

## 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 state-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 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.

Details of the Company’s principal subsidiaries are set out in note 10(d) “Long-term equity investments”.

## 2. Change in accounting policy

The Group changed its accounting policy to conform with the revised “Accounting standard for Business Enterprises—Events Occurring After The Balance Sheet Date” (“the revised standard”). According to the original “Accounting Standard for Business Enterprises—Events Occurring After The Balance Sheet Date”, the appropriation of profit for the current period approved by the Board of Directors after the balance sheet date was an adjusting event. Pursuant to the revised standard (Cai Kuai [2003] No. 12) issued by the Ministry of Finance (“MOF”) on 14 April 2003, cash dividends for the current period declared and approved by the Board of Directors after the balance sheet date, but before the financial statements are authorised for issue, should be presented separately under shareholders’ equity on the balance sheet. The Group has adopted the revised standard to account for cash dividends retrospectively.

As a result of the above change in accounting policy, the Group’s opening balance of undistributed profits as at the beginning of the year 2003 has been increased by RMB 360,000,000. The cumulative effect of the change in accounting policy for prior years is set out below:

	Before adjustments	Adjustments	After adjustments
	RMB’000	RMB’000	RMB’000
Undistributed profits at 31 December 2002	940,452	360,000	1,300,452
Dividend payable at 31 December 2002	360,000	(360,000)	-

### 3. Significant accounting policies

The significant accounting policies adopted in the preparation of the financial statements are in conformity with the Accounting Standards for Business Enterprises and “Accounting Regulations for Business Enterprises” and other relevant regulations issued by the MOF.

#### (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 statements according to “Accounting Regulations for Business Enterprises” and Cai Kuai Zi [1995] No.11 “Provisional regulations on consolidated financial statements” issued by the MOF.

The consolidated financial statements include the financial statements of the Company and all of its principal subsidiaries. Subsidiaries are those entities held by the Company, directly or indirectly, over 50% of the equity interests (not including 50%), or less than 50% but the Company has the power to effectively control the entities. The consolidated income statement of the Company only includes the results of subsidiaries during the period when the Company holds, directly or indirectly, over 50% of the equity interests or the Company has effective control over the subsidiaries. The effect of minority interests on equity and profit/loss attributable to minority interests are separately shown in the consolidated financial statements. For those subsidiaries whose assets and results of operation are not significant and have no significant effect on the Group’s consolidated financial statements, the Company does not consolidate these subsidiaries, but includes in the long-term equity investments.

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.

#### (c) Basis of accounting and principle of valuation

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

#### (d) Reporting currency and translation of foreign currencies

The Group’s financial statements are prepared in Renminbi. Foreign currency transactions during the year are translated into Renminbi at exchange rates quoted by the People’s Bank of China (“PBOC rates”) prevailing at the transaction dates. Foreign currency monetary assets and liabilities are translated into Renminbi at the PBOC rates at the balance sheet date. Exchange differences, other than those arising from foreign currency loans using to finance the construction of fixed assets before they are ready for their intended use are capitalised, are recognised as income or expenses in the income statement.

### 3. 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.

#### (f) Provision for bad debt

Trade accounts receivable showing signs of uncollectibility are identified individually and allowance is then made based on the probability of being uncollectible. In respect of trade accounts receivable 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 stated at the lower of cost and net realisable value. Difference between the cost and net realisable value of each category of inventories is recognised as provision for diminution in value of Inventories. Cost of inventories includes the cost of purchase of raw materials, processing and other costs. Inventories are measured at their actual cost upon acquisition. The cost of inventories is calculated using the weighted average method. In addition to the purchase cost of raw material, work in progress and finished goods include 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 and related taxes necessary to make the sales.

Spare parts and consumables are expensed when being consumed.

Inventories are recorded by perpetual method.

#### (h) Long-term equity investments

The Group's investments in the associates and the Company's investments in subsidiaries and associates are accounted for in the long-term equity investment using the equity method. Equity method is to recognise the initial investment costs, subsequently adjusted in accordance with the share of shareholders' equity in respective investee companies. Equity investments difference, which is the difference between investment cost and the share of shareholders' funds of the investee companies is accounted for as follow:

Any excess of the initial investment cost over the share of shareholders' equity of the investee is amortised on a straight-line basis. The amortisation period is determined according to the investment period as stipulated in the relevant agreement, or 10 years if the investment period is not specified in the agreement. The amortisation is recognised as investment loss in the income statement in the relevant period.

