

SINOPEC SHANGHAI PETROCHEMICAL CO LTD

Form 20-F

April 30, 2012

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UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 20-F

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

OR

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

For the fiscal year ended December 31, 2011

OR

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

OR

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

Date of event requiring this shell company report

For the transition period from _____ to _____

Commission file number 1-12158

(Exact name of Registrant as specified in its charter)

Sinopec Shanghai Petrochemical Company Limited

(Translation of Registrant's name into English)

The People's Republic of China

(Jurisdiction of incorporation or organization)

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

(Address of principal executive offices)

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The People's Republic of China

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

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

None

(Title of Class)

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

None

(Title of Class)

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

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

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

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

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

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

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

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

Large Accelerated Filer Accelerated Filer Non-Accelerated Filer

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

U.S. GAAP International Financial Reporting Standards as issued 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

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CAUTIONARY STATEMENT REGARDING FORWARD-LOOKING STATEMENTS

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

amount and nature of future development,

future prices of and demand for our products,

future earnings and cash flow,

capital expansion programs,

future plans and capital expenditures,

expansion and other development trends of the petrochemical industry,

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

expansion and growth of our business and operations; and

our prospective operational and financial information.

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

fluctuations in crude oil and natural gas prices,

fluctuations in prices of our products,

failures or delays in achieving production from development projects,

potential acquisitions and other business opportunities,

continued availability of capital and financing;

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

other risks and factors beyond our control.

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

EXCHANGE RATES

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

We publish our financial statements in Renminbi. Unless otherwise indicated, all translations from Renminbi to U.S. Dollars have been made at a rate of RMB6.2939 to U.S.\$1.00, the noon buying rate on December 30, 2011 as set forth in the H.10 statistical release of the U.S. Federal Reserve Board. We do not represent that Renminbi or US dollar amounts could be converted into U.S. Dollars or Renminbi, as the case may be, at any particular rate.

CERTAIN TERMS AND CONVENTIONS

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

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

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

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

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

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

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

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

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

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

All references to tons are to metric tons.

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

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Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE.

Not applicable.

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

Our selected consolidated statements of income (except for ADS data) and cash flow data for each of the years ended December 31, 2009, 2010 and 2011 and our selected consolidated balance sheet data as of December 31, 2010 and 2011 are derived from our consolidated financial statements included in Item 17. Financial Statements. Our selected consolidated statements of income and cash flow data for the years ended December 31, 2007 and 2008 and our consolidated balance sheet data as of December 31, 2007, 2008 and 2009 are derived from our consolidated financial statements not included in this annual report. Our selected consolidated financial data should be read in conjunction with our consolidated financial statements, and the notes thereto, and Item 5. Operating and Financial Review and Prospects. Our consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS), as issued by the International Accounting Standards Board.

Selected Consolidated Financial Data**(in thousands, except per share and per ADS data)**

	Years Ended December 31,				
	2007 (RMB) (Restated)*	2008 (RMB) (Restated)*	2009 (RMB) (Restated)*	2010 (RMB) (Restated)*	2011 (RMB)
STATEMENTS OF INCOME DATA					
Net sales:					
Synthetic fibers	4,328,742	3,662,023	2,823,663	3,906,636	4,150,231
Resins and plastics	15,878,803	14,850,284	12,263,540	14,900,012	16,418,559
Intermediate petrochemicals	9,372,658	10,271,840	8,421,035	17,206,440	19,023,204
Petroleum products	21,036,581	27,552,859	18,917,890	28,733,890	37,350,244
Trading of petrochemical products	3,419,631	2,813,200	4,623,989	6,565,793	11,616,999
Others	218,274	179,565	295,147	783,111	950,416
Profit/(loss) from operations	889,158	(7,820,762)	2,019,978	2,963,594	1,059,824
Earnings/(loss) before income tax	2,147,854	(8,017,936)	2,163,011	3,529,878	1,296,706
Net income/(loss) attributable to equity shareholders of the Company	1,631,457	(6,241,067)	1,588,365	2,769,023	956,106
Net income attributable to non-controlling interests	49,056	36,717	64,471	25,358	30,416
Basic earnings/(loss) per share(a)	0.23	(0.87)	0.22	0.38	0.13
Basic earnings/(loss) per ADS(a)	22.66	(86.68)	22.06	38.46	13.28

(a) The calculation of earnings per share is based on the weighted average number of shares outstanding of 7,200,000,000 in each of 2007, 2008, 2009, 2010 and 2011, respectively. Earnings per ADS are calculated on the basis that one ADS is equivalent to 100 H Shares.

- * During the year ended December 31, 2011, we adopted the amendments to IFRS 1 First-time adoption of IFRSs , which was applied retrospectively. Accordingly, the comparative amounts have been restated. Please see Note 3 in our consolidated financial statements included in Item 17. Financial Statements for details.

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	Years Ended December 31,				
	2007 (RMB)	2008 (RMB)	2009 (RMB)	2010 (RMB)	2011 (RMB)
CASH FLOW DATA					
Net cash generated from/ (used in) operating activities	1,441,998	(3,986,490)	3,346,890	3,973,719	2,219,994
Capital expenditures	2,134,123	1,511,072	2,120,292	1,356,845	3,481,235
Net proceeds/ (repayment) related to corporate bonds			1,000,000		(1,000,000)
Proceeds from loans and borrowings	17,605,887	32,528,758	29,211,434	39,355,78	35,106,127
Repayment of loans and borrowings	16,166,938	27,377,610	31,849,620	42,631,34	32,791,261

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	Years Ended December 31,				
	2007 (RMB) (Restated)*	2008 (RMB) (Restated)*	2009 (RMB) (Restated)*	2010 (RMB) (Restated)*	2011 (RMB)
BALANCE SHEET DATA					
Current assets	8,936,764	6,511,351	9,061,425	8,531,841	9,665,814
Property, plant and equipment	14,977,237	13,272,899	14,977,205	13,570,559	12,501,980
Total assets	29,989,712	27,667,066	30,039,902	28,697,535	30,718,865
Short-term debt(a)	4,091,969	9,372,725	7,774,673	4,395,438	5,512,074
Current liabilities	8,261,732	13,342,720	14,304,925	10,573,225	12,271,832
Long-term debt (excluding current portion)	639,289	429,021	304,258	175,000	160,050
Total equity attributable to equity shareholders of the Company	20,784,700	13,630,972	15,136,434	17,689,457	17,925,563

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

* During the year ended December 31, 2011, we adopted the amendments to IFRS 1 First-time adoption of IFRSs, which was applied retroactively. Accordingly, the comparative amounts have been restated. Please see Note 3 in our consolidated financial statements included in [Item 17. Financial Statements](#) for details.

Dividends

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

Dividend Period	Dividend per Share
January 1, 1994-June 30, 1994	RMB0.04 (U.S.\$0.0059)
July 1, 1994-December 31, 1994	RMB0.085 (U.S.\$0.0125)
January 1, 1995-June 30, 1995	RMB0.04 (U.S.\$0.0059)
July 1, 1995-December 31, 1995	RMB0.09 (U.S.\$0.0132)
January 1, 1996-June 30, 1996	RMB0.04 (U.S.\$0.0059)
July 1, 1996-December 31, 1996	RMB0.08 (U.S.\$0.0117)
January 1, 1997-December 31, 1997	RMB0.06 (U.S.\$0.0088)
January 1, 1998-December 31, 1998	RMB0.03 (U.S.\$0.0044)
January 1, 1999-December 31, 1999	RMB0.05 (U.S.\$0.0073)
January 1, 2000-December 31, 2000	RMB0.06 (U.S.\$0.0088)
January 1, 2001-December 31, 2001	No dividend
January 1, 2002-December 31, 2002	RMB0.05 (U.S.\$0.0073)
January 1, 2003-December 31, 2003	RMB0.08 (U.S.\$0.0117)
January 1, 2004-December 31, 2004	RMB0.20 (U.S.\$0.0293)
January 1, 2005-December 31, 2005	RMB0.10 (U.S.\$0.0147)
January 1, 2006-December 31, 2006	RMB0.04 (U.S.\$0.0059)
January 1, 2007-December 31, 2007	RMB0.09 (U.S.\$0.0132)
January 1, 2008-December 31, 2008	No dividend
January 1, 2009-December 31, 2009	RMB0.03 (U.S.\$0.0044)
January 1, 2010-December 31, 2010	RMB0.10 (U.S.\$0.0152)
January 1, 2011-December 31, 2011	RMB0.05 (U.S.\$0.0079)

See also [Item 8.A. Financial Information](#) [Consolidated Statements and Other Financial Information](#) [Dividend Policy](#).

Exchange Rates

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

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

Period	Noon Buying Rates (RMB/U.S.\$)			
	Period End	Average ⁽¹⁾	High	Low
2007	7.2946	7.5806	7.8127	7.2946
2008	6.8225	6.9477	7.2946	6.7899
2009	6.8259	6.8307	6.8470	6.8176
2010	6.6000	6.7696	6.8330	6.6000
2011	6.2939	6.4630	6.6364	6.2939
October 2011	6.3547	6.3710	6.3825	6.3534
November 2011	6.3765	6.3564	6.3839	6.3400
December 2011	6.2939	6.3482	6.3733	6.2939
January 2012	6.3080	6.3172	6.3330	6.2940
February 2012	6.2935	6.2997	6.3120	6.2935
March 2012	6.2975	6.3125	6.3315	6.2975

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

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

B. Capitalization and Indebtedness.

Not applicable.

C. Reasons for the Offer and Use of Proceeds.

Not applicable.

D. Risk Factors.

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

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

Most of our revenues are attributable to the sale of refined oil and petrochemical products, which have historically been cyclical and sensitive to the availability and price of raw materials and general economic conditions. Markets for many of our products are sensitive to changes in industry capacity and output levels, cyclical 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 product prices in the regional and global markets. Due to the decrease in tariff charges, the removal of other restrictions on importation and the Chinese government gradual relaxation of its 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 approximately 90% is imported. In 2011, crude oil costs accounted for RMB53.52 billion, or 60.90% of our annual cost of sales. As a result, changes in crude oil prices can affect our profitability. In recent years, due to various reasons, the price of crude oil has fluctuated significantly. One notable reason relates to the threats by Iran of closing the Strait of Hormuz and the implications of significantly reducing crude oil supplied from the region recently. We cannot rule out the possibility

of the occurrence of certain global emergencies which might disrupt our crude oil supply. We expect that the volatility and uncertainty of the prices of crude oil and petrochemical products will continue, and that increasing crude oil prices and declines in prices of petrochemical products may adversely affect our business and results of operations and financial condition.

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

We consume large amounts of crude oil to manufacture our products of which approximately 90% is imported. We attempt to mitigate the effect of increased costs due to rising crude oil prices. However, our ability to pass on these increased costs to our customers is dependent on market conditions and government regulations. Given that the increase of the sales prices of our products may lag behind the increase of crude oil costs, we may fail to completely cover the increased costs by increasing our sales prices, particularly where government regulations restrict the prices of certain of our fuel products. In particular, gasoline, diesel and jet fuel, and liquefied petroleum gas are subject to government price controls at present. In 2009, 2010 and 2011, approximately 47.70%, 34.41% and 36.70% of our net sales were from such products subject to price controls. In 2011, the domestic prices of refined oil products were not brought into line with the prices of crude oil on the international markets in a timely manner due to various policy concerns, e.g., the high inflation rate in China, which resulted in the decline of RMB1,593.6 million of the operating profit of our refining business over the previous year. Although the Chinese government has adopted a new pricing mechanism for domestically refined oil products that indirectly links the prices of these products to international crude oil prices (see [Item 4. Information on the Company B. Business Overview Product Pricing](#)), such pricing mechanism is still not completely transparent and subject to inadequate or untimely adjustment. 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 increasing the sale prices of our products, which has had and will possibly continue to have a material adverse effect on our financial condition, results of operations and cash flows.

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

The petrochemical business is a capital intensive business. Our ability to maintain and increase our revenues, net income and cash flows depends upon continued capital spending. Our current business strategy contemplates capital expenditures for 2012 of approximately RMB3.2 billion (U.S.\$508.4 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, 2012, we had an aggregate outstanding indebtedness of approximately RMB9.588 billion (U.S.\$1.523 billion). Most of our loans are with state-controlled banks in China and structured as short-term debt obligations with payment due in one year or less. These banks have generally been willing to provide new short-term loans while we pay off existing loans. Sinopec Corp, our controlling shareholder, did not provide any guarantee or credit support for our debt for the year ended December 31, 2011 and for the three-month period ended March 31, 2012.

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 markets for our products; the cost of financing and the condition of financial markets; the issuance of relevant government approvals and other project risks associated with the development of infrastructure in China; and the continuing willingness of banks to provide new loans as we pay down existing debt.

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

We could face increasing competition.

