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中国石油化工股份有限公司

CHINA PETROLEUM & CHEMICAL CORPORATION

(a joint stock limited company incorporated in the People's Republic of China with limited liability)

(Stock Code: 00386)

Connected Transaction Capital Increase in Baling Petrochemical

The Board is pleased to announce that on 28 October 2020, the Board has considered and approved the capital increase in Baling Petrochemical by the Company with the Sinopec Group Asset Management Co., Ltd. (“**Assets Company**”) on a pro rata basis. The capital increase in Baling Petrochemical will be contributed by the Company and the Assets Company with an aggregate amount of approximately RMB6.284 billion, of which, the Company will contribute approximately RMB3.456 billion by injecting the relevant assets of Sinopec Corp. Baling Branch and cash, and the Assets Company will contribute approximately RMB2.828 billion by injecting the relevant assets of Assets Company Baling Branch. Pursuant to the Capital Increase Agreement, the registered capital of Baling Petrochemical will be increased from RMB100 million to RMB3 billion. Upon completion of the Capital Increase, the shareholders of Baling Petrochemical and their respective shareholdings will remain unchanged, while the Company and the Assets Company will continue to hold 55% and 45% equity interest in Baling Petrochemical, respectively. Baling Petrochemical will remain a subsidiary of the Company.

As of the date of this announcement, China Petrochemical Corporation is the controlling shareholder of the Company. As the Assets Company is a wholly-owned subsidiary of China Petrochemical Corporation, pursuant to Chapter 14A of the Listing Rules, the Assets Company is an associate of China Petrochemical Corporation and thus constitutes a connected person of the Company. As certain applicable percentage ratios of the Capital Increase are more than 0.1% but less than 5%, thus, the Capital Increase is subject to the reporting and announcement requirements, but exempt from independent shareholders’ approval requirement under Chapter 14A of the Listing Rules.

Shareholders and potential investors of the Company are reminded that the Capital Increase Agreement is conditional upon the separate execution by the Assets Company upon completion of its internal approval procedures and the Completion of the Capital Increase is subject to the fulfillment (if applicable) of the relevant conditions. Therefore, shareholders and potential investors of the Company are recommended to exercise caution when dealing in shares.

I. INTRODUCTION

The Board is pleased to announce that on 28 October 2020, the Board has considered and approved the capital increase in Baling Petrochemical by the Company with the Assets Company on a pro rata basis. The capital increase in Baling Petrochemical will be contributed by the Company and the Assets Company with an aggregate amount of approximately RMB6.284 billion, of which, the Company will contribute approximately RMB3.456 billion by injecting the relevant assets of Sinopec Corp. Baling Branch and cash, and the Assets Company will contribute approximately RMB2.828 billion by injecting the relevant assets of Assets Company Baling Branch. Pursuant to the Capital Increase Agreement, the registered capital of Baling Petrochemical will be increased from RMB100 million to RMB3 billion. Upon completion of the Capital Increase, the shareholders of Baling Petrochemical and their respective shareholdings will remain unchanged, while the Company and the Assets Company will continue to hold 55% and 45% equity interest in Baling Petrochemical, respectively. Baling Petrochemical will remain a subsidiary of the Company.

II. PRINCIPAL TERMS OF THE CAPITAL INCREASE AGREEMENT

Parties: 1) the Company; and

2) the Assets Company.

Capital Increase

The Company shall contribute to the Capital Increase with the relevant assets of its Baling branch company equivalent to RMB1,693,477,800 and in cash, of which RMB1,595,000,000 will be injected as the newly increased registered capital of Baling Petrochemical and the remaining will be booked to the capital reserve of Baling Petrochemical in accordance with China Accounting Standards for Business Enterprises (CASs). The relevant cash shall be transferred to the designated account of Baling Petrochemical on or before 30 November 2020.

The Assets Company shall contribute to the Capital Increase with the relevant assets of its Baling branch company equivalent to RMB2,828,453,900, of which RMB1,305,000,000 will be injected as the newly increased registered capital of Baling Petrochemical and the remaining will be booked to the capital reserve of Baling Petrochemical in accordance with CASs.