### 3. Significant accounting policies (continued)

#### (h) Long-term equity investments (continued)

Any shortfall of the initial investment cost over the share of shareholders' equity of the investee is recognised in "capital reserve-reserve for equity investment". Such shortfall is amortised on a straight-line basis over 10 years if the investment was acquired before the issuance of Cai Kuai [2003] No. 10 "Questions and answers on implementing Accounting Regulations for Business Enterprises and related accounting standards (II)" on 7 April 2003.

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 equity interests and exercises significant influence in its management.

Long-term investments in entities in which the Group does not have control, joint control or does not exercise significant influence in their management are stated at cost. Investment income is recognised when an investee company declares cash dividend or distributes profit.

Disposals or transfers of long-term equity investments are recognised in the income statement based on the difference between the disposal proceeds and the carrying amount of the investments.

Long-term equity investments are valued at the lower of the carrying amount and the recoverable amount. A provision for impairment losses is made when the recoverable amount is lower than the carrying amount.

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

Fixed assets represent the assets held by the Group for production of products and administrative purpose with useful life over 1 year and comparatively high unit value.

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, incurred before the assets are ready for its intended use, are capitalised as construction in progress. Those costs included borrowing costs, which include foreign exchange gains or losses on specific borrowings for the construction of the fixed assets during the construction period.

Construction in progress is transferred to fixed assets when the asset is ready for its intended use. No depreciation is provided in respect of construction in progress.

## 3. Significant accounting policies (continued)

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

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.

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 40 years	3%-5%	2.4%-6.5%
Plant, machinery, equipment and others	5 to 26 years	3%-5%	3.7%-19.4%

### (j) Intangible assets

Intangible assets are carried in the balance sheet at cost or valuation less accumulated amortisation and provision for impairment losses. Amortisation is provided on a straight-line basis. Amortisation period is the shorter of the beneficial period as specified in the related agreement and the legal life of the intangible assets. Amortisation is provided over 10 years if it is not specified in agreements or stipulated by law.

### (k) Taxation

The principal taxes and the related rates are as follows:

#### (i) Income tax

Income tax is the provision for income tax recognised in the income statement for the period using the tax-effect accounting method. It comprises current and deferred tax.

#### Current tax

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

Pursuant to the relevant PRC tax regulations, the income tax rate applicable to the Company is 15% in 2003. The subsidiaries are subject to income tax pursuant to the relevant PRC tax regulations.

### 3. Significant accounting policies (continued)

#### (k) Taxation (continued)

The subsidiaries granted with tax concession are set out below:

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
Shanghai Jinchang Engineering Plastics Company Limited	27%	A Sino-foreign Joint-equity manufacturing enterprise in old urban district
SPC Marketing Development Corporation	15%	Preferential tax rate at Pudong new district

#### Deferred tax

Deferred tax is provided using the liability method, providing for timing differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following timing 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 realisation date. The effect on deferred tax of any changes in tax rates is charged to the income statement.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits 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.

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

The VAT rate 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 RMB277.6 per tonne and RMB117.6 per tonne respectively.

### 3. Significant accounting policies (continued)

#### (l) Impairment loss

The carrying amounts of the Group's long-lived assets, including long-term equity investments, fixed assets and construction in progress, 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 impairment loss is recognised as an expense in the income statement.

If there is any indication that impairment loss recognised for an asset in prior years may no longer exist or there has been a change in the estimates used to determine the recoverable amount by which the impairment loss is reduced, the impairment loss is reversed. The reversal is recognised as income in the period in the income statement. The reversed amount should not exceed its historical net value.

#### (m) Deferred income

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

#### (n) Revenue recognition

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership have been transferred to the buyer. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due, the possible return of goods, or when the amount of revenue and the costs incurred or to be incurred in respect of the transaction cannot be measured reliably.

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

Interest income is recognised on a time apportioned basis by reference to the principal outstanding and the rate applicable.

#### (o) Repairs and maintenance expenses

Repairs and maintenance expenses are recognised as expenses in the period in which they are incurred.

#### (p) Research and development costs

Research and development costs are recognised as expenses in the period in which they are incurred.

#### (q) Borrowing cost

Borrowing costs incurred on specific borrowings for the construction of fixed assets are capitalised into the cost of the fixed assets during the construction period which brings the assets to their intended uses.

Except for the above, other borrowing costs are recognised as financial expenses in the income statement when incurred.

## (r) 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.

## (s) 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.

## (t) Dividends

Dividends appropriated to shareholders are recognised in the profit appropriation statement when approved. Dividends proposed or approved after the balance sheet date but before the date on which the financial statements are authorised for issue are separately disclosed under shareholders' equity on the balance sheet.

