMB'000
As at 1 January	13,433	12,720
Additions	—	34,623
Amortization	(713)	(2,735)
As at 31 December	<u>12,720</u>	<u>44,608</u>

30 Share capital

(i) Issued share capital

	Number of shares '000	Amount RMB'000
As at 31 December 2021, 1 January 2022 and 31 December 2022		
<i>Registered, issued and fully paid:</i>		
Ordinary A shares listed in PRC	7,328,814	7,328,814
Foreign invested H shares listed overseas	3,495,000	3,495,000
Total	<u>10,823,814</u>	<u>10,823,814</u>

(ii) Purchase of own shares

During the year, the Company repurchased its own ordinary shares on the Stock Exchange of Hong Kong Limited as follows:

<i>Month/year</i>	<i>Number of shares repurchased</i>	<i>Highest price paid per share</i>	<i>Lowest price paid per share</i>	<i>Aggregate price paid</i>
		HKD	HKD	
				RMB'000
October 2022	4,956,000	1.10	1.03	4,883
November 2022	15,866,000	1.26	1.04	16,299
December 2022	3,706,000	1.39	1.25	4,507
	<u>24,528,000</u>			<u>25,689</u>

The Company repurchased 24,528,000 H shares for an aggregate consideration of RMB 25,689 thousand. In February 2023, the Company has completed the cancellation procedures for all the repurchased own shares.

## 31 Reserves

	Legal surplus (note(a)) RMB'000	Capital surplus (note(b)) RMB'000	Surplus reserve (note(c)) RMB'000	Other reserve (note(d)) RMB'000	Hedging reserve (note 3.1(a)) RMB'000	Share premium (note(e)) RMB'000	Safety production fund (note(f)) RMB'000	Treasury shares (note 30(ii)) RMB'000	Retained earnings (note(g)) RMB'000	Total RMB'000
<b>Balance at</b>										
<b>1 January 2021</b>	4,072,476	13,739	101,355	6,326	—	106,846	145,597	—	13,927,837	18,374,176
Total comprehensive income for the year attributable to shareholders of the Company	—	—	—	16,639	125,159	—	—	—	2,073,431	2,215,229
Amounts transferred from hedging reserve to initial carrying amount of hedged items	—	—	—	—	(88,699)	—	—	—	—	(88,699)
Dividends declared and approved in respect of previous year	—	—	—	—	—	—	—	—	(1,082,381)	(1,082,381)
Transfer to legal surplus	2,498,808	—	—	—	—	—	—	—	(2,498,808)	—
Appropriation of safety production fund	—	—	—	—	—	—	40,729	—	(40,729)	—
<b>Balance at</b>										
<b>31 December 2021 and 1 January 2022</b>	6,571,284	13,739	101,355	22,965	36,460	106,846	186,326	—	12,379,350	19,418,325
Total comprehensive income for the year attributable to shareholders of the Company	—	—	—	(23,771)	201,519	—	—	—	(2,846,156)	(2,668,408)
Amounts transferred from hedging reserve to initial carrying amount of hedged items	—	—	—	—	(237,979)	—	—	—	—	(237,979)
Dividends declared and approved in respect of previous year	—	—	—	—	—	—	—	—	(1,082,381)	(1,082,381)
Purchase of own shares	—	—	—	—	—	—	—	(25,689)	—	(25,689)

Appropriation of  
safety production  
fund

	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>—</u>	<u>54,092</u>	<u>—</u>	<u>(54,092)</u>	<u>—</u>
<b>Balance at</b>										
<b>31 December</b>										
<b>2022</b>	<u>6,571,284</u>	<u>13,739</u>	<u>101,355</u>	<u>(806)</u>	<u>—</u>	<u>106,846</u>	<u>240,418</u>	<u>(25,689)</u>	<u>8,396,721</u>	<u>15,403,868</u>

31 Reserves (continued)

Notes:

(a) Under PRC rules and regulations, the Company and its PRC subsidiaries are required to set aside 10% of the net income determined in accordance with the PRC accounting rules and regulations to a legal surplus reserve. The transfer to this reserve must be made before distribution of any dividend to shareholders.

The legal surplus reserve is non-distributable other than in liquidation and can be used to make good of previous years' losses, if any, and may be utilized for business expansion or converted into ordinary shares by the issuance of new shares to shareholders in proportion to their existing shareholdings or by increasing the par value of the shares currently held by the shareholders, provided that the balance after such issuance is not less than 25% of the registered capital.

In accordance with PRC rules and regulations, the Company has set aside RMB 6,571,284 thousand of legal surplus as of 31 December 2022.

(b) This reserve represents gifts or grants received from China Petrochemical Corporation, the ultimate parent company and which are required to be included in this reserve fund by PRC regulations.

