

## 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 9(d) “Long-term equity investments”.

### 2. 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 of the PRC.

#### (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 (see note 2 (i)) before they are ready for their intended use are capitalised, are recognised as income or expenses in the income statement.

### 2. Significant accounting policies (continued)

#### (e) Cash equivalents

Cash equivalents are short-term and highly liquid investments which are readily convertible into known amounts of cash and are subject to an insignificant risk of change in value.

#### (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 and the ageing analysis. Allowances for other receivables are determined based on the nature and corresponding collectibility.

#### (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 unamortised balance is included in long-term equity investment at period end.

### 2. Significant accounting policies (continued)

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

Any shortfall of the initial investment cost over the share of shareholders' funds of the investee is recognised in capital reserve – reserve for equity investment acquired after the issuance of Cai Kuai [2003] No.10 “Questions and answers on implementing Accounting Regulations for Business Enterprises and related accounting standards (II)”. 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)”, such shortfall is amortised on a straight-line basis over the investment period as stipulated in the relevant agreement, or 10 years if the investment period is not specified in the agreement. The unamortised balance is included in long-term equity investments at the period end.

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 investment income / losses based on the difference between the disposal proceeds and the carrying amount of the investments.

The Group makes provision for impairment losses on long-term equity investments (see note 2(k)).

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

Fixed assets represent the assets held by the Group for production of products, providing service 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 (see note 2(k)). Construction in progress is stated in the balance sheet at cost less impairment losses (see note 2(k)). 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.

## 2. 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 (see note 2(k)). 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) Provision for impairment

The carrying amounts of assets (including long-term equity investments, fixed assets, construction in progress, intangible assets and other assets) are reviewed regularly to determine whether their recoverable amounts have declined below their carrying amounts. 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 amount by which the carrying amount is reduced is the impairment loss.

The recoverable amount is the greater of the net selling price and the present value of the estimated future cash flows arising from the continuous use of the asset and from the disposal of the asset at the end of its useful life.

Provision for impairment loss is calculated on an item by item basis and recognised as an expense in the income statement. However, when a deficit between the initial investment cost and the Group's share of the shareholders' funds of the investee enterprise has been credited to the capital reserve, any impairment losses for long-term equity investment are firstly set off against the difference initially recognised in the capital reserve relating to the investment and any excess impairment losses are then recognised in the income statement.

### 2. Significant accounting policies (continued)

#### (k) Provision for impairment (continued)

If there is an indication that there has been a change in the estimates used to determine the recoverable amount and as a result the estimated recoverable amount is greater than the carrying amount of the asset, the impairment loss recognised in prior years is reversed. Reversals of impairment losses are recognised in the income statement. Impairment losses are reversed to the extent of the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. In respect of the reversal of an impairment loss for a long-term equity investment, the reversal starts with the impairment losses that had previously been recognised in the income statement and then the impairment losses that had been charged to capital reserve.

#### (l) 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.

Pursuant to the relevant PRC tax regulations, the income tax rate applicable to the Company is 15% in 2004. Except for the subsidiaries granted with tax concessions as set out in the below table, the subsidiaries are subject to 33% income tax pursuant to the relevant PRC tax regulations.

## 2. Significant accounting policies (continued)

### (I) 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, for timing differences between accounting profit before tax and the taxable income arising from the differences in the tax and accounting treatment of income and expenses or loss. When the tax rate changes or a new type of tax is levied, no adjustment is made to the amounts originally recognised for the timing differences under the deferral method. The original tax rates are used in arriving at the reversal amounts when the timing differences are reversed.

The tax value of losses expected to be available for utilisation against future taxable income is set off against the deferred tax liability within the same legal tax unit and jurisdiction. A valuation allowance is provided for the tax value of losses to reduce the deferred tax asset to the amount that is more likely than not to be realised through future taxable income.

#### (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.

### 2. Significant accounting policies (continued)

#### (m) Provisions and contingent liabilities

Provisions are recognised when the Group has a present obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligations and a reliable estimate can be made.

Where it is not probable that the settlement of the above obligation will cause an outflow of economic benefits, or the amount of the outflow cannot be estimated reliably, the obligation is disclosed as a contingent liability.