## (u) 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 entities.

## 4. Cash at bank and in hand

The Group's and the Company's cash at bank and in hand as at 31 December are analysed as follows:

	2003 Exchange rate	The Group			The Company		
		Original currency	2003	2002	Original currency	2003	2002
		'000	RMB'000	RMB'000	'000	RMB'000	RMB'000
Cash in hand							
Renminbi		247	177	83	59		
Cash at bank							
Renminbi		1,648,950	1,204,039	1,137,368	704,506		
Hong Kong Dollars	1.0657	34,366	25,325	34,366	36,624	25,325	
United States Dollars	8.2767	6,730	21,075	22	182	8,095	
Swiss Francs	6.6678	129	771	129	861	771	
Euro	10.4036	-	32,019	-	-	32,019	
Cash at bank and in hand		1,742,382	1,283,406	1,175,118	770,775		
Deposits at related party (note 30(f))							
Renminbi		263,854	461,220	260,617	456,500		
		2,006,236	1,744,626	1,435,735	1,227,275		

Deposits at related party represent bank deposits placed at Sinopec Finance Company Limited. Deposits interest is calculated at market rate.



## Notes to the Financial Statements (continued)

(Prepared under PRC Accounting Rules and Regulations)

### 5. Bills receivable

	The Group		The Company	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
Bank bills	1,299,413	526,070	1,184,617	524,639
Commercial bills	33,680	17,600	19,034	10,200
<b>Total</b>	<b>1,333,093</b>	<b>543,670</b>	<b>1,203,651</b>	<b>534,839</b>

Bills receivable are due in six months. As at 31 December 2003, there are no significant bills receivable at discount or pledged.

Except for the balances disclosed in note 30(e), there is no amount due from major shareholders who held 5% or more shareholding included in the above balance.

### 6. Trade debtors

	The Group							
	2003				2002			
	Amount RMB'000	Proportion %	Bad debt provision RMB'000	Provision proportion %	Amount RMB'000	Proportion %	Bad debt provision RMB'000	Provision proportion %
Within one year	564,640	88.60	1,404	0.25	471,583	83.88	1,155	0.24
Between one and two years	34,664	5.44	6,607	19.06	30,853	5.49	2,026	6.57
Between two and three years	15,838	2.48	12,831	81.01	24,343	4.33	15,679	64.41
Over three years	22,177	3.48	18,969	85.53	35,447	6.30	24,479	69.06
	637,319	100.00	39,811		562,226	100.00	43,339	
Trade debtors, net	597,508				518,887			

	The Company							
	2003				2002			
	Amount RMB'000	Proportion %	Bad debt provision RMB'000	Provision proportion %	Amount RMB'000	Proportion %	Bad debt provision RMB'000	Provision proportion %
Within one year	461,433	89.54	1,196	0.26	471,869	88.68	1,022	0.22
Between one and two years	25,355	4.92	6,352	25.05	25,749	4.84	1,851	7.19
Between two and three years	13,560	2.63	11,736	86.55	7,994	1.50	1,733	21.68
Over three years	15,020	2.91	13,807	91.92	26,508	4.98	21,465	80.98
	515,368	100.00	33,091		532,120	100.00	26,071	
Trade debtors, net	482,277				506,049			

## 6. Trade debtors (continued)

	The Group		The Company	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
<b>Bad debt provision</b>				
Balance at the beginning of the year	43,339	33,752	26,071	26,825
Provision for the year	33,644	17,041	26,393	6,195
Written off	(37,172)	(7,454)	(19,373)	(6,949)
Balance at the end of the year	39,811	43,339	33,091	26,071

The aggregate amount and proportion of the five largest trade debtors at 31 December 2003 are shown below:

	2003 RMB'000	2002 RMB'000
Amount	170,926	120,086
Percentage of total trade debtors	26.82%	21.36%

Except for balances disclosed in Note 30 (e), there is no amount due from major shareholders who held 5% or more shareholding included in the above balance.

During the year, the Group and the Company had no individually significant write off or write back of doubtful debts which had been fully or substantially provided for in prior years. At 31 December 2003, the Group and the Company did not have individually significant trade debtors that aged over three years.

## 7. Other debtors

	The Group							
	2003				2002			
	Amount RMB'000	Proportion %	Bad debt provision RMB'000	Provision proportion %	Amount RMB'000	Proportion %	Bad debt provision RMB'000	Provision proportion %
Within one year	330,241	80.91	602	0.18	405,466	69.78	1,183	0.29
Between one and two years	27,261	6.68	684	2.51	50,342	8.67	1,135	2.25
Between two and three years	11,979	2.93	772	6.44	14,627	2.52	2,016	13.78
Over three years	38,673	9.48	4,618	11.94	110,543	19.03	18,908	17.10
Total	408,154	100.00	6,676		580,978	100.00	23,242	
Other debtors, net	401,478				557,736			

