## Notes to the Interim Financial Statements

(Prepared under PRC Accounting Rules and Regulations)

### 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 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 9(d) entitled "Long-term equity investments".

### 2. Significant accounting policies

The significant accounting policies adopted in the preparation of the financial statement are in conformity with the "Accounting Standards for Business Enterprises" and "Accounting Regulations for Business Enterprises" and other relevant regulations issued by the Ministry of Finance ("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 the 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.

2. **Significant accounting policies** *(continued)*

**(b) Basis of consolidation** *(continued)*

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 preparation and measurement basis**

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 currencies transactions during the period are translated into Renminbi at exchange rates quoted by the People's Bank of China ("PBOC rates") prevailing on 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.

**(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 weighted average method. In addition to the puchase cost of raw materials, work in progress and finished goods include direct labour and 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 sale.

Spare parts and consumables are expensed when being comsumed.

Inventories are recorded by perpetual method.

## 2. Significant accounting policies *(continued)*

### (h) Long-term equity investments

The Group's long-term equity investments in subsidiaries and associates are accounted for using the equity method. Equity method is to recognise the initial investment cost, 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.

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 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.

2. **Significant accounting policies** *(continued)*

(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 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 are adjusted to the revalued amounts accordingly. Construction in progress is stated in the balance sheet at cost or revalued amount less impairment losses.

All direct and indirect costs related to the purchase or construction of fixed assets, incurred before the assets are ready for their intended uses, 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.

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) **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 to be generated by the asset are discounted to their present value. The impairment loss is recognised as an expense in the income statement.

## 2. Significant accounting policies *(continued)*

### (k) Impairment loss *(continued)*

If there is an indication that an impairment loss recognised for an asset in prior years may no longer exist or if 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 income statement. The reversed amount should not exceed its historical net value.

### (l) Taxations

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 period, 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%. Other than those granted with tax concession as set out below, the subsidiaries are subject to income tax at a rate of 33% pursuant to the relevant PRC tax regulations.

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 |

## 2. Significant accounting policies *(continued)*

### (l) Taxations *(continued)*

Deferred tax

Deferred tax is provided under the liability method, for timing differences between the accounting profit before tax and the taxable income arising from the differences in the accounting and tax treatment of income and expenses or losses. When the tax rates change or new types of tax are levied, adjustments should be made to the amounts originally recognised for the timing differences. The enacted tax rates are used in arriving at the reversal amounts when the timing differences are reversed.

Deferred tax assets arising from the tax value of losses, which are expected to be utilised against future taxable income, are set off against the deferred tax liabilities of the same taxpayer and within the same jurisdiction. 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 RMB277.60 per tonne and RMB 117.60 per tonne respectively.

### (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.

2. **Significant accounting policies** *(continued)*

**(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 costs**

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 30.

**(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.

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.

**(t) 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.

## 3. Cash at bank and in hand

The Group's and the Company's cash at bank and in hand as at 30 June 2004 are analysed as follows:

| | | The Group | | | The Company | | |
|---|---|---|---|---|---|---|---|
| | **30 June 2004 Exchange rate** | Original currency '000 | **30 June 2004 RMB'000** | 31 December 2003 RMB'000 (audited) | Original currency '000 | **30 June 2004 RMB'000** | 31 December 2003 RMB'000 (audited) |
| **Cash in hand** | | | | | | | |
| Renminbi | | | **345** | 247 | | **198** | 83 |
| **Cash at bank** | | | | | | | |
| Renminbi | | | **1,327,570** | 1,648,950 | | **920,620** | 1,137,368 |
| Hong Kong Dollars | **1.0612** | 34,477 | **36,587** | 36,624 | 34,477 | **36,587** | 36,624 |
| United States Dollars | **8.2766** | 4,102 | **33,951** | 55,700 | 2,951 | **24,424** | 182 |
| Swiss Francs | **6.5581** | 129 | **846** | 861 | 129 | **846** | 861 |
| **Cash at bank and in hand** | | | **1,399,299** | 1,742,382 | | **982,675** | 1,175,118 |
| **Deposits at related party (note 29(f))** | | | | | | | |
| Renminbi | | | **233,874** | 263,854 | | **230,880** | 260,617 |
| **Cash at bank and in hand carried in the balance sheet** | | | **1,633,173** | 2,006,236 | | **1,213,555** | 1,435,735 |
| **Less: Time deposits** | | | **67,333** | 165,885 | | **37,433** | 37,485 |
| **Cash and cash equivalents carried in the cash flow statement** | | | **1,565,840** | 1,840,351 | | **1,176,122** | 1,398,250 |