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

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

As of March 31, 2012, Sinopec Corp owned 55.56% of our shares. Accordingly, it has voting and management control over us, and its interests may be different from the interests of our other shareholders. Subject to our Articles of Association and applicable laws and regulations, Sinopec Corp will be in a position to cause us to declare dividends, determine the outcome of corporate actions requiring shareholder approval or effect corporate transactions without the approval of the holders of the H shares and ADSs. Any such increase in our dividend payout would reduce funds available for reinvestment in our business and any such actions or transactions could adversely affect us or our minority shareholders. Sinopec Corp may also experience changes in its own business strategy and policies. Although we are not currently aware of any specific changes, 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 managements, which could adversely affect us or our minority shareholders.

We have also engaged from time to time and will continue to engage in a variety of transactions with Sinopec Corp and 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. B. Related Party Transactions Intercompany Service Agreement and Business-related Dealings. Our business and results of operations could be adversely affected if Sinopec Corp or Sinopec Group refuses to engage in such transactions or if it seeks to amend the contracts between the parties in a way adverse to us. In addition, Sinopec Corp has interests in businesses which compete or are likely to compete, either directly or indirectly, with our businesses. Because Sinopec Corp is our controlling shareholder and its interests may conflict with our own interests, Sinopec Corp may take actions that favor itself over our interests.

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

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

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

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

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

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

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

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

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On September 8, 2011, there was a fire accident at one of the ethylene production facilities of Shanghai Secco Petrochemical Company Limited (Secco), a Sino-foreign equity joint venture, in which we hold 20% equity interests. There were no casualties in the accident. The accident contributed partially to the significant decrease of the net profit of Secco in 2011. We have established a set of safety policies and adopted safety measures to reduce the risk of accidents. Despite our endeavors to enhance workplace safety, there is no assurance that accidents will not occur.

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

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

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

mandating distribution channels for our fuel products;

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

assessing taxes and fees payable;

setting import and export quotas and procedures; and

setting safety, environmental and quality standards.

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

Our development plans may require regulatory approval.

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

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

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

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

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

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

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

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

has permitted foreign-owned companies to distribute and market fuel products in both retail and wholesale markets in China.

As a result of these measures, we face increased competition from foreign companies and imports. In 2012, we expect the impact of the global financial crisis to continue to have a negative effect on the market for petrochemical products, and in turn our business. The petrochemical industry has experienced a slow recovery. In addition, competition for our products has increased, as many overseas companies have switched their focus to sales in China. In addition, tariff reductions could reduce our profit margins or otherwise negatively impact our revenue from certain products, including a small number of significant products. The Chinese government may also reduce the tariffs imposed on production equipment that we may import in the future.

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

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

structure;

level of government involvement;

level of development;

level of capital reinvestment;

control of foreign exchange; and

allocation of resources.

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

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

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

debt service costs on foreign currency-denominated debt;

purchases of imported equipment;

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

import of crude oil and other materials.

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

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

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

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

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

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

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

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

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

Interpretation and enforcement of Chinese laws and regulations is uncertain.

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

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

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

Our Articles of Association require you to submit your disputes with us and other persons to arbitration. You will have no legal right to a court proceeding.

Our Articles of Association require holders of our H shares or ADSs having a claim against, or a dispute with, us, our directors, supervisors, executive officers or a holder of our domestic shares relating to any rights or obligations conferred or imposed by our Articles of Association, the Chinese Company Law or any other 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.

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

The Company's operations and assets are physically located in the PRC. The PRC has limited or no agreements in place to facilitate cooperation with the SEC Division of Enforcement and other U.S. regulatory agencies charged with protecting investors for investigations within its jurisdiction. This may result in U.S. Financial regulators including the SEC, Public Company Accounting Oversight Board (PCAOB) and the U.S. Department of Justice having limited access to the Company's books, records, testimony, on-site investigation of operation, subpoena power and other investigative actions including those stemming from investor tips, complaints and referrals. Such limitations may result in the Company's investors receiving less protection from U.S. regulators than investors in companies operating in other jurisdictions because the Company and its service providers, particularly its auditors, are subject to less scrutiny than companies and service providers that are subject to regular investigations and inspections by U.S. regulators. For example, the PCAOB is currently unable to conduct independent regulatory inspections of PCAOB-registered firms' audit work related to a company's operations where such documentation of the audit work is located in China. As a result, our investors may be deprived of the benefits of PCAOB's oversight of our independent registered public accounting firm through such inspections.

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

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

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

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

Negative publicity regarding, and divestments by investors in response to, our affiliation with Sinopec Corp and Sinopec Group, and their respective business activities in certain countries identified by the U.S. government as state sponsors of terror, may adversely impact our stock price.

We are affiliated with Sinopec Corp and Sinopec Group, both of which have been identified in the news media as engaging in operations in or purchasing substantial volumes of crude oil sourced from countries identified by the U.S. government as state sponsors of terrorism such as Iran, Syria, Cuba and Sudan. We do not conduct any material operations in, nor do we purchase any material volume of crude oil from these countries. Further, we have no control over the activities of Sinopec Group or Sinopec Corp in connection with any activities they may have related to Iran, Syria, Sudan or Cuba. Nevertheless, certain articles in the press have identified institutional investors, many of whom have substantial investment portfolios and purchasing power, that may have divested, or intend to divest or otherwise not invest in, our stock because of the alleged operations of our affiliates in such countries. Decisions by such large investors may have the effect of reducing demand for our stock in the market, perhaps significantly, which could cause substantial downward pressure on our stock price. Any such downward pressure likely would result in a reduction of our market capitalization and could impact not only the value of our existing stockholders' investment in our company, but also potentially our ability to raise equity or debt financing in the future.

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ITEM 4. INFORMATION ON THE COMPANY.

A. History and Development of the Company

General Information

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

Our Predecessor

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

Construction Projects

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

The Company commenced the sixth stage of construction in 2010 (*Phase 6 Project*). The purpose of the *Phase 6 Project* is to improve the Company's overall industrial structure, core competitiveness and the capability of maintaining sustainable developments. The *Phase 6 Project* is focused on the intensive utilization of natural resources and the formation of a complete set of facilities, in accordance with the fundamental industrial model of integrating oil refining and petrochemical. It intends to further achieve the reform of oil refining and to strengthen and expand the Company's core advantaged business while continuing to explore the development of fine chemicals and products with high added value. *Phase 6 Project* consists of refining capacity expansion projects, technology development and fine chemicals projects, see [Item 4. Information on the Company - Property, Plant and Equipment - Capital Expansion Program](#).

Over the past thirty-nine years, the Company 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 (*JJ*), 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 *JJ*. The *Complex*'s core business and assets was transferred to us. The *Complex* then ceased to exist as a legal entity. In 1998, Sinopec was restructured into a limited liability company under the name of China Petrochemical Corporation (*Sinopec Group*). On February 25, 2000, Sinopec Group transferred its interest in us to its subsidiary, Sinopec Corp. In 1997, *JJ* was restructured and its subsidiaries were either transferred to Sinopec or Shanghai Jinshan District. Sinopec Group now provides community services to us that were formerly provided by *JJ*.

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

Description of Principal Capital Expenditures and Divestitures

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

B. Business Overview

We are one of the largest petrochemical companies in China based on 2011 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.

A considerable portion of our net sales comes from the trading of petrochemical products in 2011. As the reported revenue of the trading of petrochemical products segment was more than 10% of the combined revenue of all operating segments during the year ended December 31, 2011, the trading of petrochemical products segment is identified as a new reportable reporting segment and the corresponding information for the years ended December 31, 2009 and 2010 has been reclassified accordingly. Based on 2011 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 2009, 2010 and 2011 are summarized as follows:

Net Sales of RMB47,345.3 million in 2009

Synthetic fibers	5.96%
Resins and plastics	25.90%
Intermediate petrochemicals	17.79%
Petroleum products	39.96%
Trading of petrochemical products	9.77%
Others	0.62%

Total	100.00%
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Net Sales of RMB72,095.9 million in 2010

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

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

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

We derive a substantial portion of our revenues from customers in Eastern China (principally Shanghai and its six neighboring provinces), an area that has experienced economic growth above the national average in recent years. We believe that we are well-positioned to take advantage of opportunities which may arise through the growth of economy of China generally and in this area in particular. Shown by geographic region and exports, our net sales by business lines as a percentage of total net sales for each of 2009, 2010 and 2011 are as follows:

2009 Net Sales by Region (%)

	Eastern China	Other parts of China	Exports
Synthetic fibers	83.00	16.04	0.96
Resins and plastics	86.66	13.34	0
Intermediate petrochemicals	83.78	14.49	1.73
Petroleum products	99.84	0.16	0
Trading of petrochemical products	91.37	0.99	7.64
Total net sales	92.74	6.92	0.34

2010 Net Sales by Region (%)

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

2011 Net Sales by Region (%)

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

Business Strategy

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In 2012, we aim to develop the Company into a leading oil refining petrochemical enterprise, domestically and globally, strengthen production and optimize operations, enhance safety and environmental management, accelerate construction of the Phase 6 Project, improve the management system and the overall quality of the workforce, enhance the leading role of corporate culture and further improve our profitability.

To achieve its business objectives in 2012, the Company will carry out tasks in following areas:

- (a) Strengthening safety management and environmental protection as well as energy conservation and emissions reduction

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The Company will further improve its safety management and environmental protection and will implement policies and accountability to reinforce these measures in its production and operations. It will strengthen on-site safety management by implementing standardized management on all construction sites, establish and improve a safety evaluation mechanism for all staff to strengthen the management of accidents, ensure that the equipment is intrinsically safe by enhancing equipment operation and management, identify safety risks to strengthen the safety management of all production processes, strengthen remediation and worker protection at the work sites to safeguard the health of workers and continue to carry out clean production and adhere to environmental controls to ensure that the three types of wastes meets the discharge standards and that the target for controlling energy conservation and emissions reduction is accomplished.

(b) Strengthening production and optimizing operations to enhance profitability

Having maintained the full-capacity operation of its plants on a long-term basis, the Company will continue to optimize the flow of its oil refining and petrochemical processing operations, resume its efforts to maintain material supplies and maintain healthy sales, and endeavor to increase profitability.

It will resume its efforts to optimize the composition of crude oil resources and its varieties of oil so as to effectively reduce the purchase costs of crude oil. It will strengthen the organization and management of production to maintain the full-capacity operation of its plants on a long-term basis. It will continue to optimize the allocation of its raw material resources, implement technological advancements that minimize energy consumption through production, optimize its reserves, inventory management and product distribution and actively market incremental products.

(c) Pushing forward the construction and development of the Phase 6 Project and the development of new products

The Company will proceed with the construction of the Phase 6 Project, including the Refinery Renovation and the Technology Development Project that is the principal component, and aim to commence production smoothly and on schedule. With safety and quality as the top priorities, the Company will focus on the key sections of the project to ensure that construction is on schedule and that operations commence on time and efficiently. It will focus on the preliminary work of the No. 1 Ethylene Renovation Project as it strives to launch operations within the year. The Company will use existing resources to develop and produce marketable and differentiated products and will continue to proceed with the development and application of information technology to enhance the production and operation management.

(d) Accelerating improvements to the management system to further enhance management

The Company will accelerate improvements to its integrated management system, aggressively reduce costs and expenses and enhance the levels of sophisticated, standardized and scientific management. It will further improve the supporting reforms on systematic adjustment, establish a more scientific and rational indicator evaluation system to improve organizational performance, strengthen the preparation and implementation of budgets to better manage various expenses and to reduce costs and expenses, establish a sound management model for abnormal situation, and improve the emergency management system to make progress of the work on an ongoing basis.

(e) Enhancing the overall quality of the workforce to make the best use of the Company's human resources

The Company will continue to improve the path of growth for all levels of its qualified staff so as to fully mobilise their enthusiasm and creativity. It will establish a scientific and standardized evaluation mechanism for its staff so as to enhance upward occupational mobility and to optimize the work allocation. The Company will control the size of its workforce and regulate the relationships with its employees to further improve the productivity of its workforce, and will step up staff training and enhance the actual capabilities of the staff, including operations management, technical expertise and operating skills.

(f) Enhancing the leading role of corporate culture to create a stable and harmonious corporate atmosphere

The Company will continue to enhance the leading role of corporate culture to strengthen the senses of identity, belonging and mission among the staff towards the enterprise. It will carry out practical corporate culture education activities and further ingrain its core corporate values to entrench its corporate vision into the staff and make it a driving force for its growth and development. The Company will pay proper attention to the lives of the staff and improve their work environment and living conditions. It will continue to do substantive work and solve problems for the sake of the staff and will enhance staff cohesion in order to ensure the security, stability and harmony of the enterprise.

Table of Contents*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 our 2011 net sales by major products as a percentage of total net sales together with the typical uses of these products.