## Notes to the Financial Statements (continued)

(Prepared under PRC Accounting Rules and Regulations)

### 7. Other debtors (continued)

	The Company							
	2003				2002			
	Amount RMB'000	Proportion %	Bad debt provision RMB'000	Provision proportion %	Amount RMB'000	Proportion %	Bad debt provision RMB'000	Provision proportion %
Within one year	262,882	83.71	536	0.20	302,563	66.67	1,097	0.36
Between one and two years	12,092	3.85	335	2.77	35,515	7.83	1,107	3.12
Between two and three years	7,615	2.42	436	5.73	11,606	2.56	1,336	11.51
Over three years	31,459	10.02	3,048	9.69	104,069	22.94	16,590	15.94
Total	314,048	100.00	4,355		453,753	100.00	20,130	
Other debtors, net	309,693				433,623			

#### Bad debt provision

	The Group		The Company	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
Balance at the beginning of the year	23,242	3,727	20,130	1,200
Additions for the year	8,852	19,515	4,355	18,930
Provision writren off	(25,418)	-	(20,130)	-
Balance at the end of the year	6,676	23,242	4,355	20,130

The aggregate amount and proportion of the five largest other debtors at 31 December 2003 are shown below:

	2003 RMB'000	2002 RMB'000
Amount	72,737	109,418
Percentage of total other debtors	17.82%	18.83%

Except for balances disclosed in Note 30(e), there is no amount due from major shareholders who held 5% or more shareholding included in the above balance.

During the year, the Group and the Company had no individually significant write off or write back of doubtful debts which have been fully or substantially provided for in prior years. At 31 December 2003, the Group and the Company did not have individually significant other debtors that aged over three years.

### 8. Advance payments

All advance payments are within one year.

Except for the balances disclosed in Note 30(e), there is no amount due from major shareholders who held 5% or more shareholding included in the balance of advance payments.

## Notes to the Financial Statements (continued)

(Prepared under PRC Accounting Rules and Regulations)

### 9. Inventories

	The Group				The Company			
	2003		2002		2003		2002	
	Provision for diminution in		Provision for diminution in		Provision for diminution in		Provision for diminution in	
	Amount	value	Amount	value	Amount	value	Amount	value
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Raw materials	1,226,324	-	1,024,755	-	1,087,783	-	961,370	-
Work in progress	1,188,187	-	1,077,202	-	1,047,292	-	971,023	-
Finished goods	612,430	3,897	666,513	9,048	471,260	1,415	499,082	5,518
Spare parts and consumables	517,442	64,614	531,673	17,624	447,997	62,385	459,535	16,313
<b>Total</b>	<b>3,544,383</b>	<b>68,511</b>	<b>3,300,143</b>	<b>26,672</b>	<b>3,054,332</b>	<b>63,800</b>	<b>2,891,010</b>	<b>21,831</b>
Inventories, net	3,475,872		3,273,471		2,990,532		2,869,179	

Provision for diminution in value of inventories is analysed as follows:

	The Group				The Company			
	2003		2002		2003		2002	
	Spare parts		Spare parts		Spare parts		Spare parts	
	Finished goods	and consumables	Finished goods	and consumables	Finished goods	and consumables	Finished goods	and consumables
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January	9,048	17,624	8,612	14,699	5,518	16,313	2,072	12,478
Additions	1,415	48,145	4,668	5,146	1,415	47,227	3,579	3,835
Provision written back	(6,566)	(1,155)	(4,232)	(2,221)	(5,518)	(1,155)	(133)	-
<b>At 31 December</b>	<b>3,897</b>	<b>64,614</b>	<b>9,048</b>	<b>17,624</b>	<b>1,415</b>	<b>62,385</b>	<b>5,518</b>	<b>16,313</b>

All inventories were acquired through purchase or production.

	The Group		The Company	
	2003	2002	2003	2002
	RMB'000	RMB'000	RMB'000	RMB'000
Cost of inventories recognised as cost and expense:	25,242,197	18,743,107	24,167,489	17,732,686

## Notes to the Financial Statements (continued)

(Prepared under PRC Accounting Rules and Regulations)

### 10. Long-term equity investments

	<b>The Group</b>					<b>Total</b>
	Interests in	Equity	Interests in	Other	Provision	
	associates	investment	non-consolidated	unlisted	for impairment	
	(Note(a))	differences	subsidiaries	investments	losses	
	(Note(b))	(Note(c))	(Note(e))	(Note(f))		
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
Balance at 1 January 2003	1,350,159	(306,524)	287,740	456,415	(9,658)	1,778,132
Additions for the year	413,852	-	19,691	29,065	-	462,608
Share of profits less losses from investments accounted for under the equity method	(5,335)	-	-	-	-	(5,335)
Dividend receivable	(7,669)	-	-	-	-	(7,669)
Disposals for the year	(59,867)	12,277	(19,201)	(59,086)	-	(125,877)
Amortisation for the year	-	10,849	-	-	-	10,849
Change in provision	-	-	-	-	(22,130)	(22,130)
Balance at 31 December 2003	1,691,140	(283,398)	288,230	426,394	(31,788)	2,090,578

