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 Institute of Certified Public Accountants. KPMG's independent review report to the Board of Directors is included on page 27.

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 2004 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 2004 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 23 March 2005.

Other than those set out in Note 2 below, the accounting policies have been consistently applied by the Group and are consistent with those adopted in the 2004 annual financial statements. The 2004 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. Changes in accounting policies

The IASB has issued a number of new and revised IFRS that are effective for accounting periods beginning on or after 1 January 2005. The Board of Directors has determined the accounting policies to be adopted in the preparation of the Group's annual financial statements for the year ending 31 December 2005, on the basis of IFRS currently in issue.

The IFRS that will be effective in the annual financial statements for the year ending 31 December 2005 may be affected by the issue of additional interpretation(s) or other changes announced by the IASB subsequent to the date of issuance of this interim report. Therefore, the policies that will be applied in the Group's financial statements for that period cannot be determined with certainty at the date of issuance of this interim financial report.

The following sets out further information on the changes in accounting policies for the annual accounting period beginning on 1 January 2005 which have been reflected in this interim financial report.

(a) Amortisation of positive and negative goodwill (IFRS 3, Business combinations and IAS 36, Impairment of assets)

In prior periods:

- positive goodwill was amortised on a straight line basis over its useful life and was subject to impairment testing when there were indications of impairment; and
- negative goodwill was amortised over the useful life of the depreciable/amortisable non-monetary assets acquired, except to the extent it related to identified expected future losses as at the date of acquisition. In such cases it was recognised in the income statement as those expected losses were incurred.

With effect from the beginning of the first annual period beginning after 31 March 2004, i.e. 1 January 2005, in accordance with IFRS 3 and IAS 36, the Group no longer amortises positive goodwill. Such goodwill is tested annually for impairment, including in the year of its initial recognition, as well as when there are indication of impairment. Impairment losses are recognised when the carrying amount of the cash generating unit to which the goodwill has been allocated exceeds its recoverable amount.

Also with effect from the beginning of the first annual period beginning after 31 March 2004, i.e. 1 January 2005 and in accordance with IFRS 3, if the fair value of the net assets acquired in a business combination exceeds the consideration paid (i.e. an amount arises which would have been known as negative goodwill under the previous accounting policy), the excess is recognised immediately in the income statement as it arises.

The new policy in respect of positive goodwill has been applied prospectively in accordance with the transitional arrangements under IFRS 3. As a result, comparative amounts have not been restated, the cumulative amount of amortisation as at 1 January 2005 has been offset against the cost of the goodwill and no amortisation charge for goodwill has been recognised in the income statement for the six months ended 30 June 2005. As a result, this has increased the group's profit after tax for the six months ended 30 June 2005 by RMB 6,724,000.

Also in accordance with the transitional arrangements under IFRS 3, previous recognised negative goodwill shall be derecognised at the beginning of that period, with a corresponding adjustment to the opening balance of retained earnings. As a result, the retained earnings increased by RMB 2,549,000 as at 1 January 2005. This has decreased the group's profit after tax for the six months ended 30 June 2005 by RMB 425,000.

2. Changes in accounting policies *(continued)*

(b) Minority interests (IAS 1, Presentation of financial statements and IAS 27, Consolidated and separate financial statements)

In prior years, minority interests at the balance sheet date were presented in the consolidated balance sheet separately from liabilities and as deduction from net assets. Minority interests in the results of the Group for the year were also separately presented in the consolidated income statement as a deduction before arriving at the profit attributable to shareholders.

With effect from 1 January 2005, in order to comply with IAS 1 and IAS 27, minority interests at the balance sheet date are presented in the consolidated balance sheet within equity, separately from the equity attributable to the equity holders of the parent, and minority interests in the results of the Group for the period are presented on the face of the consolidated income statement as an allocation of the total profit or loss for the period between minority interests and the equity holders of the parent.

The presentation of minority interests in the consolidated balance sheet, income statement and statement of changes in equity for the comparative period has been restated accordingly.