Upon completion of the Capital Increase, the shareholders of Baling Petrochemical will continue to be the Company and the Assets Company. The registered capital of Baling Petrochemical shall be held by the Company as to 55% and by the Assets Company as to 45%, respectively, which remains the same as its original shareholding percentage.

Gain or Loss for the Transition Period

The gain or loss of the relevant Capital Increase Assets for the transition period (from the Valuation Date to the Closing Date) will be borne by the Company and the Assets Company respectively.

Procedures for the Capital Increase

The Capital Increase will be carried out in the following steps:

1. the completion of the internal decision-making and approval process for the Capital Increase in accordance with relevant laws;
2. the execution of relevant legal documents including, among others, the Capital Increase Agreement;
3. the obtaining of necessary prior consents, approvals and permissions (if applicable) from the government authorities and other third-party entities for the Capital Increase; and
4. the completion of the amendment registration procedures with the industrial and commercial authority.

Effectiveness and Completion

The Capital Increase Agreement shall take effect upon duly signing by the legal representatives of the Company and the Assets Company with their official seals affixed. The Completion date of the Capital Increase shall be the date on which the amendment registration procedures have been completed by Baling Petrochemical.

III. THE DETERMINATION BASIS FOR THE CAPITAL INCREASE

According to the Valuation Report of Capital Increase Assets of Sinopec Corp. and the Valuation Report of Capital Increase Assets of Assets Company, based on the asset-based approach, as at the Valuation Date, the appraisal value of the net assets of the Capital Increase Assets of Sinopec Corp. is approximately RMB1.693 billion and the appraisal value of the net assets of the Capital Increase Assets of the Assets Company is approximately RMB2.828 billion. Accordingly, upon arm's length negotiations, the Company proposes to contribute approximately RMB3.456 billion to Baling Petrochemical in appraised net assets value of the Capital Increase Assets of Sinopec Corp. and in cash of approximately RMB1.763 billion (the actual cash amount for the Capital Increase will be determined after fully taking into account of various factors such as the gains or loss for the transition period and the size of the Capital Increase Assets), and the Assets Company will contribute approximately RMB2.828 billion in appraised net assets value of the Capital Increase Assets of Assets Company. The equity interest of Baling Petrochemical shall continue to be held by the Company as to 55% and by the Assets Company as to 45%, respectively.

IV. REASONS FOR AND BENEFITS OF THE CAPITAL INCREASE

The Capital Increase will be beneficial for the Company to further enhance its integrated operation, optimise allocation of resources and upgrade value chain, so as to strengthen the comprehensive competitiveness of the Company at its business locations.

V. INFORMATION ON BALING PETROCHEMICAL

Baling Petrochemical is a company incorporated on 28 February 2020 with limited liability under the laws of the PRC. As at the date of this announcement, the registered capital of Baling Petrochemical is RMB100 million, of which the Company has contributed RMB55 million and holds 55% equity interest; and the Assets Company has contributed RMB45 million and holds 45% equity interest. Its principal businesses include petrochemical, chemical fiber, fertilizer and refined chemical products. As at 31 March 2020, Baling Petrochemical had total assets of RMB1.1 billion (unaudited), and was yet to generate any income.

According to the Articles of Baling Petrochemical, Baling Petrochemical will not establish any board of directors nor supervisory committee, but will have one executive director and one supervisor. Each of its shareholders shall have the right of first refusal in the share transfer of Baling Petrochemical. Baling Petrochemical shall distribute profit to shareholders in proportion to the respective paid-in capital contribution.

Upon completion of the Capital Increase, Baling Petrochemical will remain a subsidiary of the Company.

VI. INFORMATION ON THE CAPITAL INCREASE ASSETS

For the purpose of the Capital Increase, the Company will contribute the relevant assets of Sinopec Corp. Baling Branch and cash, and the Assets Company will contribute the relevant assets of Assets Company Baling Branch. In accordance with CASs, the relevant Capital Increase Assets and cash will be accounted at book value in the financial statements of Baling Petrochemical.