	<b>The Company</b>				<b>Total</b>
	Interests in	Equity	Interests in	Other	
	associates	investment	consolidated	unlisted	
	(Note(a))	differences	subsidiaries	investments	
	(Note(b))	(Note(d))	(Note(e))		
	RMB'000	RMB'000	RMB'000	RMB'000	
Balance at 1 January 2003	1,144,710	(306,524)	1,917,989	164,024	2,920,199
Additions for the year	413,852	-	2,500	362	416,714
Share of profits less losses from investments accounted for under the equity method	11,478	-	84,830	-	96,308
Dividend receivable	-	-	(76,846)	-	(76,846)
Disposals for the year	-	12,277	-	-	12,277
Amortisation for the year	-	10,849	-	-	10,849
Balance at 31 December 2003	1,570,040	(283,398)	1,928,473	164,386	3,379,501

## 10. Long-term equity investments (continued)

- (a) The particulars of the associates, which are limited companies established and operating in the PRC, which principally affected the results or assets of the Group at 31 December 2003 are as follows:

Company	Registered capital '000	Percentage of equity		Principal activities
		held by the Company %	held by subsidiaries %	
Shanghai Jinsen Hydrocarbon Resins Company Limited	US\$14,695	-	40	Production of resins products
Shanghai Jinpu Plastics Packaging Material Company Limited	US\$20,204	-	50	Production of polypropylene film
Shanghai YaNan Electrical Appliances Company	RMB5,420	-	44	Trading of electrical appliances
XinLian Special Sealings Company	RMB5,000	-	33	Production of special sealing material
Shanghai Secco Petrochemical Company Limited	US\$901,441	20	-	Manufacturing and distribution of chemical products
Shanghai Chemical Industry Park Development Company Limited	RMB2,372,439	38.26	-	Planning, development and operation of the Chemical Industry Park in Shanghai, PRC

- (b) Equity investment difference

Investments	Initial investment	Amortisation period	1 January 2003	Amortisation during the year	Disposal during the year	31 December 2003	Reason
	RMB'000		RMB'000	RMB'000	RMB'000	RMB'000	
Shanghai Chemical Industry Park Development Co., Ltd	300,000	30years	290,000	(10,000)	-	280,000	Investment in associates
Shanghai Jindong Petrochemical Industrial Company Limited	8,492	10years	4,247	(849)	-	3,398	Investment in subsidiary
ZheJiang Jinzhe Petrochemical Associated Company Limited	24,552	10years	12,277	-	(12,277)	-	Investment in subsidiary
	333,044		306,524	(10,849)	(12,277)	283,398	

The "equity investment difference" is amortised on a straight-line basis over 10 and 30 years. The remaining period of amortisation is 4 to 28 years.

- (c) Interests in non-consolidated subsidiaries represent the Company's interests in these subsidiaries which do not principally affect the results or assets of the Group and, therefore, are not consolidated. These interests are accounted for under cost method.

## 10. Long-term equity investments (continued)

- (d) The particulars of subsidiaries, all of which are limited companies established and operating in the PRC which principally affected the results or assets of the Group, at 31 December 2003 are as follows:

Company	Registered capital '000	Percentage of equity		Principal activities
		held by the Company %	held by subsidiaries %	
Shanghai Petrochemical Investment Development Company Limited	RMB 800,000	100	-	Investment management
SPC Marketing Development Corporation	RMB 25,000	100	-	Trading in petrochemical products
China Jinshan Associated Trading Corporation	RMB 25,000	80	-	Import and export of petrochemical products and equipment
Shanghai Jinhua Industrial Company Limited	RMB 25,500	-	81.46	Trading in petrochemical products
Shanghai Jindong Petrochemical Industrial Company Limited	RMB 40,000	-	60	Trading in petrochemical products
Shanghai Golden Way Petrochemical Company Limited	US\$ 3,460	-	75	Production of vinyl acetate products
Shanghai Jinchang Engineering Plastics Company Limited	US\$ 4,750	-	50.38	Production of polypropylene products
Shanghai Golden-Phillips Petrochemical Company Limited	US\$ 50,000	-	60	Production of polyethylene products
Zhejiang Jin Yong Acrylic Fibre Company Limited	RMB 250,000	75	-	Production of acrylic fibre products
Shanghai Petrochemical Enterprise Development Company Limited	RMB 455,000	100	-	Investment management
Shanghai Golden Conti Petrochemical Company Limited (Note 1)	RMB 295,776	-	100	Production of Petrochemical products

None of these subsidiaries has issued any debt securities.