Product	% of net sales	Typical Use
SYNTHETIC FIBERS		
Polyester staple fiber	0.92	Textiles and apparel
Acrylic staple fiber	3.46	Woven into fabrics or blended with other material fabrics to make fabric or acrylic top
Others	0.26	
Sub-total	4.64	
RESINS AND PLASTICS		
Polyester chips	5.77	Polyester fibers, films and containers
PE pellets	6.62	Films, ground sheeting, wire and cable compound and other injection molding products such as housewares and toys
PP pellets	5.27	Extruded films or sheets, injection molded products such as housewares, toys and household electric appliance and automobile parts
PVA	0.49	PVA fibers, building coating materials and textile starch
Others	0.19	
Sub-total	18.34	
INTERMEDIATE PETROCHEMICALS		
Ethylene	1.44	Feedstock for polyethylene, EG, PVC and other intermediate petrochemicals which can be further processed into resins, plastics and synthetic fiber.
Ethylene oxide	1.69	Intermediate for chemical and pharmaceutical industry, dyes, detergents and auxiliary agents
Benzene	3.04	Intermediate petrochemical products, styrene, plastics, explosives, dyes, detergents, epoxies and nylon
Paraxylene	7.37	Intermediate petrochemicals and polyester
Butadiene	2.50	Synthetic rubber and plastics
Ethylene glycol	1.95	Fine chemicals
Others	3.26	
Sub-total	21.25	
PETROLEUM PRODUCTS		
Gasoline	6.94	Transportation fuels
Diesel	24.22	Transportation fuels and agricultural fuels
Jet Fuel	4.00	Transportation fuels
Others	6.57	
Sub-total	41.73	
Trading of petrochemical products	12.98	
Others	1.06	
Total	100.00	

Production Processes

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

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

Intermediate Petrochemicals

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

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

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

Resins and Plastics and Synthetic Fibers

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

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

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

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

staple fiber can be processed into acrylic wool strips.

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

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

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

Raw Materials

Crude Oil

Crude oil is our primary raw material and the most significant raw material we purchase from outside sources. In 2011, crude oil accounted for approximately 60.90% of our total cost of sales. Accordingly, the supply and price of crude oil are key factors in determining our profitability.

Supply and Transportation All crude oil required by us, whether from domestic or foreign sources, is purchased through the channels of Sinopec Corp as an agent. During 2011, we did not experience any significant problems in obtaining sufficient crude oil to meet our production

needs.

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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 0.4 million tons of domestic offshore crude oil and 11.6 million tons of imported crude oil in 2012. Sinopec Corp has further confirmed that, subject to China's national crude oil policy and our actual production needs, it will continue to purchase on our behalf sufficient quantities and appropriate kinds of crude oil, including domestic offshore and imported crude oil, to satisfy our anticipated annual needs. We anticipate fully utilizing our 2012 supply of crude oil. We believe that the mix of crude oil feedstocks currently available is satisfactory for our 2012 production capacity and targets. Additionally, as part of China's commitment at its accession into WTO, certain non-state-owned enterprises have been granted an increasing quota to import crude oil. Although we do not expect to obtain crude oil through this channel in the foreseeable future due to the current crude oil supply system, this may provide us with an alternative source of crude oil supply.

Crude Oil Mix Our refining equipment is designed to process certain grades of crude oil. Therefore, the origin and quality of the crude oil available can be important to our business. We believe, as we are significantly increasing usage of imported crude oil, we will continue to be able to obtain from the market such imported crude oil that is compatible with our refining equipment. The overall mix of foreign versus domestic crude oil we process in 2012 will depend on a variety of factors, including the amount of future supply of domestic offshore crude oil and the availability, price, quality, processing profitability and compatibility with our refining capabilities of imported crude oil. Provided there are no significant modifications to the existing channels of crude oil acquisition, we believe that sufficient supplies of crude oil will be available on the domestic or international markets for our 2012 production capacity and goals.

In 2011, our crude oil was sourced as follows:

Domestic offshore crude oil	11.61%
Imported crude oil	88.39%
Total:	100.00%

In 2011, a small portion of our imported crude oil was sourced from Iran, which is a country identified by the U.S. State Department as a state sponsor of terrorism and subject to U.S. economic sanctions and export controls. Details of the purchase volume and purchase expenses are provided below:

	Volume (thousand tons)	% of total	Amount (RMB billion)	% of total
Iran	660.07	7.0	3.41	7.1
Others	8,798.14	93.0	44.52	92.9
Total	9,458.21	100.0	47.94	100.0

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

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

In the past, we have not experienced disruption in our crude oil supply. We have on-site crude oil storage tanks at Chenshan wharf capable of storing approximately 300,000 cubic meters of crude oil, primarily to provide crude oil to our No. 2 atmosphere vacuum distillation facility. This crude oil storage can provide us with approximately a 2-week supply of crude oil. The crude oil for our No. 3 atmosphere vacuum distillation

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facility is mainly supplied from the Ningbo-Shanghai-Nanjing oil pipeline. Due to our ability to obtain crude oil from multiple sources, we are able to meet our normal requirements for crude oil.

Pricing The price of domestic offshore crude oil is controlled by China National Offshore Oil Corporation (CNOOC) and Sinopec Group based on government pricing policies and by reference to the price of the crude oil of the same quality in the international market, while imported crude oil is generally sold to us at prevailing international market prices. The average cost of imported crude oil and domestic offshore crude oil in 2011 was RMB5,030.16 (U.S.\$799.21) per ton and RMB5,157.75 (U.S.\$819.48) per ton, respectively. In 2011, we processed 9,662.50 thousand tons of imported crude oil and 1,204.20 thousand tons of domestic offshore crude oil (including 257 thousand tons of crude oil processed on a sub-contract basis).

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The price of crude oil is volatile. In 2011, international crude oil prices fluctuated within a broad range primarily due to geopolitical risks and the European and US macroeconomic outlook, and continued to maintain a year-on-year rising trend for the third consecutive year. As a result, the average unit cost of crude oil we processed (for our own account) increased by 28.51% from RMB3,925.56 (U.S.\$632.71) per ton in 2010 to RMB5,044.64 (U.S.\$801.51) per ton in 2011. Our total costs of crude oil processing reached RMB53,521.9 million (U.S.\$8,503.8 million) in 2011, a significant increase of 34.83%, or RMB13,827.3 million (U.S.\$2,196.94 million), compared to RMB39,694.6 million (U.S.\$6,306.84 million) for 2010, which represent 60.90% of our total cost of sales.

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

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

Changes in crude oil prices can affect the Company's profitability. In 2011, international crude oil prices fluctuated within a broad range primarily due to geopolitical risks and the European and US macroeconomic outlook, and continued to maintain a year-on-year rising trend for the third consecutive year. In 2011, the price of West Texas Intermediate (WTI) crude oil on the New York Mercantile Exchange fluctuated within a broad range of U.S.\$75-U.S.\$114/barrel (U.S.\$65-U.S.\$92/barrel in 2010), with peak and the bottom closing prices of U.S.\$113.93/barrel and U.S.\$75.67/barrel, respectively (U.S.\$91.44/barrel and U.S.\$65.58/barrel, respectively in 2010), for the year. The peak and the bottom closing prices of Brent crude oil futures on the London Intercontinental Exchange were U.S.\$126.64/barrel and U.S.\$93.69/barrel, respectively (U.S.\$94.75/barrel and U.S.\$69.55/barrel, respectively in 2010), for the year. In 2011, the average price of WTI crude oil on the New York Mercantile Exchange was U.S.\$95.09/barrel, an increase of U.S.\$15.62 or 19.66% from U.S.\$79.47 in 2010; the average price of Brent crude oil on the London Intercontinental Exchange was U.S.\$110.95/barrel, an increase of U.S.\$31.46, or 39.58% from U.S.\$79.49 in 2010; and the average price of a package of OPEC oil was U.S.\$107.47/barrel, an increase of 38.71% compared to the daily average price of U.S.\$77.48 in 2010, reaching a record high.

Coal

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

We expect that our total requirement for coal to generate electricity in 2012 will be approximately 2.14 million tons. In 2011, we consumed approximately 2.09 million tons of coal, an increase from 2010 of 0.06 million tons.

Other Raw Materials

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

We purchase some ancillary raw materials from outside sources. These raw materials include natural gas, MX, methanol, ammonia, sodium hydroxide, sulfur, acetone, acrylonitrile, PTA, propylene and a variety of catalytic agents. In 2011, the total cost of these materials accounted for approximately 16.89% 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 2011 that were subject to planned distribution by Sinopec Group, sales by agents and sales based on our own discretion accounted for 53.33%, 40.07% and 6.6%, respectively, of the total products we sold.

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

We use long-term contracts to sell most of our products. We did not experience significant write-offs or defaults on our accounts receivable or other trade accounts in 2011. In general we managed to keep a stable link between production and sales in 2011.

Product breakdown

Synthetic Fibers In 2011, 9.88% of our synthetic fiber products were purchased by provincial and municipal government trading companies that act as intermediaries between us and end-users. No single customer accounted for more than 14.88% of our sales of synthetic fibers in 2011.

Resins and Plastics In 2011, approximately 4.78% of our resins and plastics sales were to provincial and municipal government trading companies and approximately 61.41% were sold to industrial users. No single customer accounted for more than 3.02% of our sales of resins and plastics in 2011.

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

Sinopec Yizheng Chemical Fibre Company Limited (Yizheng) and Oriental Petrochemical (Shanghai) Corporation (Oriental) are the principal outside consumers of our paraxylene. In 2011, we sold 161.9 thousand tons and 150.0 thousand tons of paraxylene, representing 17.54% and 16.25% of our total 2011 production of such product, to Yizheng and Oriental respectively, at prices mutually agreed upon by the relevant parties.

Petroleum Products In 2011, our primary gasoline and diesel customer was Sinopec Huadong Sales Company Limited.

Trading of Petrochemical Products In 2011, our primary trading customer was Sinopec Chemical Products Sales Branch.

Product Pricing

Most of our products are permitted to be sold at market prices. However, four types of petroleum products (gasoline, diesel and jet fuel, and liquefied petroleum gas) that we sell are subject to varying degrees of government pricing control and are, accordingly, sold at prices set by the Chinese government, which may sometimes be below our costs. In 2009, 2010 and 2011, approximately 47.70 %, 34.41% and 36.70% of our net sales were from products subject to price controls. In 2011, the domestic prices of refined oil products were not brought into line with the prices of crude oil on the international markets in a timely manner due to various policy concerns, e.g., the high inflation rate in China, which resulted in the decline of RMB1,593.6 million of the operating profit of our refining business over the previous year. Price controls may apply to these products in various ways. Such price controls are sometimes applied exclusively to our products, exclusively to our competitors' products or sometimes applied to neither our products nor our competitors' products. The Chinese government has adopted changes to the pricing mechanism for domestic refined oil to be indirectly aligned with international crude oil prices in a controlled manner through use of certain formula(s).

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

Competition

We compete principally in the Chinese domestic market where 99.76% of our products in volume were sold in 2011. In addition, the limited transportation infrastructure in China and the difficulties involved in transporting petrochemical products force companies to compete primarily on a regional basis. In 2011, 93.25% of our net sales were made to customers in Eastern China.

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Our Competitive Advantages

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

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

The Domestic Competitive Environment

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

Foreign Competition and the World Trade Organization

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

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

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

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

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

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

Our Competitive Position

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

Synthetic Fibers

In 2011, we had an approximate 0.91% share and imports had an approximate 1.72% share of total domestic polyester and acrylic consumption.

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The following table summarizes the competitive position of our principal synthetic fibers according to domestic sales in 2011.

Product	Our share of domestic consumption (%)	Our competitive ranking	Location of principal domestic competitor	Principal domestic competitor's share of consumption (%)	Imports share of consumption (%)
Acrylic	18.06%	1	Jilin Province	17.59%	21.92%

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

Table of Contents*Resins and Plastics*

In 2011, we had an approximate 3.86% share and imports had an approximate 27.47% share of total domestic resins and plastics consumption. The following table summarizes the competitive position of our principal resins and plastics products according to domestic sales in 2011.

Product	Our share of domestic consumption (%)	Our competitive ranking	Location of principal domestic competitor	Principal Domestic competitor s Share of consumption (%)	Imports share of consumption (%)
Polyester chips	5.04%	30	Jiangsu Province	8.68%	2.08%
PE	3.41%	3	Guangdong Province	9.60%	43.09%
PP	3.47%	5	Guangdong Province	6.50%	28.16%

Intermediate Petrochemicals

In 2011, we were one of the largest sellers of intermediate petrochemicals in China, holding an approximate 3.03% share of total domestic consumption, while imports had an approximate 26.5% share of domestic consumption. Ethylene glycol, paraxylene, benzene and butadiene are our major intermediate petrochemical products. In 2011, we were a major producer of ethylene glycol, paraxylene and benzene in China. The following table summarizes the competitive position of our principal intermediate petrochemicals according to domestic sales in 2011.

Product	Our share of domestic consumption (%)	Our competitive ranking	Location of principal domestic competitor	Principal Domestic competitor s Share of consumption (%)	Imports share of consumption (%)
Ethylene glycol	4.15%	1	Zhejiang Province	3.93%	71.38%
Paraxylene	7.71%	1	Jiangsu Province	6.58%	41.61%
Benzene	6.04%	1	Jiangsu Province	5.59%	2.76%
Butadiene	5.50%	10	Jiangsu Province	9.02%	8.02%

Petroleum Products

In 2011, we had an approximate 2% share of total domestic petroleum products market while imports had an approximate 4.19% 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 2011, we sold approximately 99.70% of our petroleum products in Eastern China.

