

Interim Report 2002

Notes to the Interim Financial Report

1. Background of the Company

Sinopec Shanghai Petrochemical Company Limited (“the Company”), formerly Shanghai Petrochemical Company Limited, was established in the People’s Republic of China (“the PRC”) on 29 June 1993 as a joint stock limited company to hold the assets and liabilities of the production divisions and certain other units of the Shanghai Petrochemical Complex (“SPC”), a State-owned enterprise. SPC was under the direct supervision of China Petrochemical Corporation (“CPC”).

CPC finished its reorganisation on 25 February 2000. After the reorganisation, China Petroleum & Chemical Corporation (“Sinopec Corp”) was established. As a part of the reorganisation, CPC transferred its 4,000,000,000 of the Company’s stated owned legal shares, which represented 55.56 percent of the issued share capital of the Company, to Sinopec Corp. Sinopec Corp became the largest shareholder of the Company.

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

The Company is a highly integrated petrochemical complex which processes crude oil into synthetic fibres, resins and plastics, intermediate petrochemicals and petroleum products. Details of the Company’s principal subsidiaries are set out in Note 10(e) entitled “Long-term equity investment”.

2. Significant accounting policies

The significant accounting policies adopted in the preparation of the financial report are by reference to the “Accounting Standards for Business Enterprises”, and “Accounting Regulations for Business Enterprises”.

(a) Accounting year

The accounting year of the Group is from 1 January to 31 December.

(b) Basis of consolidation

The Group prepared the consolidated financial report according to Cai Kuai Zi [1995] No.11 “Temporary regulations on consolidated financial statements” issued by the MOF.

2. Significant accounting policies *(continued)*

(b) Basis of consolidation *(continued)*

Subsidiaries are those entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The consolidated income statement of the Company only includes the results of the subsidiaries during the period when such control effectively commences until the date that control effectively ceases. The effect of minority interests on equity and profit / loss attributable to minority interests are separately shown in the consolidated financial report.

Where the accounting policies adopted by the subsidiaries are different from the policies adopted by the Company, the financial statements of the subsidiaries have been adjusted in accordance with the accounting policies adopted by the Company on consolidation. All significant inter-company balances and transactions, and any unrealised gains arising from inter-company transactions, have been eliminated on consolidation. For those subsidiaries whose assets and results of operation are not significant and have no significant effect on the Group's consolidated financial report, the Company does not consolidate these subsidiaries, but includes in the long-term equity investments.

The Company's costs of investments in equity-holding subsidiaries and its share of their net asset values on acquisition are eliminated on consolidation. The equity investment differences arising from such elimination are debited or credited, as appropriate, to "equity investment differences" under long-term equity investments and are amortised on a straight-line basis over the specified period.

(c) Basis of accounting and principle of valuation

The Group's financial report are prepared on an accrual basis under the historical cost convention, unless otherwise stated.

(d) Translation of foreign currencies

The Group's accounting records are maintained in Renminbi. Transactions in foreign currencies are translated into Renminbi at the applicable exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated into Renminbi at rates quoted by the People's Bank of China at the balance sheet date. Foreign currency translation differences relating to funds borrowed to finance the construction of fixed assets to the extent that they are regarded as an adjustment to interest costs are capitalised during the construction period. All other exchange differences are dealt with in the income statement.

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2. Significant accounting policies *(continued)*

(e) Cash equivalents

Cash equivalents are short-term and highly liquid investments which are readily convertible into known amounts of cash and are subject to an insignificant risk of change in value, including time deposits with financial institutions with an initial term of less than three months.

(f) Provision for bad debt

Doubtful debts are accounted for based on allowance method which are estimated periodically. Trade accounts receivables showing signs of uncollectibility are identified individually and allowance is then made based on the probability of being uncollectible. In respect of trade accounts receivables showing no sign of uncollectibility, allowance is made with reference to the ageing analysis and management's estimation based on past experience. Allowances for other receivables are determined based on the nature and corresponding collectibility. Specific approval from management is required for allowances made in respect of significant doubtful receivables.