#### (n) Deferred income

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

#### (o) 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 to 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.

#### (p) Repairs and maintenance expenses

Repairs and maintenance expenses, including cost of major overhaul, are recognised as expenses in the period in which they are incurred.

#### (q) Research and development costs

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



### 2. Significant accounting policies (continued)

#### (r) 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.

#### (s) Retirement benefits

Pursuant to the relevant laws and regulations in the PRC, the Group has joined a defined contribution retirement plan for the employees arranged by a governmental organisation. The Group makes contributions to the retirement scheme at the applicable rate(s) based on the employees' salaries. The required contributions under the retirement plans are charged to the income statement.

#### (t) Profit distribution and dividends

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.

#### (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.

## Notes to the Financial Statements (continued)

(Prepared under PRC Accounting Rules and Regulations)

### 3. 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:

	31 December 2004	The Group			The Company		
		Exchange rate	Original currency '000	2004 RMB'000	2003 RMB'000	Original currency '000	2004 RMB'000
Cash in hand							
Renminbi			327	247		174	83
Cash at bank							
Renminbi			1,281,744	1,648,950		863,500	1,137,368
Hong Kong Dollars	1.0642	37,264	39,656	36,624	34,513	36,729	36,624
United States Dollars	8.2766	14,278	118,173	55,700	1,441	11,927	182
Swiss Francs	7.3178	129	944	861	129	944	861
Euro	10.1810	116	1,181	-	-	-	-
Japan	0.0801	462	37	-	-	-	-
Cash at bank and in hand			1,442,062	1,742,382		913,274	1,175,118
Deposits at related party (note 30(f))							
Renminbi			252,438	263,854		250,125	260,617
			1,694,500	2,006,236		1,163,399	1,435,735

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)

### 4. Bills receivable

	The Group		The Company	
	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
Bank bills	1,695,577	1,299,413	1,556,250	1,184,617
Commercial bills	13,215	33,680	-	19,034
Total	1,708,792	1,333,093	1,556,250	1,203,651

Bills receivable are due in six months. As at 31 December 2004, 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.

### 5. Trade debtors

	The Group							
	2004				2003			
	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	587,441	90.67	1,762	0.30	564,640	88.60	1,404	0.25
Between one and two years	17,404	2.69	486	2.79	34,664	5.44	6,607	19.06
Between two and three years	9,142	1.41	9,142	100.00	15,838	2.48	12,831	81.01
Over three years	33,892	5.23	33,892	100.00	22,177	3.48	18,969	85.53
Total	647,879	100.00	45,282		637,319	100.00	39,811	
Trade debtors, net	602,597				597,508			

  

	The Company							
	2004				2003			
	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	440,173	93.77	1,243	0.28	461,433	89.54	1,196	0.26
Between one and two years	11,031	2.35	151	1.37	25,355	4.92	6,352	25.05
Between two and three years	2,784	0.59	2,784	100.00	13,560	2.63	11,736	86.55
Over three years	15,432	3.29	15,432	100.00	15,020	2.91	13,807	91.92
Total	469,420	100.00	19,610		515,368	100.00	33,091	
Trade debtors, net	449,810				482,277			

## Notes to the Financial Statements (continued)

(Prepared under PRC Accounting Rules and Regulations)

### 5. Trade debtors (continued)

	The Group		The Company	
	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
<b>Bad debt provision</b>				
Balance at the beginning of the year	39,811	43,339	33,091	26,071
Additions for the year	22,814	7,020	3,862	7,020
Provision written off	(17,343)	(10,548)	(17,343)	-
Balance at the end of the year	45,282	39,811	19,610	33,091

The aggregate amount and proportion of the five largest trade debtors at 31 December 2004 are shown below:

	2004 RMB'000	2003 RMB'000
Amount	207,923	170,926
Percentage of total trade debtors	32.09%	26.82%

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 2004, the Group and the Company did not have individually significant trade debtors that aged over three years.