(c) The transfer to this reserve from the retained profits is subject to the approval by shareholders at general meetings. Its usage is similar to that of the legal surplus reserve.

(d) Other reserve comprises share of post-acquisition movements in other comprehensive income from associates and joint ventures using the equity methods of accounting with a corresponding adjustment to the carrying amount of the investment.

(e) The application of the share premium account is governed by Sections 167 and 168 of the PRC Company Law.

(f) According to the relevant PRC regulations, the Group is required to transfer an amount to specific reserve for the safety production fund based on the turnover of certain refining and chemicals products. This reserve represents unutilized safety production fund.

(g) According to the Company's Articles of Association, the reserve available for distribution is the lower of the amount determined under China Accounting Standards for Business Enterprises and the amount determined under IFRS.

## 32 Related-party transactions

The following is a list of the Group's major related parties:

Names of related parties	Relationship with the Company
China International United Petroleum & Chemicals Co., Ltd.	<i>Subsidiary of the ultimate parent company</i>
Sinopec Chemical Sales Company Limited	<i>Subsidiary of the ultimate parent company</i>
Sinopec Chemical Commercial Holding Company Limited	<i>Subsidiary of the ultimate parent company</i>
Petro-cyberworks Information Technology Co., Ltd.	<i>Subsidiary of the ultimate parent company</i>
Lianhua (Ningbo) International Logistics Co., Ltd.	<i>Subsidiary of the ultimate parent company</i>
Zhongke (Guangdong) Refining & Chemical Co., Ltd.	<i>Subsidiary of the ultimate parent company</i>
Sinopec Marketing Co., Ltd.	<i>Subsidiary of the ultimate parent company</i>
Sinopec Fuel Oil Sales Co., Ltd.	<i>Subsidiary of the ultimate parent company</i>
Sinopec Lubricant Co., Ltd.	<i>Subsidiary of the ultimate parent company</i>
Sinopec Yangzi Petrochemical Co., Ltd.	<i>Subsidiary of the ultimate parent company</i>
China Petrochemical International (Beijing) Company Limited	<i>Subsidiary of the ultimate parent company</i>
Sinopec Catalysts Co., Ltd.	<i>Subsidiary of the ultimate parent company</i>
China Petrochemical International (Shanghai) Co., Ltd.	<i>Subsidiary of the ultimate parent company</i>
Sinopec Beijing Research Institute of Chemical Industry	<i>Subsidiary of the ultimate parent company</i>
China Petrochemical International (Ningbo) Co., Ltd.	<i>Subsidiary of the ultimate parent company</i>
Zhoushan Shihua Crude Oil Terminal Co., Ltd.	<i>Subsidiary of the ultimate parent company</i>
Dalian Sinopec Material Equip Company	<i>Subsidiary of the ultimate parent company</i>
Sinopec Material & Equipment (East China) Co., Ltd.	<i>Subsidiary of the ultimate parent company</i>
China Petrochemical International (Nanjing) Co., Ltd.	<i>Subsidiary of the ultimate parent company</i>
Sinopec Honeywell (Tianjin) Company Limited	<i>Subsidiary of the ultimate parent company</i>
China Petrochemical International (Wuhan) Co., Ltd.	<i>Subsidiary of the ultimate parent company</i>
China Petrochemical International Co., Ltd.	<i>Subsidiary of the ultimate parent company</i>
China Petrochemical Refinery Sales Co., Ltd.	<i>Subsidiary of the ultimate parent company</i>
Sinopec Shanghai Gaoqiao Petrochemical Co., Ltd.	<i>Subsidiary of the ultimate parent company</i>
China Petrochemical International (Tianjin) Co., Ltd.	<i>Subsidiary of the ultimate parent company</i>
Ningbo East sea Line fan Technology Company Limited	<i>Subsidiary of the ultimate parent company</i>
Sinopec Petroleum & Chemical Scientific Research Institute Dadi Company	<i>Subsidiary of the ultimate parent company</i>
Sinopec Shanghai Research Institute of Petrochemical Technology	<i>Subsidiary of the ultimate parent company</i>
Sinopec Lubricating Oil Shanghai Research Institute Company Limited	<i>Subsidiary of the ultimate parent company</i>
Dalian Furuipu Technology Co., Ltd.	<i>Subsidiary of the ultimate parent company</i>
Nantong Donghai Petrochemical Co., Ltd.	<i>Subsidiary of the ultimate parent company</i>
China Petroleum and Chemical Corporation Qingdao Security Engineering Research Institute	<i>Subsidiary of the ultimate parent company</i>
Sinopec (Shanghai) Energy Trade Co., Ltd.	<i>Subsidiary of the ultimate parent company</i>
Storage and Transportation Installation Company of Ningbo Engineering Company Limited	<i>Subsidiary of the ultimate parent company</i>
Sinopec Chemical Commercial Holding (Hong Kong) Company Limited	<i>Subsidiary of the ultimate parent company</i>
Sinopec Yizheng Chemical Fibre Limited Liability Company	<i>Subsidiary of the ultimate parent company</i>
Fujian Gulei Petrochemical Company Limited	<i>Subsidiary of the ultimate parent company</i>
Sinopec China East Chemical Sales Co., Ltd.	<i>Subsidiary of the ultimate parent company</i>

