

Notes to the Unaudited Interim Financial Report

1. Principal activities and basis of preparation

Sinopec Shanghai Petrochemical Company Limited (“the Company”) and its subsidiaries (“the Group”) is a highly integrated petrochemical complex which processes crude oil into synthetic fibres, resins and plastics, intermediate petrochemicals and petroleum products. The Company is a subsidiary of China Petroleum & Chemical Corporation (“Sinopec Corp”).

This interim financial report is unaudited, but has been reviewed by KPMG in accordance with Statement of Auditing Standards 700 “Engagements to review interim financial reports”, issued by the Hong Kong Society of Accountants. KPMG’s independent review report to the Board of Directors is included on page 21.

The interim financial report has been prepared in accordance with the requirements of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, including compliance with International Accounting Standards 34 “Interim Financial Reporting” adopted by the International Accounting Standards Board.

The financial information relating to the financial year ended 31 December 2001 included in the interim financial report do not constitute the Company’s statutory financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 December 2001 are available from the Company’s registered office. The Company’s independent auditors have expressed an unqualified opinion on those financial statements in their report dated 29 March 2002.

The accounting policies have been consistently applied by the Group and are consistent with those adopted in the 2001 annual financial statements except that as described in Note 10 that land use rights are carried at cost effective 1 January 2002. The effect of this change resulted in a decrease in the shareholders’ equity as of 1 January 2002.

The 2001 annual financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) promulgated by the International Accounting Standards Board (“IASB”). IFRS includes International Accounting Standards (“IAS”) and interpretations.

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2. Segment reporting

Reportable information on the Group's operating segments is as follows:

	Six-month periods ended 30 June	
	2002 RMB'000	2001 RMB'000
Turnover		
Manufactured Products		
<i>Synthetic Fibres</i>		
External sales	1,648,124	1,259,249
Intersegment sales	5,609	1,358
Total	1,653,733	1,260,607
<i>Resins and Plastics</i>		
External sales	2,696,553	2,558,697
Intersegment sales	11,519	11,077
Total	2,708,072	2,569,774
<i>Intermediate Petrochemicals</i>		
External sales	1,334,629	1,177,029
Intersegment sales	2,462,505	2,364,579
Total	3,797,134	3,541,608
<i>Petroleum Products</i>		
External sales	3,477,123	4,393,875
Intersegment sales	297,615	281,095
Total	3,774,738	4,674,970
All Others		
External sales	366,594	371,247
Intersegment sales	1,485,347	606,911
Total	1,851,941	978,158
Eliminations of intersegment sales	(4,262,595)	(3,265,020)
Consolidated turnover	9,523,023	9,760,097

External sales include sales to other Sinopec Corp group companies.

2. Segment reporting (continued)

	<u>Six-month periods ended 30 June</u>	
	2002	2001
	RMB'000	RMB'000
<u>Profit before tax</u>		
Profit / (Loss) from operations		
Synthetic Fibres	35,384	(8,597)
Resins and Plastics	134,694	141,779
Intermediate Petrochemicals	99,369	81,028
Petroleum Products	100,710	50,131
All Others	77,480	64,924
Consolidated profit from operations	447,637	329,265
Share of losses of associates		
All Others	(498)	(18,744)
Consolidated share of losses of associates	(498)	(18,744)
Net financing costs	(173,428)	(108,303)
Consolidated profit before tax	<u>273,711</u>	<u>202,218</u>

3. Employee reduction expenses

In accordance with the Sinopec Corp employee reduction plan, the Group recorded employee reduction expenses of RMB Nil (period ended 30 June 2001: RMB 77,302,000) during the six-month period ended 30 June 2002 .

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4. Profit before tax

Profit before tax is arrived at after charging / (crediting):

	<u>Six-month periods ended 30 June</u>	
	2002 RMB'000	2001 RMB'000
Interest on bank loans and advances	264,029	200,977
Less: Amount capitalised as construction in progress	(84,877)	(64,651)
Interest expenses, net	179,152	136,326
Cost of inventories	8,631,230	8,972,992
Depreciation and amortisation	732,776	703,418
Amortisation of goodwill	6,724	6,724
Amortisation of deferred income	(7,411)	(7,411)
Loss on disposal of property, plant and equipment	44,364	4,640

5. Dividends

For the year ended 31 December 2001, pursuant to a resolution passed at the Directors' meeting held on 29 March 2002, a final dividend of RMB Nil (2000: RMB0.06 per share totalling RMB 432,000,000) was proposed for the year ended 31 December 2001.

Dividend attributable to the previous year and approved during the period

	<u>Six-month periods ended 30 June</u>	
	2002 RMB'000	2001 RMB'000
Dividend	-	432,000

Interim dividend

The Directors do not recommend the payment of an interim dividend for the period (2001: Nil).

6. Income tax expense

Income tax expense in the consolidated income statement represents:

	<u>Six-month periods ended 30 June</u>	
	2002 RMB'000	2001 RMB'000
Provision for PRC income tax for the period	46,657	26,166
Deferred tax - origination of temporary differences	924	3,391
	<u>47,581</u>	<u>29,557</u>

The charge for PRC income tax is calculated at the rate of 15% (2001:15%) on the estimated assessable income of the period determined in accordance with relevant income tax rules and regulations. The Company did not carry on business overseas and in Hong Kong and therefore does not incur overseas and Hong Kong income taxes.

7. Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to shareholders for the period of RMB 208,609,000 (period ended 30 June 2001: RMB 159,809,000) and 7,200,000,000 (period ended 30 June 2001: 7,200,000,000) shares in issue during the period.

Diluted earnings per share is not presented as there were no dilutive potential ordinary shares in existence for both periods.

8. Trade accounts receivables

	At 30 June 2002 RMB'000	At 31 December 2001 RMB'000 (audited)
	Trade debtors	605,209
Less: Allowance for doubtful debts	(33,407)	(33,752)
	<u>571,802</u>	523,011
Bills receivable	507,912	340,265
Amounts due from parent company and fellow subsidiaries - trade	183,245	54,320
	<u>1,262,959</u>	<u>917,596</u>

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8. Trade accounts receivables *(continued)*

The ageing analysis of trade accounts receivables (net of allowance for doubtful debts) is as follows:

	At 30 June 2002 RMB'000	At 31 December 2001 RMB'000 (audited)
Invoice date:		
Within one year	1,167,428	856,564
Between one and two years	47,967	30,595
Between two and three years	22,950	13,114
Over three years	24,614	17,323
	1,262,959	917,596

Sales are generally on a cash basis. Subject to negotiation, credit is generally only available for major customers with well-established trading records.

9. Trade accounts payable

	At 30 June 2002 RMB'000	At 31 December 2001 RMB'000 (audited)
Trade creditors	857,262	935,551
Bills payable	1,094,008	795,377
Amounts due to parent company and fellow subsidiaries	825,729	591,412
	2,776,999	2,322,340

The ageing analysis of trade accounts payable is as follows:

	At 30 June 2002 RMB'000	At 31 December 2001 RMB'000 (audited)
Due within 1 month or on demand	1,839,084	1,959,114
Due after 1 month and within 3 months	937,915	363,226
	2,776,999	2,322,340

10. Reserve movement

Effective 1 January 2002, land use rights which are included in lease prepayments are carried at historical cost base. Accordingly, the surplus on the revaluation of land use rights net of deferred tax asset are reversed to shareholders' equity. The effect of this change did not have a material impact on the Group's financial condition and results of operations in the periods prior to the change. As such, certain comparative figures have been reclassified to conform with the current period's presentation. Under PRC Accounting Rules and Regulations, land use rights are carried at revalued amount.

No transfers have been made to the statutory surplus reserve, the statutory public welfare fund nor the discretionary surplus reserve from the income statement for the period (2001:Nil).

11. Related party transactions

- (a) Most of the transactions undertaken by the Group during the period ended 30 June 2002 have been effected with such counterparties and on such terms as determined by Sinopec Corp, the immediate parent company, and other relevant PRC authorities.

Sinopec Corp negotiates and agrees the terms of crude oil supply with suppliers on a group basis, which is then allocated among its subsidiaries, including the Group, on a discretionary basis. During the six-month period ended 30 June 2002, the value of crude oil purchased in accordance with Sinopec Corp's allocation was as follows:

	Six-month periods ended 30 June	
	2002	2001
	RMB'000	RMB'000
Purchases of crude oil	<u>4,978,349</u>	<u>5,808,928</u>

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11. Related party transactions *(continued)*

(b) Other transactions between the Group and other related parties during the six-month period ended 30 June 2002 were as follows:

	Six-month periods ended 30 June	
	2002	2001
	RMB'000	RMB'000
Sales	3,233,273	3,988,636
Purchases other than crude oil	209,884	-
Repairing charges	117,456	48,330
Insurance premiums paid	35,935	38,119
Net withdrawal from deposits with related parties	137,431	337,037
Interest received and receivable	268	4,045
Net loans obtained from related parties	400,000	-
Interest paid and payable	2,159	-
Transportation fees	4,039	2,000
Construction and installation fees	377,149	351,912
	3,777,149	5,765,089

(c) Time deposits with related parties

	At 30 June	At 31 December
	2002	2001
	RMB'000	RMB'000
		(audited)
Time deposits	66,744	204,175

(d) Loans with related parties

	At 30 June	At 31 December
	2002	2001
	RMB'000	RMB'000
		(audited)
Short-term loans	400,000	-

The Directors of the Company are of the opinion that the above transactions were entered into in the normal course of business and on normal commercial terms or in accordance with the agreements governing such transactions, and this has been confirmed by the non-executive Directors.

12. Capital commitments

The Group had capital commitments outstanding as at 30 June 2002 and 31 December 2001 not provided for in the financial report as follows :

	At 30 June 2002 RMB'000	At 31 December 2001 RMB'000 (audited)
<hr/>		
<u>Property, plant and equipment</u>		
Contracted but not provided for	3,260,750	4,631,866
Authorised by the Board but not contracted for	893,261	1,122,193
	<hr/> 4,154,011	5,754,059
<u>Investment</u>		
Contracted but not provided for	1,300,328	1,477,946
	<hr/> <u>5,454,339</u>	<hr/> <u>7,232,005</u>

13. Contingent liabilities

Contingent liabilities of the Group are as follows:

	At 30 June 2002 RMB'000	At 31 December 2001 RMB'000 (audited)
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Guarantees issued to banks in favour of:		
- associates	236,830	315,830
- joint ventures	63,491	119,766
	<hr/> <u>300,321</u>	<hr/> <u>435,596</u>

Guarantees issued to banks in favour of associates and joint ventures are given to the extent of the Company's respective interest in these entities.