(g) Inventories

Inventories, other than spare parts and consumables, are carried at the lower of cost and net realisable value. Cost includes the cost of materials computed using the weighted average method and expenditure incurred in acquiring the inventories and bringing them to their existing location and condition. In the case of work in progress and finished goods, cost includes direct labour and an appropriate proportion of production overheads. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sales.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs.

Spare parts and consumables are stated at cost less any provision for obsolescence. Consumables are expensed when being consumed.

2. Significant accounting policies (continued)

(h) Long-term equity investments

The Group's investments in the associates and the Company's investments in subsidiaries, associates and the related investment income are accounted for in the long-term equity investment using the equity method. Equity investments difference is the difference between initial investment cost and the share of shareholders' funds of the investee companies, which is amortised on a straight-line basis and recognised in the investment income. The amortisation period is determined according to the investment period as stipulated in the relevant agreement or 10 years if not specified.

An associate is a company in which the Group holds, for long-term purposes, not less than 20% but not more than 50% of its voting power and exercises significant influence in its management.

Long-term investments in entities in which the Group does not hold more than 20% of their voting power or those in which the Group holds more than 20% of their voting power but does not exercise significant influence in their management are stated at cost less provision for impairment losses. Provision for impairment losses is made when there is a permanent diminution in the value of investment. Investment income is recognised when an investee company declares cash dividend or distributes profit.

(i) Fixed assets and construction in progress

Fixed assets and construction in progress are stated in the balance sheet at cost or revalued amount less accumulated depreciation and impairment losses. Valuation is carried out in accordance with the relevant rules and regulations in the PRC and fixed assets and construction in progress are adjusted to the revalued amounts accordingly.

All direct and indirect costs related to the purchase or construction of fixed assets, including interest charges and foreign exchange gains or losses on related borrowings during the construction period, are capitalised as construction in progress.

Construction in progress is transferred to fixed assets when the asset is substantially completed and ready for its intended use.

Depreciation is provided to write off the cost of fixed assets over their estimated useful lives on a straight-line basis, after taking into account their estimated residual values.

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2. Significant accounting policies (continued)

(i) Fixed assets and construction in progress (continued)

The respective estimated useful lives, residual values and annual depreciation rates on fixed assets are as follows:

	Useful life	Residual value	Depreciation rate
Land and buildings	15 to 35 years	3%-5%	2.1%-6.7%
Plant, machinery, equipment and others	5 to 14 years	3%	5.4%-24.3%

Construction in progress represents buildings, various plant and equipment under construction and pending installation, and is stated at cost less impairment losses. Cost comprises direct costs of construction as well as interest charges, and foreign exchange differences on related borrowed funds to the extent that they are regarded as an adjustment to interest charges, during the period of construction.

Capitalisation of these costs ceases and the construction in progress is transferred to fixed assets when the asset is substantially ready for its intended use.

No depreciation is provided in respect of construction in progress.

(j) Taxations

The principal taxes and the related rates are as follows:

(i) Income tax

Income tax is provided using the tax-effect accounting method. Income tax on the profit or loss for the period comprises current tax and deferred tax.

Current tax

Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantially enacted at the balance sheet date, and any adjustment to tax payable in respect of previous years.

2. Significant accounting policies (continued)

(j) Taxations (continued)

(i) Income tax (continued)

In accordance with the approval document dated 10 June 1993 issued by the State Administration for Taxation of the PRC, the income tax rate applicable to the Company is 15%, effective from the date of establishment of the Company. The subsidiaries are subject to income tax pursuant to the relevant PRC tax regulations.