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

## 4. Bills receivable

| | The Group | | The Company | |
|---|---|---|---|---|
| | **30 June 2004 RMB'000** | 31 December 2003 RMB'000 (audited) | **30 June 2004 RMB'000** | 31 December 2003 RMB'000 (audited) |
| **Bank bills** | **1,556,203** | 1,299,413 | **1,468,966** | 1,184,617 |
| **Commercial bills** | **236,333** | 33,680 | **212,500** | 19,034 |
| **Total** | **1,792,536** | 1,333,093 | **1,681,466** | 1,203,651 |

Bills receivable are due in six months. As at 30 June 2004, there are no significant bills receivable at discount or pledged.

Except for the balances disclosed in Note 29(e), there is no amount due from major shareholders who held 5% or more shareholding included in the balance of bills receivable.

## 5. Trade debtors

**The Group**

| By transaction date | At 30 June 2004 Amount RMB'000 | Proportion % | Bad debt provision RMB'000 | Provision proportion % | At 31 December 2003 (audited) Amount RMB'000 | Proportion % | Bad debt provision RMB'000 | Provision proportion % |
|---|---|---|---|---|---|---|---|---|
| Within 1 year | 618,335 | 88.59 | 1,281 | 0.21 | 564,640 | 88.60 | 1,404 | 0.25 |
| Between 1 and 2 years | 28,909 | 4.14 | 3,050 | 10.55 | 34,664 | 5.44 | 6,607 | 19.06 |
| Between 2 and 3 years | 14,617 | 2.09 | 10,807 | 73.93 | 15,838 | 2.48 | 12,831 | 81.01 |
| Over 3 years | 36,139 | 5.18 | 29,549 | 81.76 | 22,177 | 3.48 | 18,969 | 85.53 |
| | 698,000 | 100.00 | 44,687 | | 637,319 | 100.00 | 39,811 | |
| Trade debtors,net | 653,313 | | | | 597,508 | | | |

**The Company**

| By transaction date | At 30 June 2004 Amount RMB'000 | Proportion % | Bad debt provision RMB'000 | Provision proportion % | At 31 December 2003 (audited) Amount RMB'000 | Proportion % | Bad debt provision RMB'000 | Provision proportion % |
|---|---|---|---|---|---|---|---|---|
| Within 1 year | 434,130 | 88.09 | 1,161 | 0.27 | 461,433 | 89.54 | 1,196 | 0.26 |
| Between 1 and 2 years | 20,998 | 4.26 | 2,620 | 12.48 | 25,355 | 4.92 | 6,352 | 25.05 |
| Between 2 and 3 years | 11,151 | 2.26 | 8,820 | 79.09 | 13,560 | 2.63 | 11,736 | 86.55 |
| Over 3 years | 26,580 | 5.39 | 20,490 | 77.09 | 15,020 | 2.91 | 13,807 | 91.92 |
| | 492,859 | 100.00 | 33,091 | | 515,368 | 100.00 | 33,091 | |
| Trade debtors,net | 459,768 | | | | 482,277 | | | |

5. **Trade debtors** *(continued)*

Bad debt provision

| | The Group | | The Company | |
|---|---|---|---|---|
| | **At 30 June 2004 RMB'000** | At 31 December 2003 RMB'000 (audited) | **At 30 June 2004 RMB'000** | 31 December 2003 RMB'000 (audited) |
| Balance at 1 January | **39,811** | 43,339 | **33,091** | 26,071 |
| Additions for the period / year | **4,876** | 33,644 | **–** | 26,393 |
| Provision written off | **–** | (37,172) | **–** | (19,373) |
| Balance at 30 June / 31 December | **44,687** | 39,811 | **33,091** | 33,091 |

The aggregate amount and proportion of five largest trade debtors of the Group at the end of the period / year are shown below:

| | **At 30 June 2004** | At 31 December 2003 |
|---|---|---|
| Amount(RMB'000) | **222,172** | 170,926 |
| Percentage of total trade debtors | **31.83%** | 26.82% |

Except for balances disclosed in Note 29(e), there is no amount due from major shareholders who held 5% or more shareholding included in the balance of trade debtors.

During the period, 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.