## 32 Related-party transactions (continued)

Names of related parties	Relationship with the Company
Unipec Singapore	<i>Subsidiary of the ultimate parent company</i>
China Yanshan United Foreign Trade Co., Ltd.	<i>Subsidiary of the ultimate parent company</i>
Sinopec Chemical Commercial Holding (Wuhan) Company Limited	<i>Subsidiary of the ultimate parent company</i>
Nanjing Yangzi Petrol-chemical Industry Co., Ltd.	<i>Subsidiary of the ultimate parent company</i>
Sinopec Bailing Petrochemical Co., Ltd.	<i>Subsidiary of the ultimate parent company</i>
Shengli Oil Field Exploration and Development Research Institute	<i>Subsidiary of the ultimate parent company</i>
Shanghai Lide Catalyst Co., Ltd.	<i>Subsidiary of the ultimate parent company</i>
Ypc-gpro (Nanjing) Rubber Co., Ltd.	<i>Subsidiary of the ultimate parent company</i>
Fujian Refining & Petrochemical Company Limited	<i>Subsidiary of the ultimate parent company</i>
Sinopec Dalian (Fushun) Research Institute of Petroleum and Petrochemicals	<i>Subsidiary of the ultimate parent company</i>
Sinopec Jiangnan Salt Chemical Hubei Co., Ltd.	<i>Subsidiary of the ultimate parent company</i>
Yipaike Business Factoring Co., Ltd.	<i>Subsidiary of the ultimate parent company</i>
Sinopec Great Wall Energy and Chemical (Ningxia) Co., Ltd.	<i>Subsidiary of the ultimate parent company</i>
Sinopec (Shenzhen) E-Commerce Company Limited	<i>Subsidiary of the ultimate parent company</i>
Sinopec Research Institute of Safety Engineering	<i>Subsidiary of the ultimate parent company</i>
Ningbo Minggang Gas Company Limited	<i>Subsidiary of the ultimate parent company</i>
Sinopec Zhongyuan Petrol-Chemical Industry Co., Ltd.	<i>Subsidiary of the ultimate parent company</i>
Epec E-commerce Co., Ltd.	<i>Subsidiary of the ultimate parent company</i>
Sinopec Oil Refining and Marketing (Shanghai) Co., Ltd.	<i>Subsidiary of the ultimate parent company</i>
Sinopec Chemical Sales (Guangdong) Co., Ltd.	<i>Subsidiary of the ultimate parent company</i>
Unipec (Qingdao) International Logistics Company Limited	<i>Subsidiary of the ultimate parent company</i>



## 32 Related-party transactions (continued)

Names of related parties	Relationship with the Company
Qingdao Zhonghua Sunshine Management System Certification Center	<i>Subsidiary of the ultimate parent company</i>
Zhejiang Baling Hengyi Caprolactam Limited Company	<i>Joint venture of the ultimate parent company</i>
Shanghai Sinopec Mitsui Chemicals, Co., Ltd.	<i>Joint venture of the ultimate parent company</i>
Basf-ypc Company Limited	<i>Joint venture of the ultimate parent company</i>
Shanghai Changshi Shipping Co., Ltd.	<i>Associate of the ultimate parent company</i>
Shanghai KSD Bulk Solids Engineering Co., Ltd.	<i>Associate of the ultimate parent company</i>
Basf Gao-Qiao Performance Chemicals (Shanghai) Company Limited	<i>Associate of the ultimate parent company</i>
Sinopec Chemical Commercial Holding (Singapore) Pte. Ltd.	<i>Subsidiary of the immediate parent company</i>
Sinopec Finance Co., Ltd.	<i>Subsidiary of the immediate parent company</i>
Sinopec Chemical Commercial Holding Company Limited	<i>Subsidiary of the immediate parent company</i>
Sinopec Nanjing Chemical Research Institute Co., Ltd.	<i>Subsidiary of the immediate parent company</i>
China Economy Phulishing House Co., Ltd.	<i>Subsidiary of the immediate parent company</i>
Sinopec Publishing House Co., Ltd.	<i>Subsidiary of the immediate parent company</i>
Sinopec International Travel Service Co., Ltd.	<i>Subsidiary of the immediate parent company</i>
Sinopec Assets Management Co., Ltd.	<i>Subsidiary of the immediate parent company</i>
Ningbo Engineering Company of Sinopec	<i>Subsidiary of the immediate parent company</i>
Sinopec Shared Service Co., Ltd.	<i>Subsidiary of the immediate parent company</i>
Sinopec Petroleum Engineering Geophysics Ltd.	<i>Subsidiary of the immediate parent company</i>
Sinopec Baichuan Economic and Trade Company	<i>Subsidiary of the immediate parent company</i>
Sinopec Group Jiangsu Petroleum Exploration Bureau Co., Ltd.	<i>Subsidiary of the immediate parent company</i>
Sinopec Newspaper Office	<i>Subsidiary of the immediate parent company</i>
Sinopec Energy Saving Technology Service Co., Ltd.	<i>Subsidiary of the immediate parent company</i>
Sinopec Group Economic and Technology Research Institute Co., Ltd.	<i>Subsidiary of the immediate parent company</i>