### 6. Other debtors

	The Group							
	2004				2003			
	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	584,442	92.92	1,217	0.21	330,241	80.91	602	0.18
Between one and two years	9,090	1.44	223	2.45	27,261	6.68	684	2.51
Between two and three years	7,983	1.27	502	6.28	11,979	2.93	772	6.44
Over three years	27,458	4.37	7,750	28.22	38,673	9.48	4,618	11.94
Total	628,973	100.00	9,692		408,154	100.00	6,676	
Other debtors, net	619,281				401,478			

## Notes to the Financial Statements (continued)

(Prepared under PRC Accounting Rules and Regulations)

### 6. Other debtors (continued)

	The Company							
	2004				2003			
	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	710,330	96.76	956	0.13	262,882	83.71	536	0.20
Between one and two years	4,268	0.58	153	3.58	12,092	3.85	335	2.77
Between two and three years	283	0.04	6	2.12	7,615	2.42	436	5.73
Over three years	19,224	2.62	3,240	16.85	31,459	10.02	3,048	9.69
Total	734,105	100.00	4,355		314,048	100.00	4,355	
Other debtors, net	729,750				309,693			

#### Bad debt provision

	The Group		The Company	
	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
Balance at the beginning of the year	6,676	23,242	4,355	20,130
Additions for the year	3,016	8,852	-	4,355
Provision writren off	-	(25,418)	-	(20,130)
Balance at the end of the year	9,692	6,676	4,355	4,355

The aggregate amount and proportion of the five largest other debtors at 31 December 2004 are shown below:

	2004 RMB'000	2003 RMB'000
Amount	106,142	72,737
Percentage of total other debtors	16.88%	17.82%

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 2004, the Group and the Company did not have individually significant other debtors that aged over three years.

### 7. 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)

### 8. Inventories

	The Group				The Company			
	2004		2003		2004		2003	
	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	1,163,508	-	1,226,324	-	934,855	-	1,087,783	-
Work in progress	1,340,643	-	1,188,187	-	1,268,444	-	1,047,292	-
Finished goods	761,861	3,780	612,430	3,897	606,423	-	471,260	1,415
Spare parts and consumables	518,407	52,890	517,442	64,614	454,443	47,550	447,997	62,385
<b>Total</b>	<b>3,784,419</b>	<b>56,670</b>	<b>3,544,383</b>	<b>68,511</b>	<b>3,264,165</b>	<b>47,550</b>	<b>3,054,332</b>	<b>63,800</b>
Inventories, net	<b>3,727,749</b>		<b>3,475,872</b>		<b>3,216,615</b>		<b>2,990,532</b>	

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

	The Group				The Company			
	2004		2003		2004		2003	
	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	3,897	64,614	9,048	17,624	1,415	62,385	5,518	16,313
Additions	3,780	670	1,415	48,145	-	-	1,415	47,227
Provision written back	(3,897)	(12,394)	(6,566)	(1,155)	(1,415)	(14,835)	(5,518)	(1,155)
<b>At 31 December</b>	<b>3,780</b>	<b>52,890</b>	<b>3,897</b>	<b>64,614</b>	<b>-</b>	<b>47,550</b>	<b>1,415</b>	<b>62,385</b>

All inventories were acquired through purchase or production.

	The Group		The Company	
	2004	2003	2004	2003
	RMB'000	RMB'000	RMB'000	RMB'000
Cost of inventories recognised as cost and expense:	<b>32,009,082</b>	25,242,197	<b>28,251,458</b>	24,167,489

## Notes to the Financial Statements (continued)

(Prepared under PRC Accounting Rules and Regulations)

### 9. Long-term equity investments

	The Group						
	Interests in	Equity	Interests in	Other	Total before	Provision	Total
	associates	investment	non-consolidated	unlisted	provision	for impairment	
	(Note(a))	differences	subsidiaries	investments		losses	(Note(f))
	RMB'000	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	2,122,366	(31,788)
Additions for the year	585,210	-	22,167	33,596	640,973	-	640,973
Share of profits less losses from investments accounted for under the equity method	(5,769)	-	-	-	(5,769)	-	(5,769)
Dividend receivable / received	(11,718)	-	-	-	(11,718)	-	(11,718)
Disposals for the year	-	-	(35,774)	(43,827)	(79,601)	-	(79,601)
Amortisation for the year	-	10,849	-	-	10,849	-	10,849
Movement of provision for impairment losses	-	-	-	-	-	(29,962)	(29,962)
Balance at 31 December 2004	2,258,863	(272,549)	274,623	416,163	2,677,100	(61,750)	2,615,350