6. **Other debtors**

| | The Group | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **At 30 June 2004** | | | | At 31 December 2003 (audited) | | | |
| By transaction date | **Amount RMB'000** | **Proportion %** | **Bad debt provision RMB'000** | **Provision proportion %** | Amount RMB'000 | Proportion % | Bad debt provision RMB'000 | Provision proportion % |
| Within 1 year | **490,232** | **88.49** | **949** | **0.19** | 330,241 | 80.91 | 602 | 0.18 |
| Between 1 and 2 years | **15,317** | **2.76** | **426** | **2.78** | 27,261 | 6.68 | 684 | 2.51 |
| Between 2 and 3 years | **9,728** | **1.76** | **640** | **6.58** | 11,979 | 2.93 | 772 | 6.44 |
| Over 3 years | **38,712** | **6.99** | **4,661** | **12.04** | 38,673 | 9.48 | 4,618 | 11.94 |
| Total | **553,989** | **100.00** | **6,676** | | 408,154 | 100.00 | 6,676 | |
| Other debtors,net | **547,313** | | | | 401,478 | | | |

## 6. Other debtors *(continued)*

| | The Company | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | At 30 June 2004 | | | | At 31 December 2003 (audited) | | | |
| | **Amount** | **Proportion** | **Bad debt provision** | **Provision proportion** | Amount | Proportion | Bad debt provision | Provision proportion |
| By transaction date | **RMB'000** | **%** | **RMB'000** | **%** | RMB'000 | % | RMB'000 | % |
| Within 1 year | **458,791** | **91.79** | **797** | **0.17** | 262,882 | 83.71 | 536 | 0.20 |
| Between 1 and 2 years | **9,605** | **1.92** | **278** | **2.89** | 12,092 | 3.85 | 335 | 2.77 |
| Between 2 and 3 years | **733** | **0.15** | **44** | **6.00** | 7,615 | 2.42 | 436 | 5.73 |
| Over 3 years | **30,697** | **6.14** | **3,236** | **10.54** | 31,459 | 10.02 | 3,048 | 9.69 |
| Total | **499,826** | **100.00** | **4,355** | | 314,048 | 100.00 | 4,355 | |
| Other debtors,net | **495,471** | | | | 309,693 | | | |

Bad debt provision

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2004** | 2003 | **2004** | 2003 |
| | **RMB'000** | RMB'000 (audited) | **RMB'000** | RMB'000 (audited) |
| Balance at 1 January | **6,676** | 23,242 | **4,355** | 20,130 |
| Additions for the period / year | **–** | 8,852 | **–** | 4,355 |
| Provision written off | **–** | (25,418) | **–** | (20,130) |
| Balance at 30 June / 31 December | **6,676** | 6,676 | **4,355** | 4,355 |

The aggregate amount and the proportion of five largest other debtors of the Group at the end of period / year are shown below:

| | **At 30 June 2004** | At 31 December 2003 |
|---|---|---|
| Amount(RMB'000) | **32,649** | 72,737 |
| Percentage of total other debtors | **5.89%** | 17.82% |

Except for balances disclosed in Note 29(e), there is no amount due from major shareholders who held 5% or more shareholding included in the balance of other debtors.

During the period, 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.

7. **Advance payments**

All advance payments are aged within one year.

Except for the balances disclosed in Note 29(e), there is no amount due from major shareholders who held 5% or more shareholding included in the balance of advance payments.

8. **Inventories**

| | The Group | | | | The Company | | | |
|---|---|---|---|---|---|---|---|---|
| | **At 30 June 2004** | | At 31 December 2003 | | **At 30 June 2004** | | At 31 December 2003 | |
| | **Amount RMB'000** | **Provision for diminution in value RMB'000** | Amount RMB'000 (audited) | Provision for diminution in value RMB'000 (audited) | **Amount RMB'000** | **Provision for diminution in value RMB'000** | Amount RMB'000 (audited) | Provision for diminution in value RMB'000 (audited) |
| Raw materials | **1,268,897** | **–** | 1,226,324 | – | **1,112,031** | **–** | 1,087,783 | – |
| Work in progress | **1,396,559** | **–** | 1,188,187 | – | **1,257,229** | **–** | 1,047,292 | – |
| Finished goods | **544,485** | **3,897** | 612,430 | 3,897 | **414,691** | **1,415** | 471,260 | 1,415 |
| Spare parts and consumables | **507,195** | **40,219** | 517,442 | 64,614 | **419,578** | **37,990** | 447,997 | 62,385 |
| Total | **3,717,136** | **44,116** | 3,544,383 | 68,511 | **3,203,529** | **39,405** | 3,054,332 | 63,800 |
| Inventories, net | **3,673,020** | | 3,475,872 | | **3,164,124** | | 2,990,532 | |