## 32 Related-party transactions (continued)

Names of related parties	Relationship with the Company
Beijing Petro-Chemical Construction Consulting Co., Ltd.	<i>Subsidiary of the immediate parent company</i>
China Economicbooks Co., Ltd.	<i>Subsidiary of the immediate parent company</i>
Petrol-Chemical Industry Management Cadre College	<i>Subsidiary of the immediate parent company</i>
Sinopec Engineering Quality Supervision Terminal	<i>Subsidiary of the immediate parent company</i>
Sinopec Group Shanghai Training Center Ltd.	<i>Subsidiary of the immediate parent company</i>
Sinopec Beijing Yanshan Petrochemical Co., Ltd.	<i>Subsidiary of the immediate parent company</i>
Sinopec Zhongyuan Petroleum Exploration Bureau Co., Ltd.	<i>Subsidiary of the immediate parent company</i>
Sinopec Shengli Petroleum Administration Co., Ltd.	<i>Subsidiary of the immediate parent company</i>
The Fourth Construction Company of Sinopec	<i>Subsidiary of the immediate parent company</i>
Sinopec Tending Co., Ltd.	<i>Subsidiary of the immediate parent company</i>
Sinopec Shanghai Engineering Co., Ltd.	<i>Subsidiary of the immediate parent company</i>
Sinopec Engineering Incorporation	<i>Subsidiary of the immediate parent company</i>
Sinopec Engineering Quality Monitoring Co., Ltd.	<i>Subsidiary of the immediate parent company</i>
Sinopec Engineering(Group)Co.,Ltd.	<i>Subsidiary of the immediate parent company</i>
National Petrochemical Project Risk Assessment Technology Center	<i>Subsidiary of the immediate parent company</i>
The Tenth Construction Company of Sinopec	<i>Subsidiary of the immediate parent company</i>
The Fifth Construction Company of Sinopec	<i>Subsidiary of the immediate parent company</i>
Shanghai Petrochemical Machinery Manufacturing Co., Ltd.	<i>Subsidiary of the immediate parent company</i>
Sinopec Nanjing Engineering Company Limited	<i>Subsidiary of the immediate parent company</i>
Sinopec Luoyang Engineering Company Limited	<i>Subsidiary of the immediate parent company</i>
Jiangsu Jinling Opta Polymer Company Limited	<i>Subsidiary of the immediate parent company</i>
Shanghai Petro-Chemical Haidi Administration Co., Ltd.	<i>Subsidiary of the immediate parent company</i>
Sinopec Sichuan Uinylon Works	<i>Subsidiary of the immediate parent company</i>
China Petrochemical Corp. Nanjing Chemistry Industrial Co., Ltd.	<i>Subsidiary of the immediate parent company</i>