Investments

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

of Secco.

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In 2011, Secco achieved a sales revenue of RMB27.693 billion (U.S.\$4.4 billion), representing a decrease of 5.06% from its sales revenue of RMB29.169 billion (U.S.\$4.634 billion) in 2010. The decrease of sales revenue was primarily attributable to the relatively lower market demand in the second half of 2011, in correspondence to which Secco selected to control the production capacity of manufacturing facilities. Secco produced 1,065,200 tons of ethylene in 2011, representing a decrease of 229,100 tons over the previous year, down by 17.70%. Secco achieved a net profit of RMB17.04 million (U.S.\$2.71 million) in 2011, as compared to a net profit of RMB2,722.43 million (U.S.\$432.55 million) in 2010. The decrease in net profit was primarily due to the fluctuation of international crude oil price and the continuous increase of price of naphtha raw material. The prices of the majority of domestic petrochemical products fell in the second half of 2011, in particular, the price of polyolefin products was at a low level. All the above reasons contribute to the decrease of Secco net profit in 2011.

Environmental Protection

We are subject to national and local environmental protection regulations, which currently impose a graduated schedule of fees for the discharge of waste substances, require the payment of fines for pollution and provide for the forced closure of any facility that fails to comply with orders requiring it to cease or cure certain environmentally damaging practices. We have established environmental protection systems which consist of pollution control facilities to treat certain of our waste materials and to safeguard against accidents. Because of the nature of our business, however, we store a significant amount of waste substances in the plants and discharge them into the environment after making such waste substances meet the discharge standards. During 2011, we were assessed a total of RMB33.68 million (U.S.\$5.35 million) in fees for discharges of waste substances. As of March 31, 2012, we had not been assessed any fines for environmental violations and there were no actions pending or, to our knowledge, threatened which would result in the assessment of such a fine.

We believe our environmental protection facilities and systems are adequate for the existing national and local environmental protection regulations. In 2011, the Company continued to carry out various energy-saving and emissions reduction measures in accordance with the relevant domestic energy conservation and emissions reduction requirements, and achieved all energy-saving and emissions reduction goals set by the Chinese government during the year. In 2011, the Company's overall level of energy consumption per RMB10,000 product value was 0.998 ton of standard coal (2010: 1.054 tons of standard coal), representing a decrease of 5.31%, which resulted in savings of 410,768 tons of standard coal. Furthermore, the Company provided 58,069,200 tons of water for production (2010: 61,515,800 tons), representing a decrease of 3,446,600 tons, or 5.60% year-on-year, while the recycling rate of industrial water reaching 96.84%. The total volume of each COD, solid wastes and industrial waste water discharge declined by 16%, 10.8% and 13.8% respectively. Various indices, such as waste water discharge compliance rate and the hazardous waste treatment ratio, comply with environmental protection requirements. The average heat efficiency rate of heaters was 91.45%, increased by 0.2 percentage points over the previous year. In 2011, the Company's various projects, such as the Flue-gas Desulphurisation Project for Furnaces of Coal-fired Power Plants, the Removal of Foul Gas from the De-aeration Pool of the Waste Water Treatment Plants, Tail Gas Regenerative Thermal Oxidation Facilities at PTA Plants, Flare Gas Recovery System and the addition of Recycled Hydrogen Desulfurization Unit to the Diesel Hydrogenation Plant (with a capacity 550,000 tons/year), played an effective role in the energy conservation and emissions reduction.

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

Insurance

We currently participate in a package of insurance coverage plan through Sinopec Group as its controlled subsidiary, which, as of December 31, 2011, was approximately RMB37.211 billion (U.S.\$5.912 billion) on our property and facilities and approximately RMB5.290 billion (U.S.\$0.84 billion) on our inventory. In addition, we maintain insurance policies for such assets as the engineering construction projects and products in transit with third-party's commercial insurance company. The Sinopec Group insurance coverage is compulsory and applies to all enterprises controlled by Sinopec Group, pursuant to guidelines of Sinopec Group which may not be legally enforceable against Sinopec Group. Thus, there are uncertainties under Chinese law as to what percentage insurance claims we may demand against Sinopec Group.

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

Government Regulations

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

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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 which may qualify companies in the petrochemical industry for preferential treatment by governmental agencies.

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

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

C. Organizational Structure.*Our Subsidiaries*

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

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

Sinopec Corp

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

Overview

Sinopec Corp is an integrated petroleum and petrochemical company with upstream, midstream and downstream operations. Based on trading volume in 2011, Sinopec Corp is one of the largest publicly listed companies in China and one of the largest petroleum and petrochemical companies in both China and Asia. Sinopec Corp is one of the largest refiners, distributors and marketers of gasoline, diesel, jet fuel and most other major refined products in China and Asia with principal markets in the eastern and southern regions of China. Sinopec Corp is also a producer and distributor of petrochemicals in China and additionally explores, develops and produces crude oil and natural gas principally to supply its refining and chemical operations.

Subsidiaries

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

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Name of Company	Particulars of issued capital (millions)	Type of legal entity	Percentage of equity held by Sinopec Corp and its subsidiary (%)	Principal activities
China Petrochemical International Company Limited	RMB1,400	Limited company	100.00	Trading of petrochemical products and equipments
Sinopec Chemicals Sales Company Limited	RMB1,000	Limited company	100.00	Trading of petrochemical products
Sinopec Qingdao Petroleum and Chemical Company	RMB1,595	Limited company	100.00	Manufacturing of intermediate petrochemical products and petroleum products
Sinopec Sales Company Limited	RMB1,700	Limited company	100.00	Sale of refined oil
Sinopec Yangzi Petrochemical Company Limited	RMB13,203	Limited company	100.00	Manufacturing of intermediate petrochemical products and petroleum products
Sinopec Zhongyuan Petrochemical Company Limited	RMB2,400	Limited company	93.51	Manufacturing of chemical products
Fujian Petrochemical Company Limited	RMB4,769	Limited company	50.00	Manufacturing of plastics, intermediate petrochemical products and petroleum products

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Name of Company	Particulars of issued capital (millions)	Type of legal entity	Percentage of equity held by Sinopec Corp and its subsidiary (%)	Principal activities
Sinopec Shanghai Petrochemical Company Limited	RMB7,200	Limited company	55.56	Manufacturing of synthetic fibers, resin and plastics, intermediate petrochemical products and petroleum products
Sinopec Kantons Holdings Limited	HK\$104	Limited company	72.34	Trading of crude oil and petroleum products
Sinopec Yizheng Chemical Fiber Company Limited	RMB4,000	Limited company	42.00	Production and sale of polyester chips and polyester fibers
Sinopec International Petroleum Exploration and Production Corporation	RMB8,000	Limited company	100.00	Investment in exploration, production sales, etc. of petroleum and nature gas
Sinopec Shell (Jiangsu) Petroleum Marketing Company Limited	RMB830	Limited company	60.00	Sale of refined oil
BP Sinopec (Zhejiang) Petroleum Company Limited	RMB800	Limited company	60.00	Sale of refined oil
Sinopec Qingdao Refining and Chemical Company Limited	RMB5,000	Limited company	85.00	Manufacturing of intermediate petrochemical products and petroleum products
China International United Petroleum & Chemical Co., Ltd.	RMB3,000	Limited company	100.00	Trading of crude oil and petrochemical products
Sinopec Hainan Refining & Chemical Company Limited	RMB3,986	Limited company	75.00	Manufacturing of intermediate petrochemical products and petroleum products
Sinopec (Hong Kong) Limited	HK\$5,477	Limited company	100.00	Trading of crude oil and petrochemical products
Sinopec Senmei (Fujian) Petrochemical Company Limited	RMB1,840	Limited company	55.00	Sale of refined oil
Sinopec Fuel Oil Sales Corporation Limited	RMB2,200	Limited company	100.00	Sale of fuel oil

Table of Contents**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 2011:

Production Unit (number of units)	Rated Capacity (tons)	Utilization Rate (%)
Crude oil distillation units (2)	14,000,000	76.44
Hydrocracker (2)	3,000,000	86.13
Ethylene units (2)	850,000	106.16
Aromatics unit	835,000	105.84
PTA unit	400,000	97.74
EO/EG unit (2)	525,000	91.11
Acrylonitrile unit	130,000	106.71
Acetaldehyde unit	42,000	89.84
Acetic acid unit	45,000	0.00
Cracking and catalyzing	1,000,000	101.48
Delayed Coking (2)	2,200,000	105.74
Reforming prehydrogenation unit	750,000	107.85
C5 segregation unit (2)	205,000	119.13

Our two crude oil distillation units were designed and built in China. In 2011, the actual quantity of crude oil we processed was approximately 10.8667 million tons. Our hydrocracker uses technology from United Oil Products Corporation of the United States. Our first ethylene unit uses technology from Mitsubishi Petrochemical Corporation of Japan. The second ethylene unit uses technology from ABB Lummus Global Inc. of the United States. The aromatics unit uses technology from Universal Oil Products Corporation of the United States. The PTA unit uses technology from Mitsui Petrochemical Corporation of Japan. The EO/EG unit was constructed using technology from Scientific Design Corporation of the United States.

The following table sets forth the Rated Capacities and weighted average utilization rates of our principal production units for resins and plastics and synthetic fibers in 2011:

Production Unit (number of units)	Rated Capacity (tons)	Utilization Rate (%)
Polyester units (3)	550,000	103.89
Polyester staple units (2)	154,000	101.78
Polyester filament units	21,000	88.27
Acrylic staple fiber units (4)	141,000	110.42
PE units (3)	408,000	100.21

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PP units (3)	400,000	104.56
Vinyl acetate unit (2)	102,000	107.52

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

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

Power Facilities

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

Other Facilities

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

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.

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 2011, approximately 51.05% of our products by sales volume were collected by customers from our premises, and we delivered the balance. Our major ethylene customer is supplied via a pipeline. Some of the products collected by customers were also transported using our facilities.

Wharfs

We own one chemical wharf at Jinshan with five berths of 2,000, 5,000, 8,000, 10,000 and 25,000 tons. We also own a connecting pipeline capable of loading up to approximately 1.4 million tons of chemical products annually onto ocean-going barges and ships. In 2011, products representing 16.47% 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 2011, products representing 4.34% of total sales volume were shipped from these facilities. We believe that we have a competitive advantage because a greater proportion of our products are shipped by water as opposed to rail and truck, which is subject to capacity constraints on China's rail and highway networks. Additionally, we own facilities for receiving crude oil and coal at docks that we own and transporting such materials by pipeline or conveyor to our production facilities.

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

Rail

We own a railroad loading depot with an annual capacity of 500,000 tons. The depot provides access via a spur line to the national Chinese railway system. In 2011, products representing 1.33% of total sales volume were transported from the factory by rail. Our ability to transport products by rail is limited because of China's overburdened railway system, the allocation of use of which remains strictly controlled by the

Chinese government.

Table of Contents*Capital Expansion Program*

Our principal capital expansion projects for the near term are summarized in the table and further described below. In aggregate, we expect that total investment in the projects described will be approximately RMB3.2 billion in 2012. This amount will be funded by our own capital and by bank loans.

Name of Project	Rated Capacity (tons/year)	Start Date	Expected Completion Date	Status
Refining Capacity Expansion				
The Refinery Revamping and Expansion Project	N/A	2010	2012	Under construction
Expansion of New and Existing Downstream Production Facilities				
The Carbon Fiber Project with a capacity of 1,500 tons/year	1,500	2010	Phase I 2012	Under construction
The Jinchang 30,000 ton Modified Polypropylene Project	30,000	2010	2012	Under construction
The Ethanolamine Project with a capacity of 50,000 tons/year	50,000	2012	2013	Basic design being prepared
The Isopentene Plant with a capacity of 10,000 tons/year	10,000	2011	2011	Completion and commencement of operation
The 100,000t/a EVA Project	100,000	2013	2014	Feasibility study report submitted
Other Projects				
The No.5 and No. 6 Furnace Secondary Desulfurisation Project for Department of Thermoelectric	N/A	2011	2012	Under construction
The Up-grading Project for the Optimization of the system and reduction in energy and feedstock consumption of the No.2 PTA Plant	N/A	2010	2012	Under construction
The No. 2 and No. 3 Aromatics Complexes Energy-saving Up-grade Project	N/A	2013	2014	Approval of the feasibility study report obtained
The SL-2 Cracking Furnace of No. 2 Ethylene Unit Transformation for Improving Energy Efficiency	N/A	2012	2013	Basic design being prepared
The Transformation for Improving Manufacturing Capacity for Epoxy Ethane	N/A	2013	2014	Basic design being prepared

N/A not applicable.

In 2009, 2010 and 2011, we invested RMB2.120 billion, RMB1.357 billion and RMB3.225 billion, respectively, in capital expansion projects.