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

| | The Group | | | | The Company | | | |
|---|---|---|---|---|---|---|---|---|
| | **2004** | | 2003 | | **2004** | | 2003 | |
| | **Finished goods RMB'000** | **Spare parts and consumables RMB'000** | Finished goods RMB'000 (audited) | Spare parts and consumables RMB'000 (audited) | **Finished goods RMB'000** | **Spare parts and consumables RMB'000** | Finished goods RMB'000 (audited) | Spare parts and consumables RMB'000 (audited) |
| At 1 January | **3,897** | **64,614** | 9,048 | 17,624 | **1,415** | **62,385** | 5,518 | 16,313 |
| Additions for the period/year | **–** | **–** | 1,415 | 48,145 | **–** | **–** | 1,415 | 47,227 |
| Written off | **–** | **(24,395)** | (6,566) | (1,155) | **–** | **(24,395)** | (5,518) | (1,155) |
| At 30 June / 31 December | **3,897** | **40,219** | 3,897 | 64,614 | **1,415** | **37,990** | 1,415 | 62,385 |

All inventories were acquired through purchase or production.

| | Six-month period ended 30 June | | | |
|---|---|---|---|---|
| | The Group | | The Company | |
| | **2004 RMB'000** | 2003 RMB'000 | **2004 RMB'000** | 2003 RMB'000 |
| Cost of inventories recognised as cost and expenses | **14,579,417** | 12,393,952 | **12,838,239** | 11,811,956 |

## 9. Long-term equity investments

**The Group**

| | Interests in associates | Equity investment differences | Interests in non-consolidated subsidiaries | Other unlisted investments | Provision for impairment losses | Total |
|---|---|---|---|---|---|---|
| | (Note(a)) | (Note(b)) | (Note(c)) | (Note(e)) | (Note(f)) | |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Balance at 1 January 2004 | 1,691,140 | (283,398) | 288,230 | 426,394 | (31,788) | 2,090,578 |
| Additions for the period | 281,418 | – | 18,274 | 800 | – | 300,492 |
| Share of profits less losses from investments accounted for under the equity method | (3,737) | – | – | – | – | (3,737) |
| Dividends received and receivable | (11,478) | – | (6,449) | (2,005) | – | (19,932) |
| Disposals for the period | – | – | – | (1,457) | – | (1,457) |
| Amortisation for the period | – | 5,425 | – | – | – | 5,425 |
| Change in provision | – | – | – | – | (241) | (241) |
| Balance at 30 June 2004 | 1,957,343 | (277,973) | 300,055 | 423,732 | (32,029) | 2,371,128 |

**The Company**

| | Interests in associates | Equity investment differences | Interests in consolidated subsidiaries | Other unlisted investments | Total |
|---|---|---|---|---|---|
| | (Note(a)) | (Note(b)) | (Note(d)) | (Note(e)) | |
| | RMB'000 | RMB'000 | RMB'000 | RMB'000 | RMB'000 |
| Balance at 1 January 2004 | 1,570,040 | (283,398) | 1,928,473 | 164,386 | 3,379,501 |
| Additions for the period | 281,418 | – | 12,677 | 800 | 294,895 |
| Share of profits less losses from investments accounted for under the equity method | – | – | 120,946 | – | 120,946 |
| Dividends received and receivable | (11,478) | – | (43,200) | – | (54,678) |
| Amortisation for the period | – | 5,425 | – | – | 5,425 |
| Balance at 30 June 2004 | 1,839,980 | (277,973) | 2,018,896 | 165,186 | 3,746,089 |

## 9. 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 30 June 2004 are as follows:

| Company | Registered capital '000 | Percentage of equity held by the Company % | Percentage of equity held by subsidiaries % | Principal activities |
|---|---|---|---|---|
| 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. |

9. **Long-term equity investments** *(continued)*

(b) Equity investment difference

| Investments | Initial investment RMB'000 | Amortisation period | 1 January 2004 RMB'000 | Amortisation during the period RMB'000 | 30 June 2004 RMB'000 | Reason |
|---|---|---|---|---|---|---|
| Shanghai Chemical Industry Park Development Co., Ltd | 300,000 | 30years | 280,000 | (5,000) | 275,000 | Investment in associate |
| Shanghai Jindong Petrochemical Industrial Company Limited | 8,492 | 10years | 3,398 | (425) | 2,973 | Investment in subsidiary |
| Total | 308,492 | | 283,398 | (5,425) | 277,973 | |

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

(c) Interests in non-consolidated subsidiaries represent the Company's interest 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.