Note:

- (i) As at 1 December 2003, the Group acquired an additional 52% shareholding in Shanghai Golden Conti Petrochemical Company Limited ("Golden Conti"). Following the acquisition, Golden Conti became a wholly owned subsidiary of the Group and was included in the Group's consolidated financial statements.
- (ii) On 1 January 2003, the Group disposed its 58.43% shareholding in a subsidiary, Zhejiang Jinzhe Petrochemical Associate Company Limited ("Jinzhe"). Effectively, the control of the Group over Jinzhe ceased and was transferred. Accordingly, the results for the current year and net assets as at year end date of Jinzhe were not included in the consolidated financial statements. The assets and liabilities of Jinzhe were not material to the Group's financial position and operating results.

## 10. Long-term equity investments (continued)

(e) The Group's other unlisted investments include non-controlling equity investments in various enterprises which are mainly engaged in manufacturing or trading activities related to the Group's operations. The Group's share of results attributable to these interests during the year ended 31 December 2003 is not material in relation to the profit of the Group for the said period and therefore is not equity accounted for.

(f) Provision for impairment losses is analysed as follows:

	The Group	
	2003 RMB'000	2002 RMB'000
Balance at 1 January	9,658	4,768
Provision for the year	25,430	8,998
Written back for the year	(3,300)	(4,108)
Balance at 31 December	31,788	9,658

The recoverable amount of certain individual long-term equity investments were considered lower than their carrying amount. As a result, the management of the Company has made provision for impairment losses of RMB 25,430,000 during the year.

(g) Major investment changes

At 31 December 2003, details of principal equity investment changes of the Group are as follows:

Name of investee	Investment terms	Percentage of equity interest held by the Group	Balance at 1 January 2003	Addition for the year	Share of profits/ (losses) accounted for under the equity method	Amortisation of equity investment differences	Dividends received	Balance at
								31 December 2003
			RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Shanghai Chemical Industry Park Development Company Limited	30 years	38%	630,878	-	11,478	10,000	-	652,356
Shanghai Secco Petrochemical Company Limited	50 years	20%	223,832	413,852	-	-	-	637,684
Shanghai Jinpu Plastics Packaging Material Company Limited	30 years	50%	114,000	-	(3,500)	-	(7,500)	103,000
Hangzhou Real Estate Company	30 years	84%	126,700	-	-	-	-	126,700



## 10. Long-term equity investments (continued)

(g) Major investment changes (continued)

No provision for impairment losses was made for the long-term equity investments as set out above.

The above non-consolidated subsidiaries, which the Group has over 50% equity interest are not consolidated as their assets and results of operation have no significant effect on the Group.

(h) At 31 December 2003, the Group's proportion of the total investments to the net assets was 13.48% (2002: 12.28%).

## 11. Fixed assets

(a) The Group

	Land and buildings RMB'000	Plant, machinery, equipment and other fixed assets RMB'000	Total RMB'000
<b>Cost or valuation:</b>			
At 1 January 2003	5,610,313	24,245,193	29,855,506
Additions	15,115	210,117	225,232
Transferred from construction in progress (Note 13)	91,214	1,478,595	1,569,809
Acquisition of subsidiaries	292,882	224,857	517,739
Disposals	(37,506)	(390,352)	(427,858)
At 31 December 2003	5,972,018	25,768,410	31,740,428
<b>Accumulated depreciation:</b>			
At 1 January 2003	2,502,216	10,489,009	12,991,225
Charge for the year	214,673	1,684,014	1,898,687
Acquisition of subsidiaries	59,972	44,485	104,457
Written back on disposals	(15,599)	(295,658)	(311,257)
At 31 December 2003	2,761,262	11,921,850	14,683,112
<b>Provision for impairment losses:</b>			
At 1 January 2003	-	-	-
Charge for the year	-	24,600	24,600
At 31 December 2003	-	24,600	24,600
<b>Net book value:</b>			
At 31 December 2003	3,210,756	13,821,960	17,032,716
At 31 December 2002	3,108,097	13,756,184	16,864,281

