

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 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").

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 25.

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 ("IASB").

The financial information relating to the financial year ended 31 December 2003 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 2003 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 2004.

The accounting policies have been consistently applied by the Group and are consistent with those adopted in the 2003 annual financial statements. The 2003 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. Segment reporting

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

	Six-month periods ended 30 June	
	2004 RMB'000	2003 RMB'000
Turnover		
Manufactured products		
<i>Synthetic fibres</i>		
External sales	2,417,891	1,904,874
Intersegment sales	34	478
Total	2,417,925	1,905,352
<i>Resins and plastics</i>		
External sales	5,442,159	4,158,411
Intersegment sales	15,047	14,028
Total	5,457,206	4,172,439
<i>Intermediate petrochemicals</i>		
External sales	2,290,996	1,950,095
Intersegment sales	5,065,567	3,847,506
Total	7,356,563	5,797,601
<i>Petroleum products</i>		
External sales	6,201,821	5,240,592
Intersegment sales	447,452	377,199
Total	6,649,273	5,617,791
All others		
External sales	1,425,270	885,098
Intersegment sales	1,851,705	1,709,274
Total	3,276,975	2,594,372
Eliminations of intersegment sales	(7,379,805)	(5,948,485)
Consolidated turnover	17,778,137	14,139,070

External sales include sales to other Sinopec Corp group companies.

2. Segment reporting (continued)

	<u>Six-month periods ended 30 June</u>	
	2004	2003
Profit before tax	RMB'000	RMB'000
Profit from operations		
Synthetic fibres	118,297	12,742
Resins and plastics	768,399	224,555
Intermediate petrochemicals	495,644	274,977
Petroleum products	531,715	237,218
All others	94,600	64,917
Consolidated profit from operations	2,008,655	814,409
Share of losses of associates	(17,392)	(14,745)
Net financing costs	(171,495)	(201,614)
Consolidated profit before tax	1,819,768	598,050

3. Profit before tax

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

	<u>Six-month periods ended 30 June</u>	
	2004	2003
	RMB'000	RMB'000
Interest on bank loans and advances	185,842	226,082
Less: Amount capitalised as construction in progress	-	(10,619)
Interest expenses, net	185,842	215,463
Cost of inventories	15,097,255	12,850,409
Depreciation and amortisation	945,682	912,838
Net loss on disposal of property, plant and equipment	41,139	2,529
Impairment loss of property, plant and equipment	34,345	-
Amortisation of goodwill	6,724	6,724
Amortisation of deferred income	(6,184)	(6,184)

4. Taxation

Taxation in the consolidated income statement represents:

	<u>Six-month periods ended 30 June</u>	
	2004	2003
	RMB'000	RMB'000
Provision for PRC income tax for the period	284,909	100,524
Deferred tax - origination of temporary differences	(16,523)	92
Tax refund	(10,262)	-
	<u>258,124</u>	<u>100,616</u>

Pursuant to the document "Cai Shui Zi (1999) No. 290" issued by the Ministry of Finance and the State Administration of Taxation of the PRC on 8 December 1999, the Company received an income tax refund of RMB 10,262,000 (period ended 30 June 2003: RMB Nil) during the period relating to the purchase of equipment produced in the PRC for technological improvements.

The charge for PRC income tax is calculated at the rate of 15% (2003: 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 does 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 be revoked in 2004. It is possible that the Company's tax rate will increase in the future.

5. Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to shareholders for the period of RMB1,520,725,000 (period ended 30 June 2003: RMB484,059,000) and 7,200,000,000 (period ended 30 June 2003: 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.

6. Dividend

	<u>Six-month periods ended 30 June</u>	
	2004	2003
	RMB'000	RMB'000
Final dividend in respect of the previous financial year, approved during the period, of RMB 0.08 per share(2003: RMB 0.05 per share)	<u>576,000</u>	<u>360,000</u>

Pursuant to a resolution passed at the Annual General Meeting held on 18 June 2004, a final dividend of RMB 576,000,000 (2003: RMB 360,000,000) was declared and approved for the year ended 31 December 2003. The Directors do not recommend the payment of an interim dividend for the period (2003: RMB Nil).