	The Company					
	Interests in	Equity	Interests in	Other	Total	
	associates	investment	consolidated	unlisted		
	(Note(a))	differences	subsidiaries	investments	(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 year	562,822	-	109,993	386	673,201	
Share of profits less losses from investments accounted for under the equity method	-	-	218,294	-	218,294	
Dividend receivable / received	(11,478)	-	(165,911)	-	(177,389)	
Amortisation for the year	-	10,849	-	-	10,849	
Balance at 31 December 2004	2,121,384	(272,549)	2,090,849	164,772	4,104,456	

## 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 31 December 2004 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 RMB'000	Amortisation period	1 January 2004 RMB'000	Disposal during the year RMB'000	31 December 2004 RMB'000	Reason
Shanghai Chemical Industry Park Development Co., Ltd	(300,000)	30 years	(280,000)	10,000	(270,000)	Investment in associate
Shanghai Jindong Petrochemical Industrial Company Limited	(8,492)	10 years	(3,398)	849	(2,549)	Investment in subsidiary
Total	(308,492)		(283,398)	10,849	(272,549)	

The "equity investment difference" is amortised on a straight-line basis over 10 and 30 years. The remaining period of amortisation is 3 to 27 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.



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

- (d) The particulars of subsidiaries which principally affected the results or assets of the Group, at 31 December 2004 are as follows:

Company	Place of incorporation	Registered capital '000	Percentage of equity		Principal activities
			held by the Company %	held by subsidiaries %	
Shanghai Petrochemical Investment Development Company Limited	PRC	RMB 800,000	100	-	Investment management
SPC Marketing Development Corporation	PRC	RMB 25,000	100	-	Trading in petrochemical products
China Jinshan Associated Trading Corporation	PRC	RMB 25,000	80	-	Import and export of petrochemical products and equipment
Shanghai Jinhua Industrial Company Limited	PRC	RMB 25,500	-	81.46	Trading in petrochemical products
Shanghai Jindong Petrochemical Industrial Company Limited	PRC	RMB 40,000	-	60	Trading in petrochemical products
Shanghai Golden Way Petrochemical Company Limited	PRC	US\$ 3,460	-	75	Production of vinyl acetate products
Shanghai Jinchang Engineering Plastics Company Limited	PRC	US\$ 4,750	-	50.38	Production of polypropylene products
Shanghai Golden-Phillips Petrochemical Company Limited	PRC	US\$ 50,000	-	60	Production of polyethylene products
Zhejiang Jin Yong Acrylic Fibre Company Limited	PRC	RMB 250,000	75	-	Production of acrylic fibre products
Shanghai Petrochemical Enterprise Development Company Limited	PRC	RMB 455,000	100	-	Investment management
Shanghai Golden Conti Petrochemical Company Limited	PRC	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 year ended 31 December 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 is analysed as follows:

	The Group	
	2004 RMB'000	2003 RMB'000
Balance at 1 January	31,788	9,658
Provision for the year	36,276	25,430
Written off for the year	(1,000)	(3,300)
Written back for the year	(5,314)	-
Balance at 31 December	61,750	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 36,276,000 during the year.

(g) Major investment changes

At 31 December 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	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 2004
			RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Shanghai Chemical Industry Park Development Company Limited	30 years	38%	652,356	-	-	10,000	(11,478)	650,878
Shanghai Secco Petrochemical Company Limited	50 years	20%	637,684	562,821	-	-	-	1,200,505
Shanghai Jinpu Plastics Packaging Material Company Limited	30 years	50%	103,000	-	(9,595)	-	-	93,405
Shanghai Jinsen Petrochemical Company Limited	40 years	40%	11,594	22,388	3,162	-	-	37,144

## 9. 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.

(h) At 31 December 2004, the Company's proportion of the total investments to the net assets was 21.71% (2003: 21.79%).

At 31 December 2004, the Group's proportion of the total investments to the net assets was 14.15% (2003: 13.69%).

