

Notes to the Unaudited Interim Financial Statements

1. Principal activities and basis of preparation

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

These interim financial statements are unaudited, but have 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 19.

The interim financial statements have 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 Standard 34 “Interim Financial Reporting” adopted by the International Accounting Standards Board (“IASB”).

The financial information relating to the financial year ended 31 December 2002 included in the interim financial statements do not constitute the Company’s statutory financial statements for that financial year but is derived from those financial statements. The Company’s statutory financial statements for the year ended 31 December 2002 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 26 March 2003.

The accounting policies have been consistently applied by the Group and are consistent with those adopted in the 2002 annual financial statements. The 2002 annual financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) promulgated by the IASB. IFRS includes International Accounting Standards (“IAS”) and related interpretations.

2. Scope of consolidation

In the first half of 2003, the Group disposed its 58.43% shareholding in a subsidiary, Zhejiang Jinzhe Petrochemical Associated Company Limited (“Jinzhe”). Accordingly, Jinzhe’s assets as at 30 June 2003 and the results for the period then ended were not included in the Group’s consolidated financial statements. Except for the above, there have been no other changes in the scope of consolidation.

3. Segment reporting

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

	Six-month periods ended 30 June	
	2003	2002
	RMB'000	RMB'000
Turnover		
Manufactured products		
<i>Synthetic fibres</i>		
External sales	1,904,874	1,648,124
Intersegment sales	478	5,609
Total	1,905,352	1,653,733
<i>Resins and plastics</i>		
External sales	4,158,411	2,696,553
Intersegment sales	14,028	11,519
Total	4,172,439	2,708,072
<i>Intermediate petrochemicals</i>		
External sales	1,950,095	1,164,200
Intersegment sales	3,847,506	2,462,505
Total	5,797,601	3,626,705
<i>Petroleum products</i>		
External sales	5,240,592	3,477,123
Intersegment sales	377,199	297,615
Total	5,617,791	3,774,738
All others		
External sales	885,098	537,023
Intersegment sales	1,709,274	1,485,347
Total	2,594,372	2,022,370
Elimination of intersegment sales	(5,948,485)	(4,262,595)
Turnover	14,139,070	9,523,023

External sales include sales to other Sinopec Corp group companies.

3. Segment reporting (continued)

	<u>Six-month periods ended 30 June</u>	
	2003	2002
	RMB'000	RMB'000
Profit before tax		
Profit from operations		
Synthetic fibres	12,742	35,384
Resins and plastics	224,555	134,694
Intermediate petrochemicals	274,977	99,369
Petroleum products	237,218	100,710
All others	64,917	77,480
Total profit from operations	814,409	447,637
Share of losses of associates	(14,745)	(498)
Net financing costs	(201,614)	(173,428)
Profit before tax	598,050	273,711

4. Profit before tax

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

	<u>Six-month periods ended 30 June</u>	
	2003	2002
	RMB'000	RMB'000
Interest on bank loans and advances	226,082	264,029
Less: Amount capitalised as construction in progress	(10,619)	(84,877)
Interest expenses, net	215,463	179,152
Cost of inventories	12,850,409	8,631,230
Depreciation and amortisation	912,838	732,776
Amortisation of goodwill	6,724	6,724
Amortisation of deferred income	(6,184)	(7,411)
Loss on disposal of property, plant and equipment	2,529	44,364

5. Dividends

	<u>Six-month periods ended 30 June</u>	
	2003	2002
	RMB'000	RMB'000
Dividend approved during the period	<u>360,000</u>	<u>-</u>

Pursuant to the shareholders' approval at the Annual General Meeting on 18 June 2003, a final dividend of RMB 0.05 per share totalling RMB 360,000,000 (2001: RMB Nil) in respect of the year ended 31 December 2002 was declared.

The Board of Directors does not recommend the payment of an interim dividend for the period (2002: RMB Nil).

6. Taxation

Taxation in the consolidated income statement represents:

	<u>Six-month periods ended 30 June</u>	
	2003	2002
	RMB'000	RMB'000
Provision for PRC income tax for the period	100,524	46,657
Deferred tax - change in temporary differences	92	924
	<u>100,616</u>	<u>47,581</u>

The charge for PRC income tax is calculated at the rate of 15% (2002:15%) on the estimated assessable income of the period determined in accordance with relevant income tax rules and regulations. The Company did not carry out business overseas and in Hong Kong and therefore did not incur overseas and Hong Kong income taxes. The Company has not received notice from the Ministry of Finance that the 15% tax rate will continue to be applicable to the Company in 2003. As such, it is possible that the Company's tax rate will increase in 2003.

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 484,059,000 (period ended 30 June 2002: RMB 208,609,000) and 7,200,000,000 (period ended 30 June 2002: 7,200,000,000) shares in issue during the period.