7. Property, plant and equipment

	2004 RMB'000	2003 RMB'000 (audited)
Cost or valuation		
At 1 January	30,521,398	28,642,974
Additions	134,852	221,232
Transfer from construction in progress	168,512	1,576,556
Acquisition of subsidiary	-	508,494
Disposals	(207,293)	(427,858)
At 30 June / 31 December	30,617,469	30,521,398
Accumulated depreciation and impairment losses		
At 1 January	14,501,294	12,833,481
Charge for the period / year	935,073	1,850,013
Impairment loss	34,345	24,600
Acquisition of subsidiary	-	104,457
Written back on disposals	(153,807)	(311,257)
At 30 June / 31 December	15,316,905	14,501,294
Net book value		
Balance at 30 June / 31 December	15,300,564	16,020,104

8. Trade accounts receivables

	At 30 June 2004 RMB'000	At 31 December 2003 RMB'000 (audited)
Trade debtors	493,114	511,928
Less: Allowance for doubtful debts	(44,687)	(39,811)
	448,427	472,117
Bills receivable	1,409,873	1,214,465
Amounts due from parent company and fellow subsidiaries – trade	842,951	418,440
	2,701,251	2,105,022

8. Trade accounts receivables (continued)

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

	At 30 June 2004 RMB'000	At 31 December 2003 RMB'000 (audited)
Invoice date:		
Within one year	2,666,992	2,070,750
Between one and two years	25,859	28,057
Between two and three years	3,810	3,007
Over three years	4,590	3,208
	<u>2,701,251</u>	<u>2,105,022</u>

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 2004 RMB'000	At 31 December 2003 RMB'000 (audited)
Trade creditors	1,029,461	1,033,107
Bills payable	178,980	238,583
Amounts due to parent company and fellow subsidiaries – trade	650,808	780,222
	<u>1,859,249</u>	<u>2,051,912</u>

The ageing analysis of trade accounts payable is as follows:

	At 30 June 2004 RMB'000	At 31 December 2003 RMB'000 (audited)
Due within 1 month or on demand	1,683,626	1,685,991
Due after 1 month and within 3 months	175,623	365,921
	<u>1,859,249</u>	<u>2,051,912</u>

10. 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 2003: RMB Nil).

11. Related party transactions

- (a) Most of the transactions undertaken by the Group during the period ended 30 June 2004 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 2004, the value of crude oil purchased in accordance with Sinopec Corp's allocation was as follows:

	<u>Six-month periods ended 30 June</u>	
	2004	2003
	RMB'000	RMB'000
Purchases of crude oil	<u>8,871,835</u>	<u>7,845,725</u>

- (b) Other transactions between the Group and other related parties during the six-month period ended 30 June 2004 were as follows:

	<u>Six-month periods ended 30 June</u>	
	2004	2003
	RMB'000	RMB'000
Sales of products and service fee income	7,302,057	4,872,132
Purchases other than crude oil	426,961	315,820
Insurance premiums paid	46,131	44,821
Net withdrawal of deposits placed with related parties	29,980	165,562
Interest received and receivable	1,231	653
New loans obtained from related parties	25,000	25,000
Loans repaid to related parties	50,000	50,000
Interest paid and payable	3,330	3,472
Transportation fees	2,366	5,624
Construction and installation fees	<u>68,580</u>	<u>153,006</u>

11. Related party transactions *(continued)*

(c) Deposits with related parties

	At 30 June 2004 RMB'000	At 31 December 2003 RMB'000 (audited)
Deposits, with maturity within 3 months	<u>233,874</u>	<u>263,854</u>

(d) Loans with related parties

	At 30 June 2004 RMB'000	At 31 December 2003 RMB'000 (audited)
Short-term loans	<u>105,000</u>	<u>130,000</u>

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 2004 and 31 December 2003 not provided for in the financial report as follows:

	At 30 June 2004 RMB'000	At 31 December 2003 RMB'000 (audited)
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<u>Property, plant and equipment</u>		
Contracted but not provided for	931,533	119,990
Authorised by the Board but not contracted for	1,508,240	2,094,840
	<hr/> 2,439,773	<hr/> 2,214,830
<u>Investment</u>		
Contracted but not provided for	573,180	858,706
Authorised by the Board but not contracted for	350,000	-
	<hr/> 923,180	<hr/> 858,706
	<hr/> 3,362,953	<hr/> 3,073,536

13. Contingent liabilities

Contingent liabilities of the Group are as follows:

	At 30 June 2004 RMB'000	At 31 December 2003 RMB'000 (audited)
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Guarantees issued to banks in favour of:		
- associates	40,000	54,600
- other unlisted investment companies	68,476	74,498
	<hr/> 108,476	<hr/> 129,098

Guarantees issued to banks in favour of associates and other unlisted investment companies are given to the extent of the Company's respective equity interest in these entities. The Company 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 2004, it is not probable that the Company will be required to make payments under the guarantees. Thus no liability has been accrued for a loss related to the Company's obligation under the guarantees arrangement.