## 10. Fixed assets

(a) The Group

	Land and buildings	Plant, machinery, equipment and other fixed assets	Total
	RMB'000	RMB'000	RMB'000
<b>Cost or valuation:</b>			
At 1 January 2004	5,972,018	25,768,410	31,740,428
Additions	22,582	184,902	207,484
Transferred from construction in progress (Note 12)	814,352	682,159	1,496,511
Disposals	(85,422)	(454,792)	(540,214)
At 31 December 2004	6,723,530	26,180,679	32,904,209
<b>Accumulated depreciation:</b>			
At 1 January 2004	2,761,262	11,921,850	14,683,112
Charge for the year	250,205	1,590,280	1,840,485
Written back on disposals	(23,870)	(335,014)	(358,884)
At 31 December 2004	2,987,597	13,177,116	16,164,713
<b>Less : Provision for impairment losses:</b>			
At 1 January 2004	-	24,600	24,600
Charge for the year	-	34,345	34,345
At 31 December 2004	-	58,945	58,945
<b>Net book value:</b>			
At 31 December 2004	3,735,933	12,944,618	16,680,551
At 31 December 2003	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 other fixed assets RMB'000	Total RMB'000
<b>Cost or valuation:</b>			
At 1 January 2004	4,842,238	23,064,046	27,906,284
Additions	-	148,984	148,984
Transferred from construction in progress (Note 12)	776,793	653,172	1,429,965
Disposals	(77,863)	(423,850)	(501,713)
At 31 December 2004	5,541,168	23,442,352	28,983,520
<b>Accumulated depreciation:</b>			
At 1 January 2004	2,453,653	10,629,830	13,083,483
Charge for the year	189,256	1,413,373	1,602,629
Written back on disposals	(21,587)	(315,910)	(337,497)
At 31 December 2004	2,621,322	11,727,293	14,348,615
<b>Less : Provision for impairment losses:</b>			
At 1 January 2004	-	24,600	24,600
Charge for the year	-	34,345	34,345
At 31 December 2004	-	58,945	58,945
<b>Net book value:</b>			
At 31 December 2004	2,919,846	11,656,114	14,575,960
At 31 December 2003	2,388,585	12,409,616	14,798,201

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 Dupont cannot meet the market development. During 2004, the Company has made a provision for impairment losses of RMB 34,345,000 for this production facility. During 2003, the Company has made a provision for impairment losses of RMB 24,600,000 for production facility of tyre cord.

(d) At 31 December 2004, the cost of the Group's fully depreciated fixed assets was RMB6,133,235,399 (2003: RMB 3,529,747,000).

(e) At 31 December 2004, no property, plant and equipment were pledged by the Group. (2003: RMB 414,342,000).

## Notes to the Financial Statements (continued)

(Prepared under PRC Accounting Rules and Regulations)

### 11. Construction materials

	The Group		The Company	
	2004	2003	2004	2003
	RMB'000	RMB'000	RMB'000	RMB'000
Equipment & accessories	20,226	28,387	20,226	27,810

### 12. Construction in progress

	The Group		The Company	
	2004	2003	2004	2003
	RMB'000	RMB'000	RMB'000	RMB'000
Balance at 1 January	374,780	890,051	351,480	847,121
Additions	1,885,181	1,054,538	1,786,574	1,016,631
of which:				
Capitalised interest costs	-	3,502	-	3,502
Transferred to fixed assets (Note 10)	2,259,961 (1,496,511)	1,944,589 (1,569,809)	2,138,054 (1,429,965)	1,863,752 (1,512,272)
Balance at 31 December	763,450	374,780	708,089	351,480

At 31 December 2004, major projects of the Group are as follows:

Project	Budgeted amounts	At 1 January 2004	Addition	Transfer to fixed assets	At 31	Stage of completion	Interest capitalised
					December 2004		during the year
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
75KR/HRPP Development system							
for PP high performance	49,500	19,317	534	-	19,851	40%	-
Light oil can project	67,000	491	39,962	-	40,453	60%	-
1# Cracking facility improvement project	388,000	-	270,774	-	270,774	70%	-
North-south pipeline project	200,000	-	50,608	-	50,608	25%	-

All the above projects were made out of funds other than proceeds from subscription.