32 Related-party transactions (continued)

Names of related parties	Relationship with the Company
Sinopec Group International Petroleum Exploration And Production Limited	<i>Subsidiary of the immediate parent company</i>
Sinopec Consulting Company Limited	<i>Subsidiary of the immediate parent company</i>
China Petrochemical Corp. Engineering Ration Management Station	<i>Subsidiary of the immediate parent company</i>
Beijing Victory Hotel Company Limited	<i>Subsidiary of the immediate parent company</i>
Maoming Shihua Dongcheng Chemical Co., Ltd.	<i>Subsidiary of the immediate parent company</i>
Yihua Tory Polyester Film Company Limited	<i>Joint venture of the immediate parent company</i>
China Sinopec Pipeline Storage and Transportation Co., Ltd.	<i>Associate of the immediate parent</i>
Yihua Bonar Yarns and Fabrics Co., Ltd.	<i>Associate of the immediate parent</i>
Unipecc Singapore	<i>Subsidiary of the immediate parent company</i>
Unipecc America, Inc	<i>Subsidiary of the immediate parent company</i>
Sinopec Japan Company Limited	<i>Subsidiary of the immediate parent company</i>
Rizhao Shihua Crude Oil Terminal Co., Ltd.	<i>Joint venture of the ultimate parent company</i>
Sinopec Europe Company Limited	<i>Subsidiary of the immediate parent company</i>
Sinopec Chemical Commercial Holding (North America), Inc.	<i>Subsidiary of the immediate parent company</i>
Sinopec International (Australia) Pty. Ltd.	<i>Subsidiary of the immediate parent company</i>
Sinopec Easy Joy sales CO., Ltd.	<i>Subsidiary of the immediate parent company</i>
Sinopec National Petrochemical Project Risk Assessment Technology Center Co., Ltd.	<i>Subsidiary of the immediate parent company</i>
Sinopec International (Russia) Pty. Ltd.	<i>Subsidiary of the immediate parent company</i>
Sinopec Jiangnan Petroleum Administration Co., Ltd.	<i>Subsidiary of the ultimate parent company</i>
Sinopec America Company Limited	<i>Subsidiary of the ultimate parent company</i>
Sinopec (Beijing) Chemical Research Institute Co., Ltd.	<i>Subsidiary of the ultimate parent company</i>
Sinopec-Sk(Wuhan)Petrochemical Co., Ltd.	<i>Subsidiary of the ultimate parent company</i>
Shanghai Petroleum&Natural Gas General Co., Ltd.	<i>Associate of the ultimate parent company</i>
Beijing Heyuan Jingyi Hotel Co., Ltd.	<i>Subsidiary of the ultimate parent company</i>
Sinopec Henan Oilfield Training Center	<i>Subsidiary of the ultimate parent company</i>
Sinopec Jiangsu Petroleum Exploration Bureau Co., Ltd. Training Center	<i>Subsidiary of the ultimate parent company</i>
Sinopec Capital Co., Ltd.	<i>Subsidiary of the ultimate parent company</i>

The following is a summary of significant balances and transactions between the Group and its related parties except for the dividends payable as disclosed in note 33.

## 32 Related-party transactions (continued)

- (a) Most of the transactions undertaken by the Group during the year ended 31 December 2022 have been affected on such terms as determined by Sinopec Corp. and relevant PRC authorities.

Sinopec Corp. negotiates and agrees with the terms of crude oil supply with suppliers on a group basis, which is then allocated among its subsidiaries, including the Group, on a discretionary basis. Sinopec Corp. also owns a widespread petroleum products sales network and possesses a fairly high market share in the domestic petroleum products market, which is subject to extensive regulation by the PRC government.

The Group has entered into a mutual product supply and sales services framework agreement with Sinopec Corp. Pursuant to the agreement, Sinopec Corp. provides the Company with crude oil, other petrochemical raw materials and agent services. On the other hand, the Group provides Sinopec Corp. with petroleum products, petrochemical products and property leasing services.

The pricing policy for these services and products provided under the agreement is as follows:

- if there are applicable State (central and local government) tariffs, the pricing shall follow the State tariffs;
- if there are no State tariffs, but there are applicable State guidance prices, the pricing shall follow the State's guidance prices; or
- if there are no State tariffs or State's guidance prices, the pricing shall be determined in accordance with the prevailing market prices (including any bidding prices).

Transactions between the Group and Sinopec Corp, its subsidiaries and joint ventures during the years ended 31 December 2020, 2021 and 2022 were as follows :

	2020 RMB'000	2021 RMB'000	2022 RMB'000
Sales of petroleum products	39,879,549	47,201,755	44,392,225
Sales other than petroleum products	6,790,568	9,439,546	8,194,827
Purchases of crude oil	27,934,926	35,371,820	46,790,433
Purchases other than crude oil	9,937,862	9,008,147	7,544,094
Commission expense	104,598	110,552	90,341
Rental income	32,829	34,475	34,088

## Sinopec Shanghai Petrochemical Company Limited

## 32 Related-party transactions (continued)

- (b) Other transactions between the Group and Sinopec Group and its subsidiaries, associates and joint ventures of the Group during the years ended 31 December 2020, 2021 and 2022 were as follows:

	2020 RMB'000	2021 RMB'000	2022 RMB'000
Sales of goods and service fee income			
- Sinopec Group and its subsidiaries	14,870	36,683	19,450
- Associates and joint ventures of the Group	2,019,997	4,248,658	3,171,835
	<u>2,034,867</u>	<u>4,285,341</u>	<u>3,191,285</u>
Purchases			
- Sinopec Group and its subsidiaries	832,617	2,830,256	1,870,287
- Associates and joint ventures of the Group	3,648,664	4,425,698	2,411,552
	<u>4,481,281</u>	<u>7,255,954</u>	<u>4,281,839</u>
Insurance premium expenses			
- Sinopec Group and its subsidiaries	107,495	108,850	109,597
Addition to right-of-use assets			
- Sinopec Group and its subsidiaries	2,267	1,388	20,023
Interest expense of lease liabilities			
- Sinopec Group and its subsidiaries	205	247	787
- Joint ventures of the Group	8	24	17
	<u>213</u>	<u>271</u>	<u>804</u>
Interest expense			
- Sinopec Finance	—	2,835	7,665
Interest income			
- Sinopec Finance	2,088	824	213
- Joint ventures of the Group	—	—	2,704
	<u>2,088</u>	<u>824</u>	<u>2,917</u>
Construction and installation cost			
- Sinopec Group and its subsidiaries	233,591	785,216	812,516
Rental income			
- Associates and joint ventures of the Group	15,577	14,930	14,032
- Sinopec Group and its subsidiaries	464	464	427
	<u>16,041</u>	<u>15,394</u>	<u>14,459</u>
Long-term borrowings			
- Sinopec Finance	—	700,000	—

The directors of the Company are of the opinion that the transactions with Sinopec Corp., its subsidiaries and joint ventures, Sinopec Group and its subsidiaries, associates and joint ventures of the Group as disclosed in notes 32(a) and 32(b) were conducted in the ordinary course of business, on normal commercial terms and in accordance with the agreements governing such transactions.

## 32 Related-party transactions (continued)

- (c) The relevant amounts due from/to Sinopec Corp., its subsidiaries and joint ventures, Sinopec Group and its subsidiaries, associates and joint ventures of the Group, arising from purchases, sales and other transactions as disclosed in notes 32(a) and 32(b), are summarized as follows:

	As at 31 December 2021 RMB'000	As at 31 December 2022 RMB'000
Amounts due from related parties		
- Sinopec Corp., its subsidiaries and joint ventures	1,184,117	2,593,908
- Associates and joint ventures of the Group	28,214	45,075
	<u>1,212,331</u>	<u>2,638,983</u>
Amounts due to related parties		
- Sinopec Corp., its subsidiaries and joint ventures	4,475,992	6,569,219
- Sinopec Group and its subsidiaries	1,672,439	1,232,589
- Associates and joint ventures of the Group	156,385	86,001
	<u>6,304,816</u>	<u>7,887,809</u>
Lease liabilities		
- Sinopec Group and its subsidiaries	992	12,714
- Joint ventures of the Group	435	290
	<u>1,427</u>	<u>13,004</u>
Cash deposits, maturing within three months		
- Sinopec Finance (note d)	3,243	—
Long-term borrowings		
- Sinopec Finance	<u>700,000</u>	<u>700,000</u>

- (d) As at 31 December 2021, cash deposits at Sinopec Finance were charged at an interest rate of 0.35% per annum.

Except for cash deposits at Sinopec Finance and long-term borrowings from Sinopec Finance, the balances with related parties as above are unsecured, interest-free and repayable on demand.

## 32 Related-party transactions (continued)

## (e) Key management personnel compensation, post-employment benefit plans and share options

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including directors and supervisors of the Group. The key personnel compensations are as follows:

	Years ended 31 December		
	2020	2021	2022
	RMB'000	RMB'000	RMB'000
Short-term employee benefits	9,859	11,866	13,667
Post-employment benefits	441	551	639
	<u>10,300</u>	<u>12,417</u>	<u>14,306</u>

## (f) Transactions with other state-owned entities in the PRC

The Group is a state-controlled enterprise and operates in an economic regime currently dominated by entities directly or indirectly controlled by the PRC government (collectively referred to as "state-controlled entities") through its government authorities, agencies, affiliations and other organizations.

Apart from transactions with related parties, the Group has transactions with other state-controlled entities which include, but are not limited to, the following:

- sales and purchases of goods and ancillary materials;
- rendering and receiving services;
- lease of assets, purchase of property, plant and equipment;
- placing deposits and obtaining finance; and
- use of public utilities

These transactions are conducted in the ordinary course of the Group's business on terms comparable to those with other entities that are not state controlled. The Group has established its procurement policies, pricing strategy and approval process for purchases and sales of products and services which do not depend on whether the counterparties are state-controlled entities or not.