(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 30 June 2004 are as follows:

| | | Percentage of equity | | |
|---|---|---|---|---|
| Company | Registered capital '000 | held by the Company % | held by subsidiaries % | Principal activities |
| 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 | RMB 295,776 | - | 100 | Production of petrochemical products |

None of these subsidiaries has issued any debt securities.

9. **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 period ended 30 June 2004 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 are analysed as follows:

| | The Group | |
|---|---|---|
| | **2004** | 2003 |
| | **RMB'000** | RMB'000 |
| | | (audited) |
| Balance at 1 January | **31,788** | 9,658 |
| Provision for the period / year | **2,900** | 25,430 |
| Written back for the period / year | **(2,659)** | (3,300) |
| Balance at 30 June / 31 December | **32,029** | 31,788 |

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 2,900,000 during the period.

## 9. Long-term equity investments *(continued)*

(g) Major investment changes

At 30 June 2004, 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 2004 RMB'000 | Addition for the period RMB'000 | Share of profits/(losses) accounted for under the equity method | Amortisation of equity investment differences RMB'000 | Dividends received RMB'000 | Balance at 30 June 2004 RMB'000 |
|---|---|---|---|---|---|---|---|---|
| Shanghai Chemical Industry Park Development Company Limited | 30 years | 38% | 652,356 | - | - | 5,000 | (11,478) | 645,878 |
| Shanghai Secco Petrochemical Company Limited | 50 years | 20% | 637,684 | 281,418 | - | - | - | 919,102 |
| Shanghai Jinpu Plastics Packaging Material Company Limited | 30 years | 50% | 103,000 | - | (4,000) | - | - | 99,000 |
| Hangzhou Jinshan Real Estate Company | 30 years | 84% | 126,700 | - | - | - | - | 126,700 |

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 30 June 2004, the Group's proportion of the total invesments to the net assets was 14.40% (31 December 2003: 13.48%).

## 10. Fixed assets

### (a) The Group

| | Land and buildings RMB'000 | Plant, machinery, equipment and others RMB'000 | Total RMB'000 |
|---|---|---|---|
| **Cost or valuation:** | | | |
| At 1 January 2004 | 5,972,018 | 25,768,410 | 31,740,428 |
| Additions | 246 | 134,606 | 134,852 |
| Transferred from construction in progress (Note 12) | 11,681 | 149,104 | 160,785 |
| Disposals | (3,359) | (203,934) | (207,293) |
| At 30 June 2004 | 5,980,586 | 25,848,186 | 31,828,772 |
| **Accumulated depreciation:** | | | |
| At 1 January 2004 | 2,761,262 | 11,921,850 | 14,683,112 |
| Charge for the period | 101,095 | 857,330 | 958,425 |
| Written back on disposal | (2,337) | (151,470) | (153,807) |
| At 30 June 2004 | 2,860,020 | 12,627,710 | 15,487,730 |
| **Provision for impairment losses:** | | | |
| At 1 January 2004 | – | 24,600 | 24,600 |
| Charge for the period | – | 34,345 | 34,345 |
| At 30 June 2004 | – | 58,945 | 58,945 |
| **Net book value:** | | | |
| At 30 June 2004 | 3,120,566 | 13,161,531 | 16,282,097 |
| At 31 December 2003 (audited) | 3,210,756 | 13,821,960 | 17,032,716 |