Refining Capacity Expansion Plans

With a view to accommodating the adjustment in our product mixes, we process the heavy and low-quality crude oil we purchase in order to control our cost, improve the overall processing procedures, enhance our reprocessing capacity, and continuously increase the operating adaptability and overall efficiency of our refining facilities. We are promoting the construction of the Phase 6 Project, which focuses on the reconstruction of refining facilities, fine chemicals, structure adjustment and system perfection while giving considerations to both low cost and product diversity, and both mass and refined production. We emphasize low cost and mass production in upstream supply and high added value and refined production in downstream production.

We plan to further enhance the reprocessing capacity and overall capacity of refining facilities by implementing a refining facilities reconstruction project. Sinopec Corp approved the basic design for this project in 2011. Pile foundation construction was commenced in December 2010 and civil engineering commenced in April 2011. We plan to complete the construction in 2012.

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Expansion of New and Existing Downstream Petrochemical Products

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

To take advantage of our 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 are planned to be put into production in February 2012.

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To take advantage of our possession of epoxyethane and the current manufacturing conditions, we plan to utilize foreign technologies to construct an ethanolamine facility with an annual output of 50 thousand tons. Sinopec Corp approved the feasibility study report for this project in October 2010; and the basic design is scheduled to be completed in March 2012. The construction is scheduled to be commenced in 2012 and completed in 2013.

We plan to construct a new 100,000t/a EVA production unit with imported technology. The revised feasibility study report for this project was submitted to Sinopec Corp for approval in September 2011. The construction of this project is scheduled to be commenced in 2013 and completed in 2014.

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

Other Projects

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

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

ITEM 4A. UNRESOLVED STAFF COMMENTS.

None.

ITEM 5. OPERATING AND FINANCIAL REVIEW AND PROSPECTS.

General

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

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

Changes in Accounting Policies

During the year ended December 31, 2011, we adopted the amendments to IFRS 1 First-time adoption of IFRSs, which was applied retrospectively. Accordingly, the comparative amounts have been restated. Please see Note 3 in our consolidated financial statements included in [Item 17. Financial Statements](#) for details.

Table of Contents***Critical Accounting Policies***

The following discussion and analysis of our financial condition and results of operations are based on our consolidated financial statements. The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during 2011. Our financial condition and results of operations are sensitive to accounting methods, assumptions and estimates that underlie the preparation of our financial statements. We based our assumptions and estimates on historical experience and on various other assumptions that we believe to be reasonable and which form the basis for making judgments about matters that are not readily apparent from other sources. On an on-going basis, our management evaluates its estimates. Actual results may differ from those estimates as facts, circumstances and conditions change.

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

Impairments for long-lived assets

If circumstances indicate that the net book value of a long-lived asset may not be recoverable, the asset may be considered impaired, and an impairment loss may be recognized in accordance with International Accounting Standard No. 36 Impairment of Assets. Long-lived assets are reviewed for indication of impairment at the end of each reporting period or whenever events or changes in circumstance have indicated that their carrying amounts may not be recoverable. When such a decline has occurred, the carrying amount is reduced to the recoverable amount. The recoverable amount is the greater of the net selling price and the value in use. It is difficult to precisely estimate selling prices because quoted market prices for our assets or cash-generating units are not readily available. In determining the value in use, expected cash flows generated by the asset or the cash-generating unit are discounted to their present value, which requires significant judgment relating to level of sale volume, selling price and amount of operating costs. We use all readily available information in determining an amount that is a reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of sale volume, selling price and amount of operating costs. During the years ended December 31, 2009, 2010 and 2011, we recognized impairment charges on property, plant and equipment of RMB98 million, RMB238 million and RMB11 million, respectively.

Depreciation

Property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives of the assets, after taking into account the estimated residual values. We review the estimated useful lives of the assets annually in order to determine the amount of depreciation expense to be recorded during any reporting period. The useful lives are based on our historical experience with similar assets, taking into account anticipated technological changes. The depreciation expense for future periods is adjusted if there are significant changes from previous estimates. There were no significant changes in these estimates during the years ended December 31, 2009, 2010 and 2011.

Impairment for bad and doubtful debts

We estimate impairment losses for bad and doubtful debts resulting from the inability of the customers to make the required payments. We base the estimates on the aging of the accounts receivable balance, customer credit-worthiness and historical write-off experience. If the financial condition of the customers were to deteriorate, actual impairment losses would be higher than estimated. Impairment provisions for bad and doubtful debts were nil, a reversal of RMB3 million and a reversal of RMB2 million, during the years ended December 31, 2009, 2010 and 2011, respectively.

Inventory management

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

Management assesses the realizability of our inventories based on the estimates of the net realizable value of the inventories at the end of each reporting period. Net realizable value represents the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale. We base the estimates on all available information, including the current market

prices of the finished goods and raw materials and historical operating costs. Any excess of the cost over the net realizable value of each item of inventories is recognized as a provision for diminution in the value of inventories. If the actual selling prices were to be lower or the costs of completion were to be higher than the estimates, the actual allowance for diminution in value of inventories could be higher than estimated. In addition, management periodically reviews inventory aging information to assess if any obsolete inventories are required to be written down at the period end. Based on our assessments, we recorded write-down of inventories of RMB58 million, RMB12 million and RMB110 million respectively for the years ended December 31, 2009, 2010 and 2011. Barring unforeseeable changes that may occur to the current economic environment in either China or worldwide, our management does not anticipate encountering major difficulties with our attempt to realize by the end of 2012 the bulk of our inventories as of December 31, 2011 after deducting for diminution in values.

Table of Contents**Income tax**

In June 2007, the State Administrative of Taxation issued a tax circular (Circular No.664) to the local tax authorities requesting the relevant local tax authorities to rectify the applicable enterprise income tax (EIT) for nine listed companies, which included us. After the notice was issued, we were required by the relevant tax authority to settle the EIT for 2007 at a rate of 33 percent. To date, we have not been requested by the tax authorities to pay additional EIT in respect of any years prior to 2007. There is no further development of this matter during the year ended December 31, 2011. No provision has been made in the financial statements at December 31, 2011 for this uncertainty because we believe it is not probable that the Company will be required to pay additional EIT for tax years prior to 2007.

Recognition of deferred tax assets

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

In making the assessment of whether it is probable the Company will realize or utilize the deferred tax assets, we primarily rely on the generation of future taxable income to support the recognition of deferred tax assets. In order to fully utilize the deferred tax assets recognized at December 31, 2011, the Company would need to generate future taxable income of at least RMB2,077 million, of which RMB1,497 million is required to be generated by 2013 prior to the expiration of the unused tax losses. Based on estimated forecast and historical experience, we believe that it is probable that the Company will generate sufficient taxable income before the unused tax losses expire.

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 approximately 90% is imported. We attempt to mitigate the effect of increased costs due to rising crude oil prices. However, our ability to pass on these increased costs to our customers is dependent on government regulations, among other factors. Given that the increase of the sales prices of our products can lag behind the increase of crude oil costs, we sometimes fail to completely cover the increased costs by increasing our sales prices, particularly where government regulations restrict the prices of certain of our fuel products such as gasoline, diesel and jet fuel, and liquefied petroleum gas. In 2009, 2010 and 2011, approximately 47.70%, 34.41% and 36.70% of our net sales were from such products subject to price controls. In 2011, the domestic prices of refined oil products were not brought into line with the prices of crude oil on the international markets in a timely manner due to various policy concerns, *e.g.*, the high inflation rate in China, which resulted in the decline of RMB1,593.6 million of the operating profit of our refining business over the previous year. Although the Chinese government has adopted a new pricing mechanism for domestic refined oil products that indirectly links the prices of these products to international crude oil prices (see [Item 4. Information on the Company - B. Business Overview - Product Pricing](#)), such pricing mechanism is still not completely transparent and subject to inadequate or untimely adjustment. 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.

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

Table of Contents**Summary**

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

	2009			For the year ended December 31 2010			2011		
	Sales Volume (000 tons)	Net Sales (Millions of RMB)	% of Total Net Sales	Sales Volume (000 tons)	Net Sales (Millions of RMB)	% of Total Net Sales	Sales Volume (000 tons)	Net Sales (Millions of RMB)	% of Total Net Sales
Synthetic fibers	245.8	2,823.7	6.0	255.9	3,906.6	5.4	250.9	4,150.2	4.6
Resins and plastics	1,543.3	12,263.6	25.9	1,620.2	14,900.0	20.7	1,590.7	16,418.6	18.3
Intermediate petrochemicals	1,519.4	8,421.0	17.8	2,386.5	17,206.4	23.9	2,246.7	19,023.2	21.3
Petroleum products	5,271.4	18,917.9	39.9	6,342.8	28,733.9	39.9	6,968.1	37,350.2	41.7
Trading of petrochemical products *		4,624.0	9.8		6,565.9	9.1		11,617.0	13.0
Others		295.1	0.6		783.1	1.0		950.5	1.1
Total	8,579.9	47,345.3	100.0	10,605.4	72,095.9	100.0	11,056.4	89,509.7	100.0

* As the reported sales of the trading of petrochemical products segment was more than 10 percent of the combined sales of all operating segments during the year ended December 31, 2011, the trading of petrochemical products segment is identified as a new reportable reporting segment and the corresponding information for the year ended December 31, 2009 and 2010 has been reclassified accordingly.

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

	For the year ended December 31					
	2009		2010		2011	
	Millions of RMB	% of Net sales	Millions of RMB	% of Net sales	Millions of RMB	% of Net sales
Synthetic fibers						
Net sales	2,823.7	6.0	3,906.6	5.4	4,150.2	4.6
Operating expenses	(2,812.3)	(5.9)	(3,471.0)	(4.8)	(3,848.9)	(4.3)
Segment profit	11.4	0.1	435.6	0.6	301.3	0.3
Resins and plastics						
Net sales	12,263.6	25.9	14,900.0	20.7	16,418.6	18.3
Operating expenses	(11,419.3)	(24.1)	(13,908.9)	(19.3)	(16,406.6)	(18.3)
Segment profit	844.3	1.8	991.1	1.4	12.0	0.0
Intermediate petrochemicals						
Net sales	8,421.0	17.8	17,206.4	23.9	19,023.2	21.3
Operating expenses	(8,230.2)	(17.4)	(16,841.3)	(23.4)	(17,874.6)	(20.0)
Segment profit	190.8	0.4	365.1	0.5	1,148.6	1.3
Petroleum products						
Net sales	18,917.9	39.9	28,733.9	39.9	37,350.2	41.7
Operating expenses	(18,113.0)	(38.3)	(27,593.6)	(38.3)	(37,803.6)	(42.2)
Segment profit/(loss)	804.9	1.6	1,140.3	1.6	(453.4)	(0.5)
Trading of petrochemical products						
Net sales	4,624.0	9.8	6,565.9	9.1	11,617.0	13.0
Operating expenses	(4,598.9)	(9.7)	(6,551.8)	(9.1)	(11,602.0)	(13.0)
Segment profit	25.1	0.1	14.1	0.0	15.0	0.0
Others						
Net sales	295.1	0.6	783.1	1.0	950.5	1.1
Operating expenses	(151.6)	(0.3)	(765.7)	(1.0)	(914.2)	(1.0)
Segment profit	143.5	0.3	17.4	0.0	36.3	0.1
Total						
Net sales	47,345.3	100.0	72,095.9	100.0	89,509.7	100.0
Operating expenses	(45,325.3)	(95.7)	(69,132.3)	(95.9)	(88,449.9)	(98.8)
Profit from operations	2,020.0	4.3	2,963.6	4.1	1,059.8	1.2
Net financing (costs)/income	(321.1)	(0.7)	(95.2)	(0.1)	83.5	0.1
Investment income	222.8	0.5	0.2	0.0	0.7	0.0
Share of profit of associates and jointly controlled entities	241.3	0.5	661.3	0.9	152.7	0.1
Earnings before income tax	2,163.0	4.6	3,529.9	4.9	1,296.7	1.4
Income tax	(510.2)	(1.1)	(735.5)	(1.0)	(310.2)	(0.3)
Net income	1,652.8	3.5	2,794.4	3.9	986.5	1.1
Attributable to:						
Equity shareholders of the Company	1,588.3	3.4	2,769.0	3.8	956.1	1.0
Non-controlling interests	64.5	0.1	25.4	0.1	30.4	0.1
Net income	1,652.8	3.5	2,794.4	3.9	986.5	1.1

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

* During the year ended December 31, 2011, we adopted the amendments to IFRS 1 First-time adoption of IFRSs, which was applied retrospectively. Accordingly, the comparative amounts have been restated. Please see Note 3 in our consolidated financial statements included in [Item 17. Financial Statements](#) for details.

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A. Results of Operations

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

Net sales

In 2011, our net sales amounted to RMB89,509.7 million, representing an increase of 24.15% from RMB72,095.9 million in 2010. For the year ended December 31, 2011, the weighted average prices (excluding tax) of our synthetic fibers, resins and plastics, intermediate petrochemical products and petroleum products increased by 8.35%, 12.23%, 17.44% and 18.32%, respectively, over the previous year. The net sales of the trading of petrochemical products amounted to RMB11,617.0 million in 2011, representing an increase of 76.93% as compared to RMB6,565.9 million in the previous year.