Name of subsidiaries	Applicable tax rate	Reasons for granting concession
Shanghai Jindong Petrochemical Industrial Company Limited	15%	Preferential tax rate at Pudong new District
Shanghai Golden-Phillips Petrochemical Company Limited	27%	A Sino-foreign Joint-equity manufacturing enterprise in old urban district
Shanghai Jinhua Industrial Company Limited	15%	Preferential tax rate at Pudong new District
Shanghai Golden Way Petrochemical Company Limited	27%	A Sino-foreign Joint-equity manufacturing enterprise in old urban district

Deferred tax

Deferred tax is provided using the balance sheet liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes and the initial recognition of assets or liabilities that affect neither accounting nor taxable profit. The amount of deferred tax provided is based on the expected manner of realisation or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantially enacted at the balance sheet date.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profit will be available against which the unused tax losses and credits can be utilised. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

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2. Significant accounting policies (continued)

(j) Taxations (continued)

(ii) Value-added tax ("VAT")

The rate of VAT applicable to the Group is 17%.

(iii) Consumption tax

Pursuant to the relevant PRC tax regulations, the Group's sales of gasoline and diesel oil are subject to the consumption tax at a rate of RMB277.60 per tonne and RMB 117.60 per tonne respectively.

(k) Impairment loss

The carrying amounts of the Group's long-lived assets are reviewed periodically in order to assess whether the recoverable amounts have declined below the carrying amounts. These assets are tested for impairment whenever events or changes in circumstances indicate that their recorded 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. In determining the value in use, expected future cash flows generated by the assets are discounted to their present value. The amount of the reduction is recognised as an expense in the income statement.

The Group assesses at each balance sheet date whether there is any indication that impairment reversed if there has been a change in the estimates used to determine the recoverable amount. The reversal is recognised as income in the income statement.

(l) Deferred income

Deferred income is amortised to the income statement on a straight line basis over 10 years.

(m) Revenue recognition

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership have been transferred to the buyer, and no significant uncertainties remain regarding the derivation of associated costs or the possible return of goods.

Revenue from the rendering of services is recognised upon performance of the services.

Interest income from bank deposits is accrued on a time-apportioned basis on the outstanding principal and at the applicable rate.

2. Significant accounting policies *(continued)*

(n) Repairs and maintenance expenses

Repairs and maintenance expenses are charged to the income statement as and when they are incurred.

(o) Research and development costs

Research and development costs are charged to the income statement as and when they are incurred.

(p) Borrowing costs

Borrowing costs represent interest expenses and foreign exchange difference on loans. Borrowing costs are expensed in income statement in the period in which they are incurred, except to the extent that they are capitalised as being attributable to the construction of an asset which necessarily takes a period of time to get ready for its intended use.

(q) Retirement scheme costs

The contributions payable under the Group's retirement plans are charged to the income statement according to the contribution determined by the plans. Further information is set out in Note 31.

(r) Profit distribution

Profit distribution is made in accordance with the relevant rules and regulations set out in the Company Law of the PRC and the Articles of Association of the Company and its subsidiaries.

(s) Related parties

Parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals or other entities.

3. Scope of Consolidation

During the reporting period, there has been no change in the scope of consolidation.

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4. Cash at bank and in hand

Cash at bank and in hand as at 30 June 2002 is analysed as follows:

The Group				
	30 June 2002	Original currency '000	At 30 June 2002 RMB'000	At 31 December 2001 RMB'000 (audited)
Cash in hand				
Renminbi			451	306
Cash at bank				
Renminbi			1,480,430	1,187,825
Hong Kong Dollars	1.0606	33,590	35,627	20,186
United States Dollars	8.2771	4,117	34,071	44,485
Swiss Francs	5.5622	129	719	639
Japanese Yen	0.0689	10	1	959
Euro	8.1761	3,709	30,325	28,918
Cash at bank and in hand			1,581,624	1,283,318
Deposits at related party (Note 28(f))				
Renminbi			66,744	204,175
			1,648,368	1,487,493

The Company				
	30 June 2002	Original currency '000	At 30 June 2002 RMB'000	At 31 December 2001 RMB'000 (audited)
Cash in hand				
Renminbi			230	184
Cash at bank				
Renminbi			1,014,231	711,682
Hong Kong Dollars	1.0606	33,590	35,627	20,186
United States Dollars	8.2771	1,855	15,355	42,002
Swiss Francs	5.5622	129	719	639
Japanese Yen	0.0689	10	1	959
Euro	8.1761	3,709	30,325	28,918
Cash at bank and in hand			1,096,488	804,570
Deposits at related party (Note 28(f))				
Renminbi			59,956	203,794
			1,156,444	1,008,364

5. Bills receivable

Bills receivable are commercial and bank bills due in six months. As at 30 June 2002, there are no significant bills receivable at discount or pledged.