10. **Fixed assets** *(continued)*

(b) **The Company**

| | Land and buildings RMB'000 | Plant, machinery, equipment and others RMB'000 | Total RMB'000 |
|---|---|---|---|
| **Cost or valuation:** | | | |
| At 1 January 2004 | 4,842,238 | 23,064,046 | 27,906,284 |
| Additions | – | 109,798 | 109,798 |
| Transferred from construction in progress (Note 12) | 11,318 | 133,074 | 144,392 |
| Disposals | (1,916) | (195,007) | (196,923) |
| At 30 June 2004 | 4,851,640 | 23,111,911 | 27,963,551 |
| **Accumulated depreciation:** | | | |
| At 1 January 2004 | 2,453,653 | 10,629,830 | 13,083,483 |
| Charge for the period | 82,830 | 759,961 | 842,791 |
| Written back on disposal | (979) | (138,551) | (139,530) |
| At 30 June 2004 | 2,535,504 | 11,251,240 | 13,786,744 |
| **Provision for impairment losses:** | | | |
| At 1 January 2004 | – | 24,600 | 24,600 |
| Charge for the period | – | 34,345 | 34,345 |
| At 30 June 2004 | – | 58,945 | 58,945 |
| **Net book value:** | | | |
| As at 30 June 2004 | 2,316,136 | 11,801,726 | 14,117,862 |
| As at 31 December 2003 (audited) | 2,388,585 | 12,409,616 | 14,798,201 |

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

## 10. Fixed assets *(continued)*

(c) Due to change in market demand, the product specifications and economic efficiency of the production facility of POY cannot meet the market development. During the period ended 30 June 2004, the management of the Company has made a provision for impairment loss of RMB34,345,000(year ended 31 December 2003:RMB 24,600,000 for the production facility of tyre cord) for this production facility.

(d) At 30 June 2004, the cost of the Group's fully depreciated fixed assets was RMB4,872,640,442 (31 December 2003: RMB3,529,747,000).

(e) At 30 June 2004, no fixed assets were pledged by the Group (31 December 2003: the net book value of fixed assets that were pledged by the Group were RMB 414,342,000 ).

## 11. Construction materials

| | The Group | | The Company | |
|---|---|---|---|---|
| | **At 30 June 2004 RMB'000** | At 31 December 2003 RMB'000 (audited) | **At 30 June 2004 RMB'000** | At 31 December 2003 RMB'000 (audited) |
| Equipment and accessories | **28,730** | 28,387 | **28,153** | 27,810 |

## 12. Construction in progress

| | The Group | | The Company | |
|---|---|---|---|---|
| | **2004 RMB'000** | 2003 RMB'000 (audited) | **2004 RMB'000** | 2003 RMB'000 (audited) |
| Balance at 1 January | **374,780** | 890,051 | **351,480** | 847,121 |
| Additions | **684,074** | 1,054,538 | **651,456** | 1,016,631 |
| of which: | | | | |
| Capitalised interest costs | **-** | 3,502 | **-** | 3,502 |
| | **1,058,854** | 1,944,589 | **1,002,936** | 1,863,752 |
| Transferred to fixed assets(Note 10) | **(160,785)** | (1,569,809) | **(144,392)** | (1,512,272) |
| Balance at 30 June / 31 December | **898,069** | 374,780 | **858,544** | 351,480 |

## 12. Construction in progress *(continued)*

At 30 June 2004, major projects of the Group are as follows:

| Project | Budgeted amount RMB'000 | At 1 January 2004 RMB'000 | Additon RMB'000 | At 30 June 2004 RMB'000 | Stage of completion |
|---|---|---|---|---|---|
| Office building project | 625,953 | – | 251,073 | 251,073 | 40% |
| 150,000 tonne/annum polyester project | 149,990 | 11,119 | 105,246 | 116,365 | 78% |
| No.1 atmosphere and vacuum distillation facility | 387,600 | – | 30,531 | 30,531 | 8% |

Interest capitalised for the period ended 30 June 2004 is as follows:

| | The Group RMB'000 | The Company RMB'000 |
|---|---|---|
| Balance at 1 January 2004 | 5,210 | 5,210 |
| Transferred to fixed assets | (5,210) | (5,210) |
| Balance at 30 June 2004 | - | - |

## 13. Intangible assets

| | The Group and the Company 2004 RMB'000 | 2003 RMB'000 (audited) |
|---|---|---|
| Cost: | | |
| At 1 January and at 30 June / 31 December | 134,482 | 134,482 |
| Accumulated amortisation: | | |
| At 1 January | 98,619 | 85,171 |
| Amortisation for the period / year | 6,724 | 13,448 |
| At 30 June / 31 December | 105,343 | 98,619 |
| Net book value: | | |
| At 30 June / 31 December | 29,139 | 35,863 |

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 financial statements . Such equity investment difference is amortised over 10 years which was the 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 was no investment in subsidiary after the deregistration of Jinyang, the unamortised amount of the equity investment difference at 31 December 2002 was transferred to intangible assets and amortised over its remaining useful life.