Sinopec Corp. Baling Branch was established in 2000, with its principal businesses engaged in the production and operation of chemical products such as caprolactam and sectioning. As of 31 March 2020, it had facilities for caprolactam of 300 thousand tonnes/year, synthetic ammonia of 430 thousand tonnes/year and sectioning of 52 thousand tonnes/year. The audited financial information of the Capital Increase Assets of Sinopec Corp. for year 2018, 2019 and three-month period ended 31 March 2020 are set out below.

	As at 31 December 2018	As at 31 December 2019 <i>(RMB100 million)</i>	As at 31 March 2020
Total assets	37.85	42.50	42.78
Net assets	5.37	4.96	3.09

	For the year ended 31 December 2018	For the year ended 31 December 2019	Three-month period ended 31 March 2020
Revenue	109.16	96.73	20.72
Profit before taxation	0.30	0.005	-1.74
Net profit	-0.65	-0.98	-1.95

The Assets Company Baling Branch was established in 2002, and was primarily engaged in petroleum refining and the production of chemical products such as styrene, synthetic rubber, epoxy resin, polypropylene and cyclohexanone. As of 31 March 2020, it had crude oil processing capacity of 2,000 thousand tonnes and facilities for styrene of 120 thousand tonnes/year, cyclohexanone of 100 thousand tonnes/year, synthetic rubber of 440 thousand tonnes/year and epoxy resin of 320 thousand tonnes/year. The audited financial information of the Capital Increase Assets of the Assets Company for year 2018, 2019 and three-month period ended 31 March 2020 are set out below.

	As at 31 December 2018	As at 31 December 2019 <i>(RMB100 million)</i>	As at 31 March 2020
Total assets	56.90	61.62	56.86
Net assets	17.89	17.68	16.39

	For the year ended 31 December 2018	For the year ended 31 December 2019	Three-month period ended 31 March 2020
Revenue	185.40	169.53	34.59
Profit before taxation	1.02	0.71	-1.67
Net profit	0.38	0.26	-1.67

VII. THE LISTING RULES IMPLICATIONS

As of the date of this announcement, China Petrochemical Corporation is the controlling shareholder of the Company. As the Assets Company is a wholly-owned subsidiary of China Petrochemical Corporation, pursuant to Chapter 14A of the Listing Rules, the Assets Company is an associate of China Petrochemical Corporation and thus constitutes a connected person of the Company. As certain applicable percentage ratios of the Capital Increase are more than 0.1% but less than 5%, thus, the transaction is subject to the reporting and announcement requirements, but exempt from independent shareholders' approval requirement under Chapter 14A of the Listing Rules. The Capital Increase does not reach the threshold of disclosure under Chapter 10 of the Rules Governing the Listing of Stocks on Shanghai Stock Exchange, and is not subject to the consideration of the general meeting of the Company.

VIII. DIRECTORS' OPINIONS

As at the date of this announcement, except for the INEDs, all other directors are connected directors and therefore required to abstain from voting on the resolution approving the Capital Increase and the transactions contemplated thereunder at the Board meeting. The Board has considered and approved the resolution on the Capital Increase, and is unanimously of the view that (i) the Capital Increase is on normal commercial terms; (ii) the terms and conditions of the Capital Increase Agreement are fair and reasonable; and (iii) the Capital Increase is in the interests of the Company and the shareholders as a whole.

IX. INFORMATION ON THE PARTIES TO THE AGREEMENT

The Company

The Company is one of the largest integrated energy and chemical companies in the PRC, and is principally engaged in the exploration and mining, pipeline transportation and sales of petroleum and natural gas; the production, sales, storage and transportation of refined petroleum, petrochemicals, coal chemicals, chemical fibers and other chemical products; the import and export of petroleum, natural gas, petroleum products, petrochemicals and other chemical products and other commodities and technologies, and the import and export agency business; and the research, development and application of technology and information.

Assets Company

The Assets Company is a company established under the laws of the PRC with limited liability, and is principally engaged in, among others, authorized investment management; sales of chemical, chemical fiber and refined chemical products (excluding hazardous products); production and supply of heat and water supply services; refining of petroleum; leasing of land and self-owned properties.