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

8. Property, plant and equipment

	2003 RMB'000	2002 RMB'000 (audited)
<i>Cost</i>		
At 1 January	28,642,974	23,441,281
Additions	129,489	215,103
Transfer from construction in progress	1,109,250	5,394,691
Disposals	(104,717)	(408,101)
At 30 June / 31 December	29,776,996	28,642,974
<i>Accumulated depreciation</i>		
At 1 January	12,833,481	11,546,861
Charge for the period / year	904,730	1,585,823
Written back on disposals	(72,425)	(299,203)
At 30 June / 31 December	13,665,786	12,833,481
<i>Net book value</i>		
Balance at 30 June / 31 December	<u>16,111,210</u>	<u>15,809,493</u>

9. Trade accounts receivables

	At 30 June 2003 RMB'000	At 31 December 2002 RMB'000 (audited)
Trade debtors	481,470	467,465
Less: Allowance for doubtful debts	(57,129)	(43,339)
	424,341	424,126
Bills receivable	752,172	518,715
Amounts due from parent company and fellow subsidiaries-trade	168,712	151,635
	<u>1,345,225</u>	<u>1,094,476</u>

9. Trade accounts receivables(continued)

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

	At 30 June 2003 RMB'000	At 31 December 2002 RMB'000 (audited)
Invoice date:		
Within one year	1,297,739	1,046,017
Between one and two years	28,932	28,827
Between two and three years	11,629	8,664
Over three years	6,925	10,968
	<u>1,345,225</u>	<u>1,094,476</u>

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

10. Trade accounts payable

	At 30 June 2003 RMB'000	At 31 December 2002 RMB'000 (audited)
Trade creditors	867,246	858,398
Bills payable	758,976	800,068
Amounts due to parent company and fellow subsidiaries-trade	871,134	592,632
	<u>2,497,356</u>	<u>2,251,098</u>

The ageing analysis of trade accounts payable is as follows:

	At 30 June 2003 RMB'000	At 31 December 2002 RMB'000 (audited)
Due within 1 month or on demand	1,948,212	1,734,592
Due after 1 month and within 3 months	549,144	516,506
	<u>2,497,356</u>	<u>2,251,098</u>

11. Reserve movement

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 (period ended 30 June 2002:RMB Nil).

12. Related party transactions

- (a) Most of the transactions undertaken by the Group during the period ended 30 June 2003 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 2003, the value of crude oil purchased in accordance with Sinopec Corp's allocation was as follows:

	<u>Six-month periods ended 30 June</u>	
	2003	2002
	RMB'000	RMB'000
Purchases of crude oil	<u>7,845,725</u>	<u>4,978,349</u>

- (b) Other transactions between the Group and other related parties during the six-month period ended 30 June 2003 were as follows:

	<u>Six-month periods ended 30 June</u>	
	2003	2002
	RMB'000	RMB'000
Sales	4,872,132	3,233,273
Purchases other than crude oil	315,820	209,884
Repairing charges	59,605	117,456
Insurance premiums paid	44,821	35,935
Net withdrawal from deposits with related parties	165,562	137,431
Interest received and receivable	653	268
New loans obtained from related parties	25,000	400,000
Loans repaid to related parties	50,000	-
Interest paid and payable	3,472	2,159
Transportation fees	5,624	4,039
Construction and installation fees	<u>153,006</u>	<u>377,149</u>

12. Related party transactions (continued)

(c) Deposits with related parties

	At 30 June 2003 RMB'000	At 31 December 2002 RMB'000 (audited)
Deposits, with maturity within 3 months	<u>295,658</u>	<u>461,220</u>

(d) Loans with related parties

	At 30 June 2003 RMB'000	At 31 December 2002 RMB'000 (audited)
Short-term loans	<u>105,000</u>	<u>130,000</u>

The Board of Directors of the Company is 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.

13. Capital commitments

The Group had capital commitments outstanding as at 30 June 2003 and 31 December 2002 not provided for in the financial statements as follows :

	At 30 June 2003 RMB'000	At 31 December 2002 RMB'000 (audited)
Property, plant and equipment		
Contracted but not provided for	540,077	1,186,054
Authorised by the Board but not contracted for	618,000	418,000
	1,158,077	1,604,054
Investment		
Contracted but not provided for	1,140,126	1,272,558
	2,298,203	2,876,612

14. Contingent liabilities

Contingent liabilities of the Group are as follows:

	At 30 June 2003 RMB'000	At 31 December 2002 RMB'000 (audited)
Guarantees issued to banks in favour of:		
- associates	218,290	265,990
- other unlisted investment companies	81,442	79,442
	299,732	345,432

Guarantees issued to banks in favour of associates and other unlisted investment companies are given to the extent of the Group's respective interest in these entities.

The Group monitors the conditions that are subject to the guarantees to identify whether it is probable that a loss has occurred, and recognise any such losses under guarantees when those losses are estimable. At 30 June 2003, it is not probable that the Group will be required to make payments under the guarantees. Thus, no liability has been accrued for a loss related to the Group's obligation under the guarantee arrangements.