(i) Synthetic fibers

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

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

(ii) Resins and plastics

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

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

(iii) Intermediate petrochemicals

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

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

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(iv) Petroleum products

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

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

(v) Trading of petrochemical products

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

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

(vi) Other activities

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

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

Operating Expenses

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

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

(i) Synthetic fibers

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

(ii) Resins and plastics

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

(iii) Intermediate petrochemicals

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

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(iv) Petroleum products

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

(v) Trading of petrochemical products

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

(vi) Other activities

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

Cost of sales

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

(i) Crude Oil

In 2011, we processed 10,866,700 tons of crude oil (including 257,000 tons of crude oil processed on a sub-contract basis), representing an increase of 346,000 tons from 10,520,700 tons in the previous year. The volumes of imported crude oil and domestic offshore crude oil processed by us were 9,662,500 tons and 1,204,200 tons, respectively.

The total cost of crude oil processed by us in 2011 amounted to RMB53,521.9 million, representing a significant increase of 34.83% from RMB39,694.6 million in the previous year and accounting for 60.90% of the total cost of sales. The weighted average cost of our crude oil was RMB5,044.64 per ton, representing an increase of 28.51% from the previous year. The average costs of imported crude oil and domestic offshore crude oil were RMB5,030.16 per ton and RMB5,157.75 per ton, respectively.

(ii) Other expenses

The expenses for other auxiliary raw materials were RMB14,846.8 million in 2011, basically at par with RMB14,699.0 million in the previous year. Other expenses as a percentage of total cost of sales decreased from 21.51% in 2010 to 16.89% in 2011, primarily as a result of the measures we have taken in 2011 to optimize the production and reduce costs, such as the introduction of 445 million standard cubic meters of natural gas as fuel and raw material for production of hydrogen.

Selling and administrative expenses

Selling and administrative expenses amounted to RMB675.8 million in 2011, representing an increase of 7.47% from RMB628.8 million in the previous year, primarily due to an increase in sales related transportation expenses as a result of increased sales volume of the Company in 2011, and an increase in agency fees with respect to product sales to Sinopec Chemical Products Sales Branch.

Other operating income

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

Other operating expenses

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

Table of Contents***Profit from operations***

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

Net financing costs/income

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

Investment income

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

Earnings before income tax

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

Income tax

Our income tax expense was RMB310.2 million in 2011, representing a decrease of RMB425.3 million from RMB735.5 million in the previous year. The change was in line with the decrease on taxable income.

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

Net Income

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

Year ended December 31, 2010 compared with year ended December 31, 2009.

Net sales

In 2010, our net sales amounted to RMB72,095.9 million, representing an increase of 52.28% from RMB47,345.3 million of the previous year. In 2010, the global economy experienced a slow recovery under the impact of large-scale economic stimulus policies launched by various nations amid a complex environment. The world's petroleum and petrochemical industry gradually emerged from the shadow of the global financial crisis, showing signs of recovery and slowly regaining strength. The policy package introduced by China to cope with the impact of the global financial crisis came into full effect. Thereby, there was a significant increase in the supply and demand of petrochemical products, with the overall market supply and demand remaining stable and production and sales being carried out smoothly. Prices tended to stay on a steady rise and the overall price level in petroleum and chemical industry increased for the year. For the year ended December 31, 2010, the weighted average prices (excluding tax) of our synthetic fibers, resins and plastics, intermediate petrochemical products and petroleum products increased by 32.89%, 15.73%, 30.09% and 26.23% respectively over the previous year.

(i) Synthetic fibers

In 2010, the net sales of synthetic fiber products amounted to RMB3,906.6 million, representing a 38.35% increase from RMB2,823.7 million in the previous year. The weighted average price of synthetic fibers increased by 32.89% as compared to the previous year. In particular, the price

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of acrylic fiber, the principal product of synthetic fiber of the Company, increased by 36.57% over the previous year driven by the price increase in cotton. In addition, the total sales volume of synthetic fibers increased by 4.09% as compared to the previous year due to the fact that sales volumes of major synthetic fiber products rose to various degrees resulting from an increase of domestic market demand.

Net sales of synthetic fiber products accounted for 5.40% of our total net sales in 2010, representing a decrease of 0.60 percentage point as compared to the previous year.

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(ii) Resins and plastics

The net sales of resins and plastics amounted to RMB14,900.0 million in 2010, representing an increase of 21.50% from RMB12,263.6 million in 2009. The weighted average price of resins and plastics in 2010 increased by 15.73% and the sales volume in 2010 increased by 4.99%. Among resins and plastics products, the average sales price of polyester pellet for 2010 increased by 21.13% and sales volume increased by 8.25%; the average sales price of polypropylene increased by 17.96% and sales volume increased by 2.10%. The sales of polyester pellet and polypropylene accounted for 28.35% and 28.85% of the total sales of resins and plastics respectively.

Net sales of resins and plastics accounted for 20.70% of our total net sales in 2010, representing a decrease of 5.20 percentage points as compared to the previous year.

(iii) Intermediate petrochemicals

The net sales of intermediate petrochemical products amounted to RMB17,206.4 million in 2010, representing an increase of 104.33% from RMB8,421.0 million in 2009, with the weighted average price of intermediate petrochemical products increased by 30.09% as compared to the previous year. Following the commencement of operation of the 600,000-ton/year PX aromatics complex in the second half of 2009, the production volume and sales volume of intermediate petrochemical products increased significantly with a year-on-year increase of 57.07% in sales volume. Among the intermediate petrochemical products, the weighted average prices of purified petroleum benzene and butadiene increased by 32.98% and 80.50%, respectively. The sales of purified petroleum benzene and butadiene accounted for 14.89% and 10.27% of the total sales of intermediate petrochemical products, respectively.

Net sales of intermediate petrochemical accounted for 23.90% of our total net sales in 2010, representing an increase of 6.10 percentage points as compared to the previous year.

(iv) Petroleum products

The net sales of petroleum products amounted to RMB28,733.9 million in 2010, representing an increase of 51.89% from RMB18,917.9 million in the previous year, with the weighted average product prices increased by 26.23% as compared to 2009 while sales volume increased by 20.32%. Due to the impact of a significant increase in demand from the domestic market, the market demand for diesel and gasoline increased as compared to the previous year which led to increases of 25.32% and 18.04% in the Company's sales volume of diesel and gasoline respectively. The sales of diesel and gasoline accounted for 58.36% and 19.19% of the total sales of petroleum products respectively.

Net sales of petroleum products accounted for 39.90% of our total net sales in 2010, basically at par with the previous year.

(v) Trading of petrochemical products

The net sales of the trading petrochemical products amounted to RMB 6,565.9 million in 2010, representing an increase of 42.00% from RMB 4,624.0 million in the previous year. The increase in the net sales was mainly attributed to a significant increase in the trading volume of petrochemical products as compared to the previous year.

Net sales of the trading petrochemical products accounted for 9.10% of our total net sales in 2010, representing a decrease of 0.70 percentage point as compared to the previous year.

(vi) Others

The net sales of others amounted to RMB783.1 million in 2010, representing an increase of 165.37% as compared to RMB295.1 million in the previous year. Such increase in the net sales was mainly attributed to a significant increase in the business of crude oil processed on a sub-contract basis as compared to the previous year.

Net sales of others accounted for 1.00% of our total net sales in 2010, basically at par with the previous year.

Operating Expenses

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

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Our operating expenses increased by 52.52% from RMB45,325.3 million in 2009 to RMB69,132.3 million in 2010. The operating expenses of synthetic fibers, resins and plastics, intermediate petrochemicals, petroleum products, trading of petrochemical products and others amounted to RMB3,471.0 million, RMB13,908.9 million, RMB16,841.3 million, RMB27,593.6 million, RMB6,551.8 million and RMB765.7 million, representing increases of 23.42%, 21.80%, 104.63%, 52.34%, 42.46% and 405.08%, respectively, as compared to 2009.

(i) Synthetic fibers

The operating expenses of synthetic fibers in 2010 increased by RMB658.7 million as compared to the previous year, which was primarily due to increased unit prices for raw materials (*e.g.*, acrylonitrile) for producing synthetic fibers and an increase in production volume.

(ii) Resins and plastics

Our operating expenses of resins and plastics in 2010 increased by RMB2,489.6 million as compared to the previous year, which was primarily due to increased unit costs for raw materials such as ethylene and propylene.

(iii) Intermediate petrochemicals

The operating expenses of intermediate petrochemicals in 2010 increased by RMB8,611.1 million as compared to the previous year, which was mainly attributable to a significant increase in sales volume of intermediate petrochemical products, and the corresponding increases in costs and expenses of intermediate petrochemical products resulting from the increase in unit cost of intermediate petrochemical products following the increase in average unit cost of crude oil during 2010.

(iv) Petroleum products

The operating expenses of petroleum products in 2010 increased by RMB9,480.6 million as compared to the previous year, primarily due to the increase in crude oil prices (which was our major production raw material) and increased processing volume, which directly led to an increase in the operating expenses of petroleum products.

(v) Trading of petrochemical products

The operating expenses of trading of petrochemical products in 2010 increased by RMB1,952.9 million as compared to the previous year, primarily due to the significant increase in the Company's trading volume of petrochemical products as compared to the previous year.

(vi) Others

The operating expenses of others in 2010 increased by RMB614.1 million as compared to the previous year, which was primarily attributable to an increased in the cost of crude oil processed on a sub-contract basis.

Cost of sales

The cost of sales amounted to RMB68,317.4 million in 2010, representing a significant increase of 51.77% from RMB45,013.7 million in 2009, which was primarily due to an increase in crude oil prices in 2010 which was our major raw material and a significant increase in product sales volume. Cost of sales accounted for 94.76% of the net sales in 2010.

(i) Crude Oil

In 2010, we processed 10,520,700 tons of crude oil (including 408,900 tons of crude oil processed on a sub-contract basis), representing an increase of 1,762,900 tons as compared to 8,757,800 tons in the previous year. The volumes of imported crude oil and domestic offshore crude oil processed by us were 9,560,300 tons and 960,400 tons, respectively.

The total cost of crude oil processed by us in 2010 amounted to RMB39,694.6 million, representing a significant increase of 50.07% from RMB26,450.0 million in the previous year and accounting for 58.10% of the total cost of sales. The weighted average cost of our crude oil was RMB3,925.56 per ton, representing an increase of 29.98% as compared to the previous year. The average costs of imported crude oil and

domestic offshore crude oil were RMB3,921.28 per ton and RMB3,966.34 per ton, respectively.

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(ii) Other expenses

The expenses for other auxiliary raw materials were RMB14,699.0 million in 2010, representing a significant increase of 90.28% from RMB7,724.9 million in the previous year, which was primarily due to an increase in the cost of auxiliary raw materials as a result of the increase in the crude oil price, and an increase in the consumption of ancillary materials as a result of the increase in the crude oil processing volume.

Selling and administrative expenses

Selling and administrative expenses amounted to RMB628.8 million in 2010, representing an increase of 39.61% as compared to RMB450.4 million in the previous year, which was primarily due to an increase in the sales transportation expenses as a result of an increase in our sales volume during 2010, and an increase in agency fees with respect to product sales to Sinopec Chemical Products Sales Branch.

Other operating income

Other operating income amounted to RMB109.8 million in 2010, representing a decrease of 60.39% from RMB277.2 million in the previous year, which was primarily due to an income of RMB91.8 million generated from the disposal of lease prepayments on land and an income of RMB72.2 million generated from the disposal of other investment in 2009, which did not occur during 2010.

Other operating expenses

Other operating expenses increased from RMB138.3 million in 2009 to RMB296.0 million in 2010, representing an increase of 114.03%, which was primarily due to an increase of RMB139.7 million in our impairment losses of fixed assets during 2010 as compared to the previous year. In addition, our loss on disposal of fixed assets during 2010 increased by RMB28.6 million as compared to the previous year.

Profit from operations

Profit from operations amounted to RMB2,963.6 million in 2010, representing a significant increase of RMB943.6 million from RMB2,020.0 million in the previous year, which was primarily due to a significant increase in our operating efficiency during 2010.

Net financing costs

Our net financing costs were RMB95.2 million in 2010, representing a significant decrease of 70.35% from RMB321.1 million in previous year, which was primarily attributable to an increase of RMB157.2 million in net foreign exchange gain during 2010 period, and a decrease of RMB84.0 million in interest expense as compared to the previous year.

Investment income

Our investment income was RMB0.2 million in 2010. In 2009 our investment income was RMB222.8 million. Our investment income represents gain on disposal of available-for-sale financial assets.

Earnings before income tax

Our earnings before income tax were RMB3,529.9 million in 2010, representing an increase of RMB1,366.9 million from RMB2,163.0 million in the previous year.

Income tax

Our income tax expense was RMB735.5 million in 2010, representing an increase of RMB225.3 million from RMB510.2 million in the previous year. The change was in line with the increase on our taxable income.