## (g) Commitments with related parties

## (i) Construction and installation cost

	As at 31 December 2021 RMB'000	As at 31 December 2022 RMB'000
Sinopec Group and its subsidiaries	775,007	930,665

Sinopec Shanghai Petrochemical Company Limited

32 Related-party transactions (continued)

(h) Investment commitments with related parties

	As at 31 December 2021 RMB'000	As at 31 December 2022 RMB'000
Capital contribution to Shanghai Secco (i)	111,263	111,263
Capital contribution to Shanghai Shidian Energy Company Limited ("Shidian Energy") (ii)	80,000	—
Capital contribution to Baling Materials (iii)	350,000	150,000
	<u>541,263</u>	<u>261,263</u>

- (i) Pursuant to the resolution of the 18th meeting of the 7th term of Board of Directors on 5 December 2013, the Group was approved to make a capital contribution of USD 30,017,000 (RMB 182,804 thousand equivalent) to Shanghai Secco, an associate of the Group. As at 31 December 2022, the Company has contributed RMB 71,541 thousand to Shanghai Secco.

According to the approval by Shanghai Municipal Commission of Commerce as issued on 19 October 2015, the rest of the capital contribution to Shanghai Secco should be within 50 years starting from its registration date.

- (ii) Pursuant to the articles of association of Shidian Energy in August 2019, Toufa agreed to make a capital contribution of RMB 400,000 thousand to acquire 40% share of Shidian Energy. As at 31 December 2022, Toufa has fully contributed RMB 400,000 thousand to Shidian Energy.
- (iii) Sinopec Baling Petrochemical Co., Ltd and the Company jointly established Baling Materials on 7 September 2021, each with a cash contribution of RMB 400,000 thousand. As at 31 December 2022, the Company has made a paid-up capital contribution of RMB 250,000 thousand.

Except for the above disclosed in notes 32 (g) and 32 (h), the Group had no other material commitments with related parties as at 31 December 2022, which are contracted, but not included in the financial statements.

33 Dividend

(a) Dividends payable to equity shareholders of the Company attributable to the year:

	2021 RMB'000	2022 RMB'000
No final dividend proposed after the end of the reporting period (2021: RMB 0.10 per ordinary share)	<u>1,082,381</u>	<u>—</u>



## Sinopec Shanghai Petrochemical Company Limited

## 33 Dividend (continued)

The final dividend proposed after the end of the reporting period has not been recognized as a liability at the end of the reporting period.

## (b) Dividends payable to equity shareholders of the Company attributable to the previous financial year, approved and paid during the year

	2021 RMB'000	2022 RMB'000
Final dividend in respect of the previous financial year, approved and paid during the year, of RMB 0.10 per share (2021: RMB 0.10)	<u>1,082,381</u>	<u>1,082,381</u>

## 34 Commitments

Capital commitments outstanding at 31 December 2022 not provided for in the financial statements were as follows:

	As at 31 December 2021 RMB'000	As at 31 December 2022 RMB'000
Property, plant and equipment contracted for	<u>1,176,168</u>	<u>1,783,781</u>

## 35 Statements of financial position and equity movement of the Company

	As at 31 December 2021 RMB'000	As at 31 December 2022 RMB'000
<b>Non-current assets</b>		
Property, plant and equipment	10,914,990	11,823,562
Investment properties	381,540	365,147
Right-of-use assets	275,924	274,926
Construction in progress	3,201,111	3,647,200
Investments in subsidiaries	2,048,328	2,048,328
Investments accounted for using the equity method	3,299,050	2,654,151
Time deposits with banks	5,381,149	3,139,559
Deferred tax assets	178,084	986,830
Other non-current assets	769,492	821,397
	<u>26,449,668</u>	<u>25,761,100</u>
<b>Current assets</b>		
Derivative financial instruments	81,405	—
Inventories	5,726,264	7,043,613
Trade receivables	149	—
Other receivables	8,276	88,839
Amounts due from related parties	1,116,553	2,526,598
Prepayments	13,790	10,711
Value added tax recoverable	—	1,045,002
Financial assets at fair value through other comprehensive income (FVOCI)	615,689	127,558
Time deposits with banks	7,386,605	3,108,916
Cash and cash equivalents	4,927,519	671,538
	<u>19,876,250</u>	<u>14,622,775</u>
<b>Current liabilities</b>		
Trade and other payables	2,389,508	2,217,580
Contract liabilities	376,834	289,407
Amounts due to related parties	7,423,883	8,809,690
Staff salaries and welfares payable	253,800	307,190
Borrowings	1,500,000	1,500,000
Lease liabilities	1,604	7,172
Derivative financial instruments	23,804	—
Income tax payable	249,332	—
Current tax liabilities	3,843,541	913,231
	<u>16,062,306</u>	<u>14,044,270</u>
<b>Net current assets</b>	<u>3,813,944</u>	<u>578,505</u>