## 13. Intangible assets

	The Group and the Company	
	2004 RMB'000	2003 RMB'000
Cost:		
At 1 January	134,482	134,482
Less:		
Accumulated amortisation		
At 1 January	98,619	85,171
Addition	13,448	13,448
At 31 December	112,067	98,619
Net book value:		
At 31 December	22,415	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 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)

### 14. Taxation

(a) Taxation in the income statement represents:

	The Group		The Company	
	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
Provision for PRC income tax for the year	725,897	249,285	656,313	220,906
Deferred taxation	(16,589)	(9,682)	(15,301)	(9,682)
	709,308	239,603	641,012	211,224
Tax refund	(75,579)	(92,167)	(75,579)	(92,167)
	633,729	147,436	565,433	119,057

The charge for PRC income tax is calculated at the rate of 15% (2003: 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 therefore no provision has been made for overseas income tax.

The Company has not received notice from Ministry of Finance that the 15% tax rate will be revoked in 2005. It is possible that the Company's tax rate will increase in the future. However, the Company continues to use the 15% tax rate 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 75,579,000 (2003: RMB 92,167,000) 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	
	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
Income tax	71,675	76,565	50,276	72,658
VAT	121,101	102,080	114,622	97,878
Consumption tax	40,048	71,600	40,048	71,600
Business tax	3,346	2,815	1,173	346
Other taxes	23,941	25,272	21,940	22,745
	260,111	278,332	228,059	265,227

## 14. Taxation (continued)

(c) Deferred tax assets

	The Group		The Company	
	2004	2003	2004	2003
	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January	24,853	15,171	24,853	15,171
Provision for inventories and bad debts	11,437	5,992	10,149	5,992
Provision for impairment losses of fixed assets	5,152	3,690	5,152	3,690
At 31 December	41,442	24,853	40,154	24,853

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

## 15. Short-term loans

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

	The Group		The Company	
	2004	2003	2004	2003
	RMB'000	RMB'000	RMB'000	RMB'000
Short-term bank loans	3,612,727	4,445,588	3,034,556	3,694,990
Short-term loans with related party (Note 30(g))	130,000	130,000	-	-
	3,742,727	4,575,588	3,034,556	3,694,990

No bank loans were secured at 31 December 2004 (2003: RMB 75,000,000).

All 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 3.42% (2003: 2.74%) at 31 December 2004.

As at 31 December 2004 and 31 December 2003, the Group and the Company had no significant overdue short-term loan.

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



## 16. 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:

	<b>The Group</b>			
	<b>2004</b>		<b>2003</b>	
	Amount RMB'000	Proportion %	Amount RMB'000	Proportion %
Within three months	832,874	91.33	1,202,038	88.66
Between three and six months	52,682	5.78	87,934	6.48
Over six months	26,384	2.89	65,861	4.86
	<b>911,940</b>	<b>100.00</b>	1,355,833	100.00

	<b>The Company</b>			
	<b>2004</b>		<b>2003</b>	
	Amount RMB'000	Proportion %	Amount RMB'000	Proportion %
Within three months	697,520	98.50	1,031,910	99.07
Between three and six months	908	0.13	5,482	0.53
Over six months	9,723	1.37	4,195	0.40
	<b>708,151</b>	<b>100.00</b>	1,041,587	100.00

## 17. Dividend payable

Pursuant to the shareholders' approval at the Annual General Meeting on 18 June 2004, a final dividend of RMB 0.08 per share totalling RMB 576,000,000 (2002: RMB 0.05 per share totalling RMB 360,000,000) in respect of the year ended 31 December 2003 was approved.

During the year ended 31 December 2004, dividend of RMB 576,000,000 was paid to shareholders.

## 18. Accrued expenses

At 31 December 2004, the Group's and the Company's accrued expenses primarily represented accrued interest expenses.

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

	The Group		The Company	
	2004 RMB'000	2003 RMB'000	2004 RMB'000	2003 RMB'000
Between one and two years	1,430,178	1,802,573	1,404,899	1,664,673
Between two and three years	456,580	1,255,173	431,300	1,234,673
Between three and five years	62,297	93,102	7,738	27,602
After five years	65,559	56,000	15,000	15,000
	2,014,614	3,206,848	1,858,937	2,941,948
Current portion of long-term loans	1,257,578	999,141	1,114,899	755,815
	3,272,192	4,205,989	2,973,836	3,697,763