(c) Related party disclosures (IAS 24 "Related party disclosures")

The Group is a state-controlled enterprise and operates in an economic regime currently predominated by state-controlled enterprises. Apart from transactions with parent company and its fellow subsidiaries, the Group conducts certain business activities with enterprises directly or indirectly owned or controlled by the PRC government and government authorities and agencies (collectively "state-controlled entities") in the ordinary course of business. In prior years, transactions with state-controlled entities other than Sinopec Corp and its fellow subsidiaries were not required to be disclosed as related party transactions.

With effect from 1 January 2005, in order to comply with IAS 24, the Group has made further disclosure of key management personnel compensation, contributions to post-retirement benefit plans and transactions with state-controlled entities in the PRC. The disclosure of such related party transactions in Note 13 for the comparative period has been made accordingly.

3. Segment reporting

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

	Six-month periods ended 30 June	
	2005	2004
Turnover	**RMB'000**	RMB'000
Manufactured products		
Synthetic fibres		
External sales	**2,449,372**	2,417,891
Intersegment sales	**43**	34
Total	**2,449,415**	2,417,925
Resins and plastics		
External sales	**6,930,737**	5,442,159
Intersegment sales	**27,797**	15,047
Total	**6,958,534**	5,457,206
Intermediate petrochemicals		
External sales	**3,483,154**	2,290,996
Intersegment sales	**6,408,146**	5,065,567
Total	**9,891,300**	7,356,563
Petroleum products		
External sales	**8,351,262**	6,201,821
Intersegment sales	**532,169**	447,452
Total	**8,883,431**	6,649,273
All others		
External sales	**671,947**	1,425,270
Intersegment sales	**1,808,478**	1,851,705
Total	**2,480,425**	3,276,975
Eliminations of intersegment sales	**(8,776,633)**	(7,379,805)
Consolidated turnover	**21,886,472**	17,778,137

External sales include sales to other Sinopec Corp group companies.

3. **Segment reporting** *(continued)*

Profit before tax	Six-month periods ended 30 June 2005 RMB'000	2004 RMB'000
Profit / (loss) from operations		
Synthetic fibres	**282,430**	118,297
Resins and plastics	**1,319,350**	768,399
Intermediate petrochemicals	**863,539**	495,644
Petroleum products	**(175,287)**	531,715
All others	**74,886**	94,600
Consolidated profit from operations	**2,364,918**	2,008,655
Share of losses of associates	**(93,723)**	(17,392)
Net financing costs	**(113,407)**	(171,495)
Consolidated profit before tax	**2,157,788**	1,819,768

4. **Profit before tax**

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

	Six-month periods ended 30 June 2005 RMB'000	2004 RMB'000
Interest on bank loans and advances	**146,728**	185,842
Less: Amount capitalised as construction in progress	**(15,933)**	-
Interest expenses, net	**130,795**	185,842
Cost of inventories	**18,949,942**	15,097,255
Depreciation	**856,665**	935,073
Amortisation of lease prepayment	**10,326**	10,609
Net loss on disposal of property, plant and equipment	**1,811**	41,139
Impairment loss of property, plant and equipment	**-**	34,345
Amortisation of goodwill	**-**	6,724
Amortisation of deferred income	**(5,759)**	(6,184)

5. Taxation

Taxation in the consolidated income statement represents:

	Six-month periods ended 30 June	
	2005	2004
	RMB'000	RMB'000
Provision for PRC income tax for the period	**357,730**	284,909
Deferred taxation	**2,230**	(16,523)
Tax refund	**-**	(10,262)
	359,960	258,124

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 was entitled to an income tax refund of RMB 10,262,000 during the period ended 30 June 2004 relating to the purchase of equipment produced in the PRC for technological improvements. The Company was not entitled to income tax refund during the period ended 30 June 2005.

The charge for PRC income tax is calculated at the rate of 15% (2004: 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 therefore does not incur overseas income taxes. The Company has not received notice from the 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.

6. Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to shareholders for the period of RMB 1,763,442,000 (period ended 30 June 2004: RMB 1,520,725,000) and 7,200,000,000 (period ended 30 June 2004: 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.

7. Dividend

	Six-month periods ended 30 June	
	2005	2004
	RMB'000	RMB'000
Final dividend in respect of the previous financial year, approved during the period, of RMB 0.20 per share(2004: RMB 0.08 per share)	**1,440,000**	576,000

Pursuant to a resolution passed at the Annual General Meeting held on 28 June 2005, a final dividend of RMB 1,440,000,000 (2004: RMB 576,000,000) was declared and approved for the year ended 31 December 2004. The Directors do not recommend the payment of an interim dividend for the period (2004: RMB Nil).

8. Property, plant and equipment

	2005 RMB'000	2004 RMB'000 (audited)
Cost or valuation:		
At 1 January	**31,188,112**	30,521,398
Additions	**85,356**	207,484
Transfer from construction in progress	**643,957**	961,047
Disposals	**(80,585)**	(501,817)
At 30 June / 31 December	**31,836,840**	31,188,112
Accumulated depreciation and impairment losses:		
At 1 January	**15,981,787**	14,501,294
Charge for the period / year	**850,226**	1,793,084
Impairment loss	**-**	34,345
Written back on disposals	**(41,190)**	(346,936)
At 30 June / 31 December	**16,790,823**	15,981,787
Net book value:		
Balance at 30 June / 31 December	**15,046,017**	15,206,325

9. Investment Property

	2005 RMB'000	2004 RMB'000 (audited)
Cost:		
At 1 January	**512,343**	-
Additions	**16,122**	-
Transfer from construction in progress	**-**	512,343
At 30 June / 31 December	**528,465**	512,343
Accumulated depreciation:		
At 1 January	**1,036**	-
Charge for the period / year	**6,439**	1,036
At 30 June / 31 December	**7,475**	1,036
Net book value:		
At 30 June / 31 December	**520,990**	511,307

9. Investment Property *(continued)*

Investment property represents certain floors of an office building rented out under the terms of operating leases.

The fair values of the investment property of the Group as at 30 June 2005 are estimated by the directors to be approximately RMB 601,825,000 by reference to market conditions. The investment property has not been valued by an external independent valuer.

Rental income of RMB 6,021,000 is received during the period ended 30 June 2005.

10. Trade accounts receivable

	At 30 June 2005 RMB'000	At 31 December 2004 RMB'000 (audited)
Trade debtors	**387,977**	440,632
Less: Allowance for doubtful debts	**(46,574)**	(45,282)
	341,403	395,353
Bills receivable	**1,719,230**	1,675,412
Amounts due from parent company and fellow subsidiaries – trade	**516,090**	585,419
	2,576,723	2,656,184

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

	At 30 June 2005 RMB'000	At 31 December 2004 RMB'000 (audited)
Invoice date:		
Within one year	**2,569,893**	2,639,266
Between one and two years	**6,830**	16,918
Over two years	**-**	-
	2,576,723	2,656,184

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

11. Trade accounts payable

	At 30 June 2005 RMB'000	At 31 December 2004 RMB'000 (audited)
Trade creditors	**868,067**	797,753
Bills payable	**33,382**	259,746
Amounts due to parent company and fellow subsidiaries – trade	**391,259**	639,445
	1,292,708	1,696,944

The maturity analysis of trade accounts payable is as follows:

	At 30 June 2005 RMB'000	At 31 December 2004 RMB'000 (audited)
Due within 1 month or on demand	**1,287,667**	1,420,092
Due after 1 month and within 3 months	**5,041**	276,852
	1,292,708	1,696,944

12. 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 2004: RMB Nil).