Except for the balances disclosed in Note 28(e), there is no amount due from major shareholders who held more than 5% shareholding included in the balance of bills receivable.

6. Trade debtors

	The Group							
	At 30 June 2002				At 31 December 2001			
	Amount	Proportion	Bad debt	Provision	Amount	Proportion	Bad debt	Provision
			provision	proportion			provision	proportion
RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	
				(audited)	(audited)	(audited)	(audited)	
Within 1 year	630,229	83.20	1,714	0.27	506,319	84.39	1,131	0.22
Between 1 and 2 years	48,552	6.41	585	1.20	31,759	5.29	1,164	3.67
Between 2 and 3 years	29,283	3.87	6,333	21.63	19,294	3.22	6,180	32.03
Over 3 years	49,389	6.52	24,775	50.16	42,600	7.10	25,277	59.34
	<u>757,453</u>	<u>100.00</u>	<u>33,407</u>	4.41	<u>599,972</u>	<u>100.00</u>	<u>33,752</u>	5.63
Trade debtors, net	<u>724,046</u>				<u>566,220</u>			

	The Company							
	At 30 June 2002				At 31 December 2001			
	Amount	Proportion	Bad debt	Provision	Amount	Proportion	Bad debt	Provision
			provision	proportion			provision	proportion
RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%	
				(audited)	(audited)	(audited)	(audited)	
Within 1 year	479,592	85.71	1,097	0.23	454,953	82.96	1,097	0.24
Between 1 and 2 years	30,302	5.42	1,107	3.65	23,293	4.25	1,107	4.75
Between 2 and 3 years	22,699	4.05	1,336	5.89	37,656	6.87	1,336	3.55
Over 3 years	26,970	4.82	23,285	86.34	32,489	5.92	23,285	71.67
	<u>559,563</u>	<u>100.00</u>	<u>26,825</u>	4.79	<u>548,391</u>	<u>100.00</u>	<u>26,825</u>	4.89
Trade debtors, net	<u>532,738</u>				<u>521,566</u>			

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6. Trade debtors (continued)

The five largest trade debtors at 30 June 2002 are shown below:

Name of entity	Reason for outstanding	Amount RMB'000	% of total trade debtors
Sinopec Huadong Sales Company	Not due for repayment	104,897	13.85
China Petroleum & Chemical Corporation Shanghai Gaoqiao Branch	Not due for repayment	15,367	2.03
Zhejiang Chaotong Science and Technology Company Limited	Not due for repayment	8,944	1.18
Jixiong(Zhangjiagang) Synthetic Fibre Company Limited	Not due for repayment	8,595	1.13
Jiangyin City Changshou Filter Tip Materials Company Limited	Not due for repayment	7,385	0.97

Except for balances disclosed in Note 28(e), there is no amount due from major shareholders who held more than 5% shareholding included in the balance of trade debtors.

7. Other debtors

	The Group							
	At 30 June 2002				At 31 December 2001			
	Amount	Proportion	Bad debt provision	Provision proportion	Amount	Proportion	Bad debt provision	Provision proportion
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
					(audited)	(audited)	(audited)	(audited)
Within 1 year	460,851	61.40	-	-	651,167	71.52	-	-
Between 1 and 2 years	98,762	13.16	-	-	72,053	7.91	-	-
Between 2 and 3 years	72,351	9.64	16	0.02	68,235	7.49	16	0.02
Over 3 years	118,578	15.80	3,923	3.31	119,059	13.08	3,711	3.12
	<u>750,542</u>	<u>100.00</u>	<u>3,939</u>	<u>0.52</u>	<u>910,514</u>	<u>100.00</u>	<u>3,727</u>	<u>0.41</u>
Other debtors, net	<u>746,603</u>				<u>906,787</u>			