35 Statements of financial position and equity movement of the Company (continued)

	As at 31 December 2021 RMB'000	As at 31 December 2022 RMB'000
<b>Total assets less current liabilities</b>	<b>30,263,612</b>	<b>26,339,605</b>
<b>Non-current liabilities</b>		
Interest-bearing borrowings	700,000	700,000
Lease liabilities	399	6,481
Deferred income	12,720	44,494
	713,119	750,975
<b>NET ASSETS</b>	<b>29,550,493</b>	<b>25,588,630</b>
<b>CAPITAL AND RESERVES</b>		
Share capital	10,823,814	10,823,814
Reserves	18,726,679	14,764,816
<b>TOTAL EQUITY</b>	<b>29,550,493</b>	<b>25,588,630</b>

Approved and authorized for issue by the Board of Directors on 26 April 2023.

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Wan Tao	)	
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	)	Directors
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Sinopec Shanghai Petrochemical Company Limited

35 Statements of financial position and equity movement of the Company (continued)

(a) Movements in components of equity of the Company

	Share capital RMB'000	Legal surplus RMB'000	Capital surplus RMB'000	Surplus reserve RMB'000	Other reserve RMB'000	Hedging reserve RMB'000	Share premium RMB'000	Safety production fund RMB'000	Treasury reserve RMB'000	Retained earnings RMB'000	Total RMB'000
<b>Balance at</b>											
<b>1 January 2021</b>	10,823,814	4,072,476	4,180	101,355	6,326	—	106,846	145,597	—	13,260,897	28,521,491
Total comprehensive income for the year	—	—	—	—	16,639	125,159	—	—	—	2,058,284	2,200,082
Amounts transferred from hedging reserve to initial carrying amount of hedged items	—	—	—	—	—	(88,699)	—	—	—	—	(88,699)
Dividends declared and approved in respect of previous year	—	—	—	—	—	—	—	—	—	(1,082,381)	(1,082,381)
Transfer to legal surplus	—	2,498,808	—	—	—	—	—	—	—	(2,498,808)	—
Appropriation of safety production fund	—	—	—	—	—	—	—	32,310	—	(32,310)	—
<b>Balance at</b>											
<b>31 December 2021 and</b>											
<b>1 January 2022</b>	10,823,814	6,571,284	4,180	101,355	22,965	36,460	106,846	177,907	—	11,705,682	29,550,493
Total comprehensive income for the year	—	—	—	—	(23,771)	201,519	—	—	—	(2,793,562)	(2,615,814)
Amounts transferred from hedging reserve to initial carrying amount of hedged items	—	—	—	—	—	(237,979)	—	—	—	—	(237,979)
Dividends declared and approved in respect of previous year	—	—	—	—	—	—	—	—	—	(1,082,381)	(1,082,381)
Purchase of own shares	—	—	—	—	—	—	—	—	(25,689)	—	(25,689)
Appropriation of safety production fund	—	—	—	—	—	—	—	61,782	—	(61,782)	—
<b>Balance at</b>											
<b>31 December 2022</b>	10,823,814	6,571,284	4,180	101,355	(806)	—	106,846	239,689	(25,689)	7,767,957	25,588,630

## 36 Comparative figures

Certain comparative figures, as disclosed below, have been adjusted to conform to current year's presentation. Value added tax recoverable in the amount of RMB 13,322 thousand as of December 31, 2021, which was previously included in prepayments, and has been reclassified as value added tax recoverable and separately presented on the consolidated balance sheet as of December 31, 2021.

## 37 Possible impact of amendments, new standards and interpretations issued but not yet effective for the year ended 31 December 2022

Up to the date of issue of these financial statements, the IASB has issued a number of amendments, new standards and interpretations, which are not yet effective for the year ended 31 December 2022 and which have not been adopted in these financial statements. These developments include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
IFRS 17, Insurance contracts	1 January 2023
Amendments to IAS 1, Presentation of financial statements: Classification of liabilities as current or non-current	1 January 2023
Amendments to IAS 1, Presentation of financial statements and IFRS Practice Statement 2, Making materiality judgements: Disclosure of accounting policies	1 January 2023
Amendments to IAS 8, Accounting policies, changes in accounting estimates and errors: Definition of accounting estimates	1 January 2023
Amendments to IAS 12, Income taxes: Deferred tax related to assets and liabilities arising from a single transaction	1 January 2023

The Group is in the process of making an assessment of what the impact of these amendments, new standards and interpretations are expected to be in the period of initial application. So far, the Group has concluded that the adoption of them is unlikely to have a significant impact on the consolidated financial statements.