13. Related party transactions

(a) Most of the transactions undertaken by the Group during the period ended 30 June 2005 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 periods ended 30 June 2005, the value of crude oil purchased in accordance with Sinopec Corp's allocation was as follows:

	Six-month periods ended 30 June	
	2005 RMB'000	2004 RMB'000
Purchases of crude oil	**12,424,946**	8,871,835

13. Related party transactions *(continued)*

(b) Other transactions between the Group and other related parties during the six-month periods ended 30 June 2005 were as follows:

	Six-month periods ended 30 June	
	2005	2004
	RMB'000	RMB'000
Sales of products and service fee income	**9,075,959**	7,302,057
Purchases other than crude oil	**677,597**	426,961
Insurance premiums paid	**45,347**	46,131
Net withdrawal of deposits placed with related parties	**56,510**	29,980
Interest received and receivable	**277**	1,231
New loans obtained from related parties	**50,000**	25,000
Loans repaid to related parties	**50,000**	50,000
Interest paid and payable	**3,315**	3,330
Transportation fees	**186,133**	2,366
Construction and installation fees	**93,983**	68,580
Net withdrawal of guarantees	**(23,300)**	(22,222)

(c) Deposits with related parties

	At 30 June	At 31 December
	2005	2004
	RMB'000	RMB'000
		(audited)
Deposits,with maturity within 3 months	**195,928**	252,438

(d) Loans with related parties

	At 30 June	At 31 December
	2005	2004
	RMB'000	RMB'000
		(audited)
Short-term loans	**130,000**	130,000

13. Related party transactions *(continued)*

(e) Key management personnel compensation and post-employment benefit plans

	Six-month periods ended 30 June	
	2005	2004
	RMB'000	RMB'000
Short-term employee benefits	**1,384**	1,373
Post-employment benefits	**16**	13
	1,400	1,386

The Directors of the Group are of the opinion that the above related party transactions were conducted on normal commercial terms or, if there are not sufficient comparable transactions to judge whether they are on normal commercial terms, on terms no less favorable to the Group than terms available to or from independent third parties, and in the ordinary course of business. This has been confirmed by the non-executive Directors.

Although certain business activities of the Group are with PRC government authorities and affiliates and other state-controlled enterprises, the Group believes that it has provided meaningful disclosure of related party transactions in the above.

14. Commitments

(a) Capital commitments

The Group had capital commitments outstanding as at 30 June 2005 and 31 December 2004 not provided for in the financial statements as follows:

	At 30 June 2005 RMB'000	At 31 December 2004 RMB'000 (audited)
Property, plant and equipment		
Contracted but not provided for	**171,910**	322,797
Authorised by the Board but not contracted for	**1,665,288**	1,824,985
	1,837,198	2,147,782
Investment		
Contracted but not provided for	**146,909**	295,886
	1,984,107	2,443,668

(b) Management fee commitments

At 30 June 2005, the Group had outstanding contracted obligation for management fee of approximately RMB 3,793,070 (At 31 December 2004: RMB 7,609,000).

15. Contingent liabilities

Contingent liabilities of the Group are as follows:

	At 30 June 2005 RMB'000	At 31 December 2004 RMB'000 (audited)
Guarantees issued to banks in favour of:		
- associates	**40,000**	40,000
- other unlisted investment companies	**38,586**	61,886
	78,586	101,886

Guarantees issued to banks in favour of associates and other unlisted investment companies are given to the extent of the Company's respective 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 recognize any such losses under guarantees when those losses are estimable. At 30 June 2005, 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.

16. Subsequent event

On 21 July 2005, the People's Bank of China announced that the PRC government reformed the exchange rate regime by moving into a managed floating exchange rate regime based on market supply and demand with reference to a basket of foreign currencies. Particularly, the exchange rate of US dollar against Renminbi was adjusted upward to 8.11 yuan per US dollar with effect from the time of 19:00 hour on 21 July 2005.

At 30 June 2005, the Group has the following significant cash and cash equivalents and bank loans, which are denominated in foreign currencies.

	At 30 June 2005 Original currency '000
Cash at bank	
- Hong Kong dollars	108,966
- United States dollars	7,359
Bank loans	
- United States dollars	295,543