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In accordance with the PRC Enterprise Income Tax Law (as amended) which took effect from 1 January 2008, the income tax rate of the Company in 2010 was 25% (2009: 25%).

Table of Contents**Net Income**

Our net income was RMB2,794.4 million in 2010, representing a substantial increase of RMB1,141.6 million from RMB1,652.8 million in the previous year.

B. Liquidity and Capital Resources.

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

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

The following table sets forth a condensed summary of our consolidated statement of cash flows for the year ended December 31, 2010 and 2011.

Cash flow data	Year Ended December 31,	
	2010	2011
	(Millions of RMB)	
Net cash generated from operating activities	3,973.7	2,220.0
Net cash used in investing activities	(463.3)	(2,810.2)
Net cash (used in) / generated from financing activities	(3,535.9)	581.8
Net decrease in cash and cash equivalents	(25.5)	(8.4)

Net cash generated from operating activities

The net cash generated from operating activities amounted to RMB2,220.0 million in 2011, representing a decrease in cash inflows of RMB1,753.7 million as compared to the net cash inflows of RMB3,973.7 million in the previous year, due to the following reasons: (i) our earnings before income tax declined during 2011. Net cash inflows from earnings before income tax (net of depreciation and impairment losses of properties, plants and equipments) amounted to RMB2,931.0 million in 2011, representing a decrease of RMB2,492.3 million of cash inflows compared to net cash inflows of RMB5,423.3 million in the previous year; (ii) our increased inventory balance led to a decrease in operating cash inflow of RMB230.1 million in 2011 (as compared to an increase in operating cash inflow of RMB1,531.5 million due to decreased inventory balance at the end of the previous year); (iii) increases in the balances of debtors, bills receivable and prepayments led to a decrease in operating cash inflow of RMB1,015.4 million in 2011 (as compared to a decrease in operating cash inflow of RMB1,571.1 million as a result of an increase in such year-end balances of the previous year); and (iv) increases in the year-end net balances of amounts due to related parties led to an increase in operating cash inflow of RMB573.8 million (as compared to an increase in operating cash outflow of RMB1,881.4 million as a result of a decrease in such year-end balances of previous year).

Net cash used in investing activities

Our net cash used in investing activities increased from RMB463.3 million in 2010 to RMB2,810.2 million in 2011. This was primarily due to (i) an increase in capital expenditure of RMB2,124.4 million, and (ii) an increase in cash outflow of RMB786.8 million due to the purchase of investments and interests in associates, partially offset by an increase in cash inflow of RMB560.3 million due to dividend and interest income received in 2011.

Net cash (used in)/generated from financing activities

Our net cash generated from financing activities was RMB 581.8 million in 2011, while our net cash used in financing activities was RMB 3,535.9 million in 2010. This was primarily due to the decrease in cash outflow of RMB9,840.1 million in repayment of loans and borrowings,

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partially offset by (i) a decrease in cash inflow of RMB 5,249.7 million in proceeds from loans, borrowing and corporate bonds; and (ii) an increase in cash outflow in dividend paid of RMB472.7 million.

Table of Contents***Borrowings and banking facilities***

During 2010, our total borrowings decreased and our cash flow maintained sustainable growth, and our overall economic efficiency increased. Due to the substantial decrease of the Company's net income and the increasing capital expenditure for the implementation of Phase 6 Project, the Company had to take on an increased amount of borrowings in 2011 in order to maintain the balance of cash and cash equivalents at a safe level.

Our total borrowing at the end of 2011 amounted to RMB5,672.1 million, representing an increase of RMB1,101.7 million as compared to the end of the previous year, of which short-term debts increased by RMB1,116.7 million, and long-term debts decreased by RMB15.0 million. We have generally been able to arrange short-term loans with several PRC financial institutions as necessary. The short-term debt obligations, as of December 31, 2011 and 2010 were as follows.

Short-term debt instruments	Year Ended December 31,	
	2010	2011
	(Millions of RMB)	
Short-term bank loans (1)	2,885.4	4,852.1
Short-term loans from a related party (2)	410.0	660.0
Short-term corporate bonds (3)	1,000.0	
Current portion of long-term bank loans	100.0	
	4,395.4	5,512.1

- (1) All the short-term bank loans were credit loans, which were due in 2012. We obtained a credit rating of AA- for financing loans, assessed by Centrus Business Credit Consulting Co., Ltd, a credit rating agency authorized by the People's Bank of China. As of December 31, 2011, we had standby credit facilities of RMB 10,400.0 million (2010: RMB9,300.0 million), which are effective until the end of 2012. Out of the total banking facilities granted, amounts totaling RMB1,252.4 million had been utilized as of December 31, 2011 (2010: RMB2,363.3 million). We believe that we will be able to renew these facilities when they expire based on our well-established relationships with various lenders.
- (2) We borrowed short-term loans from a subsidiary of Sinopec Group, Sinopec Finance Company Limited, on terms no less favorable to us than terms available from the other commercial banks in China. We have entered into the Comprehensive Services Framework Agreement with Sinopec Group so as to obtain financial services from Sinopec Finance Company Limited for the three years ending December 31, 2011, 2012 and 2013.
- (3) In June 2011, we repaid the RMB1,000.0 million 365-day unsecured corporate bonds which were issued to corporate investors in the PRC interbank debenture market on June 23, 2010. The bonds were issued at 100% of face value, with an effective yield of 3.27% per annum, and matured on June 23, 2011. We obtained a credit rating of AA+ for corporate bonds, assessed by Shanghai Brilliance Credit Rating & Investors Service Co., Ltd., a credit rating agency recognized by the People's Bank of China to provide the credit rating service in China market.

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

the cost of financing and the condition of financial markets;

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

potential changes in monetary policy of the Chinese government with respect to bank interest rates and lending practices.

If we fail to rollover, extend or refinance our short-term debts as necessary in a timely manner, we may be unable to meet our obligations in connection with debt servicing, trade and bills payable and/or other liabilities when they become due. See also Item 3.D. Key Information - Risk

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

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

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

Table of Contents**Liability-to-asset ratio**

As at December 31, 2011, our liability-to-asset ratio was 40.77% (2010: 37.45%). The ratio is calculated using this formula: total liabilities/total assets.

Capital expenditure

In 2011, our capital expenditures amounted to RMB3,225 million, representing an increase of 137.66% as compared RMB1,357 million in capital expenditures in 2010. Major projects include the following:

Project	Total project investment RMB million	Project progress as at December 31, 2011
The Isopentene Plant with a capacity of 10,000 tons/year	99.0	Completion and commencement of operation
The Carbon Fiber Project with a capacity of 1,500 tons/year	848.0	Under construction
The Refinery Revamping and Expansion Project	6,628.0	Under construction
The Up-grading Project for the optimization of the system and reduction in energy and feedstock consumption of the No. 2 PTA Plant	186.0	Under construction
The No. 2 and No. 3 Aromatics Complexes Energy-saving Up-grade Project	954.0	Preliminary work
The Ethanolamine Project with a capacity of 50,000 tons/year	189.0	Preliminary work
Total	8,904.0	

Our capital expenditure for 2012 is estimated at approximately RMB3,200 million.

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

We have a number of technology development units, including the Petrochemical Research Institute, the Plastics Research Institute, the Polyester Fiber Research Institute, the Acrylic Fiber Research Institute and the Environmental Protection Research Institute. These units are charged with various research and development tasks with respect to new technology, new products, new production processes and equipment and environmental protection. Our research and development expenditures in 2009, 2010 and 2011 were RMB40.3 million, RMB58.2 million and RMB79.6 million, respectively, all representing approximately 0.1% of the total sales for those years.

We focused on developing new technologies and products such as propylene and butene-1 random copolymers. The special material (YGM091T), used in bimodal polyethylene piping material, obtained the PE80 rating certification. The special material (GM750E), for polypropylene infusion bottle, and the probucol random copolymer polypropylene series of products filled the gaps in the domestic market. We finished the research and development of new products such as the flame-resistant polyester chips for industrial yarn, making us the only domestic enterprise that carries out the continuous production of the flame-resistant polyester series of products. The development of NEP polyester chips (excluding heavy metal and ecological polyester chips) was completed and these products were successfully exported to the European Union. The production of new polyester staple fiber products for vortex spinning was industrialized, and the mass production of anti-pill polyacrylonitrile fiber was achieved. A total of 450,500 tons of new products were produced in 2011, with a differential rate of synthetic fiber of 58.16%, while the rate of synthetic resin new products and the use of special resin reaching 84.68%. A total of 44 patent applications were submitted and 34 patents were granted. The Company's 7 achievements won the 2011 Annual Science and Technology Progress Award, and 9 new and high-tech achievement transformation projects received special financial supports of RMB19.75 million from the Chinese government. The No. 2 Polyester Plant of the Complex was named a classic project at a ceremony marking the 30th anniversary of the National Quality Project Prize.

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

D. Trend Information

In 2012, the world economy will remain complex and challenging and will face increasing instability and uncertainty, characterized by the European debt crisis constraining economic recovery, the slow economic growth in the developed countries and the possibility of further slackening economic growth in the emerging economies. Hit by the European debt crisis and the decline in the global demand, China's economy will come under pressure from the slowdown in exports. Due to the increasing instability and uncertainty of the domestic economy, the development of various sectors such as automobile and real estate slows down, which consequently results in the decline of consumption demand that serves to boost the economic growth. The relatively fast increases in costs of energy, raw materials, labor and other factors will lead to a decline in the economic growth. However, given that China's economy is still in the important strategic period with opportunities, the considerable potential for boosting domestic demand will continue to offer much room for development.

The competitive landscape of the worldwide petrochemical industry is undergoing major changes as the industry will be greatly affected by the rise of the petrochemical industry in the Middle East, the development of the coal chemical industry, the development of the shale gas in North America and the challenges posed by energy conservation and emissions reduction requirements. In 2012, the petroleum market may become more volatile and oil prices may remain at high levels as increasing geopolitical risks intertwine with risks created by the European debt crisis concerning the global economy and demand. China's petroleum and petrochemical industry will also come under pressure due to the slower economic growth. In the macro environment in which China is putting aggressive effort into boosting domestic demand, exploring new energy resources and developing strategic emerging industries, the demand for petrochemical products will remain high and the growing pace will sustain stable and relatively fast. However, the pressures with respect to resources, costs, energy conservation and emissions reduction will make the industry's development prospects more challenging. The failure to fully relieve the cost pressures associated with high oil prices in the oil refining industry, the limitation on the increase of external demand and the emergence of protectionism in international trade will further intensify the competition in the chemical market.

E. Off-balance Sheet Arrangements

As of December 31, 2011, we had no contingent liabilities in respect of guarantees issued to banks in favor of our associated companies and other unlisted investments (December 31, 2010: nil). Other than our capital commitments and contingencies disclosed in Note 24 in our consolidated financial statements included in [Item 17. Financial Statements](#), we do not have any other off-balance sheet arrangements.

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The following table sets forth our obligations to make future payments under contracts effective as of December 31, 2011.

	As of December 31, 2011 Payment Due by Period				
	Total (RMB 000)	Less than 1 year (RMB 000)	1-3 years (RMB 000)	3-5 years (RMB 000)	More than 5 years (RMB 000)
Contractual obligations					
Short-term loans	5,512,074	5,512,074			
Long-term loans (including current portion)	160,050		125,000	35,050	
Total contractual obligations	5,672,124	5,512,074	125,000	35,050	
Estimated future interest payments					
Fixed rate	39,827	24,998	10,743	4,086	
Variable rate	75,318	75,318			
Total estimated future interest payments	115,145	100,316	10,743	4,086	
Other commercial commitments					
Capital commitments (note)	5,525,852	3,005,000	2,520,852		
Total commercial commitments	5,525,852	3,005,000	2,520,852		

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

*G. Other Information***Employees**

Our staff costs for 2011 were RMB1,699.2 million.

As at December 31, 2011, we had 15,655 employees in total, among whom there were 8,857 production staff, 5,166 sales representatives, financial personnel and other personnel and 1,632 administrative staff. 39.06% of our employees had tertiary qualifications or above. The company has 14,405 retired employees who are under retirement insurance plans, details of which are provided under Item 6. D. Employees.

Purchase, Sale and Investment

Except as disclosed in this report, during the year ended December 31, 2011, 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, 2011, we have not pledged any of our property or equipment.