Shareholders and potential investors of the Company are reminded that the Capital Increase Agreement is conditional upon the separate execution by the Assets Company upon completion of its internal review and approval procedures and the Completion of the Capital Increase is subject to the fulfillment (if applicable) of the relevant conditions. Therefore, shareholders and potential investors of the Company are recommended to exercise caution when dealing in shares.

X. DEFINITIONS

In this announcement, unless the context requires otherwise, the following terms shall have the meanings set out below:

“Articles of Baling Petrochemical”	the Articles of Association of Sinopec Baling Petrochemical Company Limited
“Assets Company Baling Branch”	Baling Petrochemical Branch of Sinopec Group Asset Management Co., Ltd.
“associate(s)”	has the meaning ascribed thereto under the Listing Rules
“Baling Petrochemical”	Sinopec Baling Petrochemical Company Limited
“Board”	the board of directors of the Company
“Capital Increase”	the capital increase of approximately RMB6.284 billion in Baling Petrochemical by the Company and Assets Company in accordance with the terms and conditions of Capital Increase Agreement, upon the completion of which, the Company and Assets Company will hold 55% and 45% of equity interest in Baling Petrochemical, respectively
“Capital Increase Agreement”	the agreement to be entered into between the Company and Assets Company in relation to the capital increase in Baling Petrochemical, which was considered and approved by the Board
“Capital Increase Assets”	the Capital Increase Assets of Sinopec Corp. and the Capital Increase Assets of Assets Company
“Capital Increase Assets of Assets Company”	the operating assets and liability of Assets Company Baling Branch with the appraised value of approximately RMB2.828 billion using asset-based approach
“Capital Increase Assets of Sinopec Corp.”	the net assets of Sinopec Corp. Baling Branch with the appraised value of approximately RMB1.693 billion using asset-based approach
“China Petrochemical Corporation”	China Petrochemical Corporation
“Closing Date”	1 November 2020
“Company” or “Sinopec Corp.”	China Petroleum & Chemical Corporation

“Completion”	the completion of the Capital Increase in accordance with the Capital Increase Agreement
“connected person(s)”	has the meaning ascribed thereto under the Listing Rules
“INED(s)”	the independent non-executive Directors of the Company
“Listing Rules”	the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
“PRC”	the People’s Republic of China
“RMB”	Renminbi, the lawful currency of the PRC
“Sinopec Corp. Baling Branch”	China Petroleum & Chemical Corporation Baling Branch Company
“Stock Exchange”	The Stock Exchange of Hong Kong Limited
“subsidiary(ies)”	has the meaning ascribed thereto under the Listing Rules
“Valuation Date”	31 March 2020
“Valuation Report of Capital Increase Assets of Assets Company”	the Asset Valuation Report for the Operating Assets and Liabilities of Baling Petrochemical Branch of Sinopec Group Asset Management Co., Ltd. regarding the Proposed Capital Increase in Sinopec Baling Petrochemical Company Limited by Baling Petrochemical Branch of Sinopec Group Asset Management Co., Ltd. using the Operating Assets and Liabilities prepared by China Enterprise Appraisals Co., Ltd.
“Valuation Report of Capital Increase Assets of Sinopec Corp.”	the Asset Valuation Report regarding the Proposed Capital Increase in Sinopec Baling Petrochemical Company Limited by China Petroleum & Chemical Corporation Using the Net Assets of China Petroleum & Chemical Corporation Baling Branch Company prepared by Beijing Guorongxinghua Assets Appraisal Co, LTD.
“%”	Percent.

By order of the Board
China Petroleum & Chemical Corporation
Huang Wensheng
Vice President, Secretary to the Board of Directors

Beijing, the PRC
28 October 2020

As of the date of this announcement, directors of the Company are: Zhang Yuzhuo^{}, Ma Yongsheng[#], Yu Baocai[#], Liu Hongbin[#], Ling Yiqun[#], Zhang Shaofeng^{*}, Tang Min⁺, Cai Hongbin⁺, Ng, Kar Ling Johnny⁺*

[#] *Executive Director*

^{*} *Non-executive Director*

⁺ *Independent Non-executive Director*