## 11. Fixed assets (continued)

### (b) The Company

	Land and buildings RMB'000	Plant, machinery, equipment and other fixed assets RMB'000	Total RMB'000
<b>Cost or valuation:</b>			
At 1 January 2003	4,761,338	21,798,426	26,559,764
Additions	8,449	164,965	173,414
Transferred from construction in progress (Note 13)	77,260	1,435,012	1,512,272
Disposals	(4,809)	(334,357)	(339,166)
At 31 December 2003	4,842,238	23,064,046	27,906,284
<b>Accumulated depreciation:</b>			
At 1 January 2003	2,275,245	9,367,553	11,642,798
Charge for the year	181,473	1,514,373	1,695,846
Written back on disposals	(3,065)	(252,096)	(255,161)
At 31 December 2003	2,453,653	10,629,830	13,083,483
<b>Provision for impairment losses:</b>			
At 1 January 2003	–	–	–
Charge for the year	–	24,600	24,600
At 31 December 2003	–	24,600	24,600
<b>Net book value:</b>			
At 31 December 2003	2,388,585	12,409,616	14,798,201
At 31 December 2002	2,486,093	12,430,873	14,916,966

All of the Group's buildings are located in the PRC (including Hong Kong).

- (c) Due to change in market demand, the product specifications and economic efficiency of the production facility of tyre cord cannot meet the market development. During 2003, the management of the Company has made a provision for impairment loss of RMB24,600,000 for this production facility.
- (d) At 31 December 2003, the cost of the Group's fully depreciated fixed assets was RMB3,529,747,000 (2002: RMB2,487,759,000).
- (e) At 31 December 2003, the net book values of fixed assets that were pledged by the Group are RMB 414,342,000 (2002: Nil).

## Notes to the Financial Statements (continued)

(Prepared under PRC Accounting Rules and Regulations)

### 12. Construction materials

	The Group		The Company	
	2003	2002	2003	2002
	RMB'000	RMB'000	RMB'000	RMB'000
Equipment & accessories	28,387	19,667	27,810	19,667

### 13. Construction in progress

	The Group		The Company	
	2003	2002	2003	2002
	RMB'000	RMB'000	RMB'000	RMB'000
Balance at 1 January	890,051	4,276,591	847,121	4,238,739
Additions	1,054,538	2,283,573	1,016,631	2,036,050
of which:				
Capitalised interest costs	3,502	95,006	3,502	91,353
Transferred to fixed assets (Note 11)	1,944,589 (1,569,809)	6,560,164 (5,670,113)	1,863,752 (1,512,272)	6,274,789 (5,427,668)
Balance at 31 December	374,780	890,051	351,480	847,121

At 31 December 2003, major projects of the Group are as follows:

Project	Budgeted amounts	At 1 January 2003	Addition	Transfer to fixed assets	At 31	Stage of completion	Interest capitalised
					December 2003		during the year
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
150,000 tonne/ annum polyester project	119,900	-	11,119	-	11,119	9%	-
Torch gas recovery programme	50,000	-	44,594	(13,100)	31,494	89%	-
75KR/HRPP Development system for PP high performance catalyst and engineering plastics	49,500	40,925	1,268	(22,876)	19,317	85%	-

**13. Construction in progress** (continued)

Interest capitalised is as follows:

	The Group	The Company
	RMB'000	RMB'000
At 1 January 2003	32,378	28,725
Additions	3,502	3,502
Transferred to fixed assets	(30,670)	(27,017)
At 31 December 2003	5,210	5,210
Interest rate	4.78%-5.31%	4.78%-5.31%

**14. Intangible assets**

	The Group and the Company	
	2003	2002
	RMB'000	RMB'000
Cost:		
At 1 January	134,482	-
Transferred from long-term investments	-	134,482
At 31 December	134,482	134,482
Accumulated amortisation:		
At 1 January	85,171	-
Transferred from long-term investments	13,448	85,171
At 31 December	98,619	85,171
Net book value:		
At 31 December	35,863	49,311

On 16 August 1996, the Company acquired the equity interest in Shanghai Jinyang Acrylic Fibre Plant ("Jinyang") for consideration of RMB 38,800,000 satisfied in cash. Equity investment difference of RMB 134,482,000 on acquisition has been recognised in the accounts. Such equity investment difference is amortised over 10 years which was the then remaining economic useful life of the related plants of the subsidiary.

In 2002, Jinyang was deregistered and all its operations, assets and liabilities were transferred to the Company of carrying value. Accordingly, Jinyang has changed from a wholly owned subsidiary to a division of the Company. Since there is no investment in subsidiary after the deregistration of Jinyang, the unamortised amount of the equity investment difference was transferred to intangible assets and will be amortised over its remaining useful life.