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

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

Name	Age	Position
<u>Directors</u>		
Rong Guangdao	56	Chairman of the Board of Directors
Wang Zhiqing	49	Vice Chairman of the Board of Directors and President
Wu Haijun	49	Vice Chairman of the Board of Directors
Li Honggen	55	Director and Vice President
Shi Wei	52	Director and Vice President
Ye Guohua	43	Director and Chief Financial Officer
Lei Dianwu	49	External Director
Xiang Hanyin	57	External Director
Shen Liqiang	55	Independent Director
Jin Mingda	61	Independent Director
Wang Yongshou	71	Independent Director and Director of the Remuneration and Appraisal Committee
Cai Tingji	57	Independent Director and Director of the Audit Committee
<u>Other Executive Officers</u>		
Zhang Zhiliang	58	Vice President
Zhang Jianping	49	Vice President
Tang Chengjian	56	Vice President
Jin Qiang	46	Vice President
Zhang Jingming	54	Secretary of the Company and General Legal Counsel
<u>Supervisory Committee</u>		
Gao Jinping	45	Chairman of the Supervisory Committee
Zuo Qiang	49	Supervisor
Li Xiaoxia	42	Supervisor
Zhai Yalin	47	External Supervisor
Wang Liquan	54	External Supervisor
Chen Xinyuan	47	Independent Supervisor
Zhou Yunnong	69	Independent Supervisor
<i>Directors</i>		

Rong Guangdao, 56, is Chairman, Secretary of the Communist Party Committee of the Company. Mr. Rong joined the Complex in 1973 and has held various positions, including Deputy Director of the No.1 Chemical Plant and Deputy Director and Director of the Ethylene Plant. In April 1994 he was appointed Vice President of the Company, and in June 1995 he was elected Director of the Company. From October 2003 to July 2010, Mr. Rong was President of the Company. In May 2004, Mr. Rong was elected Chairman of the China Jinshan Associated Trading Corporation. From June 2004 to June 2005, Mr. Rong served as Vice Chairman of the Company. From April 2005 to July 2010, Mr. Rong served as Deputy Secretary of the Communist Party Committee. In June 2005, Mr. Rong was elected as Chairman of the Company. From November 2006 to February 2011, Mr. Rong was the Director and Vice Chairman of Secco. In August 2008, he was appointed Director and Chairman of Shanghai Chemical Industrial Park Development Company Limited. In July 2010, Mr. Rong was appointed Secretary of the Communist Party Committee. Mr. Rong has rich experience in management of large-scale petrochemical enterprise operations. In 1985, Mr. Rong graduated from the Automated Instrument Department of the Shanghai Petrochemical College for Workers and Staff Members. In 1997, he obtained an MBA from China Europe International Business School. He is a senior engineer by professional title.

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Wang Zhiqing, 49, currently Vice Chairman, President and Deputy Secretary of the Communist Party Committee of the Company. Mr. Wang commenced work in 1983 and held various positions including Deputy Leader of preparatory team for the chemical fiber plant of Luoyang Petrochemical Complex, Deputy Chief Engineer of Luoyang Petrochemical Complex cum Officer-in-Charge of the preparatory team for the complex's chemical fiber plant, and then Deputy Chief Engineer of the complex cum Director of the chemical fiber plant. From June 1999 to December 2001, Mr. Wang was Chief Engineer of Luoyang Petrochemical Complex. From February 2000 to December 2001, Mr. Wang was Vice President cum Chief Engineer of Sinopec Luoyang Company. From December 2001 to October 2006, Mr. Wang was President of Sinopec Luoyang Company. From July 2005 to May 2007, Mr. Wang was the Leader of the preparatory team for a Sinopec refinery project in Guangxi. From October 2006 to December 2008, Mr. Wang was President of Sinopec Jiujiang Company. From December 2008 to July 2010, Mr. Wang was President of Sinopec Jiujiang Company. Mr. Wang was appointed President and Deputy Secretary of the Communist Party Committee of the Company in July 2010. Mr. Wang was appointed Director and Vice Chairman of the Company in December 2010. In February 2011, Mr. Wang was appointed the Director and Chairman of the board of Secco. Mr. Wang graduated from the East China Petroleum Institute with a Bachelor of Engineering in 1983, majoring in refinery engineering, and graduated from China University of Petroleum (East China) with a Doctorate in Engineering in 2006, majoring in chemical engineering and technology. He is a senior engineer by professional title.

Wu Haijun, 49, currently Vice Chairman of the Company, Director and Vice President of Secco. Mr. Wu joined the Complex in 1984 and held various positions including Deputy Director and Director of the Company's No.2 Chemical Plant as well as manager of the Chemical Division. He was Vice President of the Company from May 1999 to March 2006 and Director of the Company from June 2004 to June 2006. He was manager and Secretary of the Communist Party Committee of the Chemical Sales Branch Office of Sinopec Corp from December 2005 to March 2008. From December 2005 to April 2010, he was Director of the Chemical Business Department of Sinopec Corp. In April 2010, he was appointed as Director of Secco. From April 2010 to February 2011, he served as the General Manager of Secco. In June 2010, he was appointed Director and Vice Chairman of the Company. In February 2011, Mr. Wu was appointed Vice President of Secco. Mr. Wu graduated from the East China Institute of Chemical Technology in 1984, majoring in chemical engineering, and obtained a Bachelor of Engineering degree. In 1997, he obtained an MBA from the China Europe International Business School. He is a senior engineer by professional title.

Li Honggen, 55, is Executive Director and Vice President of the Company. Mr. Li joined the Complex in 1973 and has held various positions including Deputy Director of No. 1 Chemical Plant of the Complex, Deputy Director and Director of the Ethylene Plant of the Company and Deputy Manager and Manager of the Refining and Chemical Division of the Company. From August 2000 to December 2003, he served as Vice President of Shanghai Chemical Industrial Park Development Company Limited. From August 2002 to January 2006, he served as Vice President of Secco. In March 2006, he was appointed Vice President of the Company. In June 2006, he was appointed Director of the Company. In August 2008, he was concurrently appointed Director of Shanghai Chemical Industrial Park Development Company Limited. Mr. Li graduated from East China Institute of Chemical Technology majoring in engineering management and completed a post-graduate course majoring in engineering management at East China University of Science and Technology in 1998. He is an engineer by professional title.

Shi Wei, 52, is Executive Director and Vice President of the Company. Mr. Shi joined the Complex in 1982 and has held various positions including Assistant to the Manager, Deputy Manager of the Refining and Chemical Division of the Company, Manager of the Environmental Department, Secretary of the Communist Party Committee and manager of the Refining and Chemical Division of the Company. In October 2003, Mr. Shi was appointed Vice President of the Company. In June 2005, he was appointed Director of the Company. In 1982, Mr. Shi graduated from East China University of Science and Technology majoring in oil refining engineering and obtained a bachelor's degree in engineering. Mr. Shi completed post-graduate studies in Business Management at East China University of Science and Technology in 1998. Mr. Shi is a senior engineer by professional title.

Ye Guohua, 43, is Executive Director and Chief Financial Officer of the Company. Mr. Ye joined Shanghai Gaoqiao Petrochemical Company in 1991 and has held various positions, including Deputy Chief and Chief of the Cost Accounting Section of the Finance Office, Director of the Finance Office of the Refinery Plant of Shanghai Gaoqiao Petrochemical Company and Deputy Chief Accountant and Director of the Finance Department of Sinopec Shanghai Gaoqiao Company. In October 2009, Mr. Ye was appointed Chief Financial Officer of the Company. In June 2011, he was appointed the Director of the Company. Mr. Ye graduated with a major in accounting from the Shanghai University of Finance and Economics in July 1991. He is a senior accountant by professional title.

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Lei Dianwu, 49, is Assistant to the General Manager of Sinopec Group, Vice President and Director of Development and Planning Division of Sinopec Corp. In June 2005, Mr. Lei was elected External Director of the Company. Mr. Lei has held various positions including Deputy Director of Planning Division of Yangzi Petrochemical Company, Director of the Preparation Office of the Joint Venture of Yangzi Petrochemical Company, Vice President and Manager of production division of Yangzi BASF Styrene Company Limited. He acted as Deputy Manager and Deputy Director of the Joint Venture Office at Yangzi Petrochemical Company, Director of Project Development Department of China Dong Lian Petrochemical Limited Liabilities Company, Deputy General Manager of Yangzi Petrochemical Limited Liabilities Company and Deputy Director of Development and Planning Division of Sinopec Corp. From March 2001, he assumed the current position of Director of Development and Planning Division of Sinopec Corp. From March 2009, he assumed the current position of Assistant to General Manager of Sinopec Corp. From May 2009, he assumed the position of Vice President of Sinopec Corp. Mr. Lei has rich experience in enterprise planning and investment development management. In 1984, Mr. Lei graduated from the East China Petroleum Institute with a major in basic organic chemicals and obtained a bachelor's degree in engineering. He is a senior engineer by professional title.

Xiang Hanyin, 57, is Deputy Director of Chemical Division of Sinopec Corp. In June 2005, Mr. Xiang was elected External Director of the Company. Mr. Xiang commenced work in February 1982 and was Deputy Director of the Chemical Plant of Yizheng Chemical Fiber Company and Director of Chemical Plant of Yizheng Chemical Fiber Co., Ltd. In February 2000, he assumed the current position of Deputy Director of the Chemical Division of Sinopec Corp. Mr. Xiang has rich experience in the management of production and operation of chemical enterprises. Mr. Xiang graduated from Nanjing Chemical College with a major in basic organic chemicals and a bachelor's degree in engineering in 1982. In 2000, he completed post-graduate studies in enterprise management at Nanjing University. He is a senior engineer by professional title.

Independent Directors

Shen Liqiang, 55, is President and Secretary of the Communist Party Committee of the Shanghai Branch of the Industrial and Commercial Bank of China (ICBC). Mr. Shen was appointed as the Independent Director of the Company in June 2011. Mr. Shen has been engaged in financial business since December 1976, and has held various positions, including Deputy Director and Director of the Hangzhou Business Department of the ICBC; Deputy Director of the Accounting and Cashier Department, Deputy Director and Director of the Savings Department, Director of the Personnel Department and Assistant to the President cum Director of Personnel Department of the Zhejiang Branch of the ICBC; Vice President of the Zhejiang Branch of the ICBC; Vice President cum General Manager and Secretary of the Communist Party Committee of the Banking Department of the Zhejiang Branch of the ICBC. He was Vice President and Deputy Secretary of the Communist Party Committee of the Zhejiang Branch of the ICBC from October 2005 to March 2007, and was appointed President and Secretary of the Communist Party Committee of the Hebei Branch of the ICBC from March 2007 to June 2009. He has been President and Secretary of the Communist Party Committee of the Shanghai Branch of the ICBC since June 2009. Mr. Shen has long been engaged in banking business management and has both in-depth expertise on finance theory and extensive experience in finance practice. Mr. Shen holds a Master's Degree in Economics and is a senior accountant by professional title. His current term of office is from June 2011 to June 2014.

Jin Mingda, 61, is Chairman and Secretary of the Communist Party Committee of Shanghai Huayi (Group) Company. Mr. Jin was appointed as the Independent Director of the Company in June 2011. Mr. Jin started working in October 1968 and has held various positions, including Deputy Secretary of the Communist Party Committee, Deputy Director, Secretary of the Communist Party Committee and Director of Shanghai Power Station Auxiliary Equipment Works Co., Ltd; General Manager and Deputy Secretary of the Communist Party Committee of Shanghai Boiler Works Co., Ltd; Vice President of Shanghai Electric (Group) Corporation; Vice President of Shanghai Electric Group Co., Ltd.; and President and Secretary of the Communist Party Committee of Shanghai Mechanical & Electrical Industry Co., Ltd. He served as Director, President and Deputy Secretary of the Communist Party Committee of Shanghai Huayi (Group) Company from November 2005 to October 2007, and Chairman and Secretary of the Communist Party Committee of Shanghai Huayi (Group) Company from October 2007. He was appointed Independent Director of Shanghai Electric Power Co., Ltd in November 2009. Mr. Jin has extensive experience in business decision-making and management of conglomerates. He possesses postgraduate qualifications and is a senior economist by professional title. His current term of office is from June 2011 to June 2014.

Wang Yongshou, 71. Mr. Wang was appointed as the Independent Director of the Company in June 2011. Mr. Wang started working in September 1964 and has held various positions, including Deputy Secretary of the Communist Party Committee, Deputy Director and Director of Plastics Factory of the Complex; Chief Economist of the Complex and Deputy President of JI. He served as President of Shanghai Jinshan Industrial Investment and Development Co., Ltd. from September 1997 to November 2001. Mr. Wang has extensive experience in corporate operation and management. Mr. Wang graduated from Zhejiang Institute of Chemical Technology in September 1964, and is a senior engineer by professional title. His current term of office is from June 2011 to June 2014.

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Cai Tingji, 57, is a Fellow of the Hong Kong Institute of Certified Public Accountants, a member of the Committee of the Chinese People's Political Consultative Conference of Jing'an District, Shanghai, and Honorary Vice-Chairman of the Federation of Returned Overseas Chinese of Jing'an District, Shanghai. Mr. Cai was appointed as the Independent Director of the Company in June 2011. Mr. Cai graduated from the Department of Accounting, Hong Kong Polytechnic University in 1978. He joined KPMG in the same year and has held various positions, including Deputy Manager and Manager of the audit department of KPMG Hong Kong Office, Managing Partner of KPMG Shanghai Office, Senior Partner of KPMG Huazhen Shanghai Office as well as Senior Partner of KPMG Huazhen in Eastern and Western China. Mr. Cai retired from KPMG Huazhen in April 2010. Mr. Cai was responsible for IPO projects for a number of la