7. Other debtors (continued)

The Company								
	At 30 June 2002				At 31 December 2001			
	Amount	Proportion	Bad debt provision	Provision proportion	Amount	Proportion	Bad debt provision	Provision proportion
	RMB'000	%	RMB'000	%	RMB'000	%	RMB'000	%
					(audited)	(audited)	(audited)	(audited)
Within 1 year	588,598	70.89	-	-	444,629	66.62	-	-
Between 1 and 2 years	78,373	9.44	-	-	71,609	10.73	-	-
Between 2 and 3 years	44,517	5.36	-	-	43,961	6.59	-	-
Over 3 years	118,838	14.31	1,200	1.01	107,201	16.06	1,200	1.12
	<u>830,326</u>	<u>100.00</u>	<u>1,200</u>	<u>0.14</u>	<u>667,400</u>	<u>100.00</u>	<u>1,200</u>	<u>0.18</u>
Other debtors, net	<u>829,126</u>				<u>666,200</u>			

The five largest other debtors at 30 June 2002 are shown below:

Name of entity	Reason for outstanding	Amount	% of total
		RMB'000	other debtors
Zhejiang Zhongzhe Real Estate Company	Expenses paid on behalf	82,975	11.06
Wanguo Real Estate Company	Deposits for purchase of property	47,326	6.31
Jiangpan Renjia Real Estate Company	Expenses paid on behalf	37,200	4.96
Zhejiang Jinzhe Jiulong Petrochemical Company	Expenses paid on behalf	28,403	3.78
Shanghai Jinshan Construction Company	Prepayment for construction	20,143	2.68

There is no amount due from major shareholders who held more than 5% shareholding included in the balance of other debtors.

8. Advance payments

All advance payments are within one year.

Except for the balances disclosed in Note 28(e), there is no amount due from major shareholders who held more than 5% shareholding included in the balance of advance payments.

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9. Inventories

	The Group				The Company			
	At 30 June 2002		At 31 December 2001		At 30 June 2002		At 31 December 2001	
	Provision for diminution in Amount inventories		Provision for diminution in Amount inventories		Provision for diminution in Amount inventories		Provision for diminution in Amount inventories	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
			(audited)	(audited)			(audited)	(audited)
Raw materials	1,032,356	-	753,083	-	987,892	-	634,571	-
Work in progress	997,557	-	890,518	-	876,081	-	794,553	-
Finished goods	555,333	12,955	581,197	8,612	382,245	7,735	326,686	2,072
Spare parts and consumables	560,327	16,347	551,723	14,699	521,499	16,347	515,805	12,478
Total	<u>3,145,573</u>	<u>29,302</u>	<u>2,776,521</u>	<u>23,311</u>	<u>2,767,717</u>	<u>24,082</u>	<u>2,271,615</u>	<u>14,550</u>
Inventories, net	<u>3,116,271</u>		<u>2,753,210</u>		<u>2,743,635</u>		<u>2,257,065</u>	

Provision for diminution in inventories is analysed as follows:

	The Group				The Company			
	At 30 June 2002		At 31 December 2001		At 30 June 2002		At 31 December 2001	
	Spare parts Finished and goods consumables		Spare parts Finished and goods consumables		Spare parts Finished and goods consumables		Spare parts Finished and goods consumables	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
			(audited)	(audited)			(audited)	(audited)
At 1 January	8,612	14,699	1,637	18,080	2,072	12,478	1,637	14,509
Additions	6,603	3,869	6,975	-	6,603	3,869	435	-
Provision								
-written back	(2,070)	-	-	-	(940)	-	-	-
-written off	(190)	(2,221)	-	(3,381)	-	-	-	(2,031)
At 30 June / 31 December	<u>12,955</u>	<u>16,347</u>	<u>8,612</u>	<u>14,699</u>	<u>7,735</u>	<u>16,347</u>	<u>2,072</u>	<u>12,478</u>