## Notes to the Financial Statements (continued)

(Prepared under PRC Accounting Rules and Regulations)

### 15. Taxation

(a) Taxation in the income statement represents:

	The Group		The Company	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
Provision for PRC income tax for the year	229,921	155,874	201,542	125,583
Deferred taxation	9,682	(6,375)	9,682	(6,375)
	239,603	149,499	211,224	119,208
Tax refund	(92,167)	(66,405)	(92,167)	(66,405)
	147,436	83,094	119,057	52,803

The charge for PRC income tax is calculated at the rate of 15% (2002: 15%) on the estimated assessable profits of the year determined in accordance with relevant income tax rules and regulations. The Group did not carry on business in overseas and Hong Kong and therefore no provision has been made for overseas and Hong Kong income tax.

The Company has not received notice from the MOF that the 15% tax rate will continue to be applicable to the Company in 2004. As such, it is possible that the Company's tax rate will increase in 2004.

Pursuant to the document "Cai Shui Zi (1999) No.290" issued by the MOF and the State Administration of Taxation of the PRC on 8 December 1999, the Company received an income tax refund of RMB 92,167,000 (2002: RMB 66,405,000) during the year relating to the purchase of equipment manufactured in the PRC for technological improvements.

(b) Taxes payable in the balance sheet represents:

	The Group		The Company	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
Income tax	76,565	23,799	72,658	16,858
VAT	102,080	157,237	97,878	160,414
Consumption tax	71,600	47,804	71,600	47,804
Business tax	2,815	3,134	346	696
Other taxes	25,272	21,679	22,745	19,924
	278,332	253,653	265,227	245,696

## 15. Taxation (continued)

(c) Deferred tax assets

	The Group and the Company	
	2003 RMB'000	2002 RMB'000
At 1 January	15,171	8,796
Deferred taxation arising from provision for inventories and bad debts	5,992	6,375
Provision for impairment losses of fixed assets	3,690	-
At 31 December	24,853	15,171

There is no significant deferred tax liability not provided for in the financial statements.

## 16. Short-term loans

Short-term loans of the Group and the Company include:

	The Group		The Company	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
Short-term bank loans	4,445,588	3,094,726	3,694,990	2,830,045
Short-term loans with related party (Note 30(g))	130,000	130,000	-	-
	4,575,588	3,224,726	3,694,990	2,830,045

At 31 December 2003, the Group's secured loans amounted to RMB 75,000,000 (2002: Nil).

Except for the above secured loans, all other short-term loans are unsecured loans without guarantee and payable in full when due. The weighted average interest rate of short-term loans of the Group was 2.74% (2002: 3.86%) at 31 December 2003.

As at 31 December 2003 and 31 December 2002, the Group and the Company had no significant overdue short-term loan.

Except for the balances disclosed in note 30(e), there is no amount due from major shareholders who held 5% or more shareholding included in the above balance.

## Notes to the Financial Statements (continued)

(Prepared under PRC Accounting Rules and Regulations)

### 17. Trade creditors, bills payable, receipts in advance and other payables

There are no significant trade creditors and other payables aged over 3 years.

There is no significant receipts in advance aged over 1 year.

Bills payable are mainly bank bills issued for the purchase of material, merchandises and products, generally due in 3 to 6 months.

Except for the balances disclosed in Note 30(e), there is no amount due to shareholders who held 5% or more shareholding included in the balance of trade creditors, bills payable, receipts in advance and other payables.

Ageing analysis of trade creditors is as follows:

	The Group			
	2003		2002	
	Amount	Proportion	Amount	Proportion
By transaction date	RMB'000	%	RMB'000	%
Within three months	1,202,038	88.66	1,053,982	89.56
Between three and six months	87,934	6.48	81,519	6.93
Over six months	65,861	4.86	41,350	3.51
	1,355,833	100.00	1,176,851	100.00

	The Company			
	2003		2002	
	Amount	Proportion	Amount	Proportion
By transaction date	RMB'000	%	RMB'000	%
Within three months	1,031,910	99.07	932,959	90.73
Between three and six months	5,482	0.53	86,039	8.37
Over six months	4,195	0.40	9,181	0.9
	1,041,587	100.00	1,028,179	100.00

## 18. Accrued expenses

At 31 December 2003, the Group's and the Company's accrued expenses primarily represented accrued interest expenses and other production expenses.

## 19. Long-term loans and current portion of long-term loans

	The Group		The Company	
	2003 RMB'000	2002 RMB'000	2003 RMB'000	2002 RMB'000
Between one and two years	1,802,573	1,562,828	1,664,673	1,257,639
Between two and three years	1,255,173	1,922,299	1,234,673	1,804,899
Between three and five years	93,102	1,029,798	27,602	1,029,798
After five years	56,000	75,966	15,000	51,466
	3,206,848	4,590,891	2,941,948	4,143,802
Current portion of long-term loans	999,141	777,589	755,815	393,386
	4,205,989	5,368,480	3,697,763	4,537,188