

Reconciliation Statement of Differences in Consolidated Shareholders' Equity between the New and Old Accounting Standards and the Review Report

REVIEW REPORT

To the shareholders of Sinopec Shanghai Petrochemical Company Limited:

We have reviewed the attached reconciliation statement of differences in consolidated shareholders' equity between the new and old accounting standards of Sinopec Shanghai Petrochemical Company Limited ("the Company") as at 31 December 2006 and 1 January 2007 ("the reconciliation statement of differences"). It is the responsibility of the Company's management to prepare the reconciliation statement of differences in accordance with the basis of preparation set out in Note 2 to the reconciliation statement of differences and the "Notice on the Proper Disclosure of Financial and Accounting Information In Relation to the New Accounting Standards" (Zheng Jian Fa[2006] No.136) ("the Notice"), our responsibility is to issue a review report on the reconciliation statement of differences based on our review.

As required by the Notice, we conducted our review by reference to the Standard on Review Engagements for Certified Public Accountants Registered in the PRC 2101—Engagements to Review Financial Statements. The standard requires that we plan and perform the review to obtain limited assurance about whether the reconciliation statement of differences is free from material misstatement. A review is limited largely to making enquiries of relevant personnel of the Company about the accounting policies and all the important assumptions underlying the reconciliation statement of differences, obtaining an understanding of the calculation of the reconciled amounts in the reconciliation statement of differences, reading the reconciliation statement of differences to determine whether the basis of preparation has been properly followed and performing analytical procedures as and when necessary. A review provides a lower level of assurance than an audit. We have not conducted an audit and accordingly, we do not express an audit opinion.

On the basis of our review, we are not aware of any issues which cause us to believe that the above reconciliation statement of differences has not been prepared, in all material respects, in accordance with the basis of preparation set out in Note 2 to the reconciliation statement of differences.

KPMG Huazhen

Certified Public Accountants
Registered in the People's Republic of China

Hu Qiong

Beijing, the People's Republic of China

Wang Wenli

29 March 2007

Sinopec Shanghai Petrochemical Company Limited

31 December 2006 and 1 January 2007

Reconciliation statement of differences in the consolidated shareholders' equity between the new and old accounting standards

	Note	Amount RMB'000
Consolidated shareholders' equity as at 31 December 2006 (old accounting standards)	3(1)	19,273,088
Adjustment:		
1 Financial assets available for sale measured at fair value	3(2)	25,822
2 Income tax	3(3)	(24,672)
3 Minority interests	3(4)	336,013
4 Interest capitalisation of general borrowings	3(5)	138,657
Consolidated shareholders' equity as at 1 January 2007 (new accounting standards)		19,748,908

Approved by the Board of the Directors on 29 March 2007.

Rong Guangdao
Chairman and President

Du Chongjun
Vice chairman and Vice President

Han Zhihao
Director and Chief Financial Officer

The notes on pages 202 to pages 203 form part of this reconciliation statement of differences.

Sinopec Shanghai Petrochemical Company Limited

31 December 2006 and 1 January 2007

Notes to the reconciliation statement of differences in consolidated shareholders' equity between the new and old accounting standards

1 Purpose of preparation

Commencing from 1 January 2007, the Company has adopted the Accounting Standards for Business Enterprises ("New Accounting Standards") promulgated by the MOF in 2006. To analyse and disclose the impact of adopting the New Accounting Standards on the Company's financial position, the China Securities Regulatory Commission issued the "Notice on the Proper Disclosure of Financial and Accounting Information In Relation to the New Accounting Standards" (Zheng Jian Fa [2006] No. 136) ("the Notice") in November 2006 under which the Company is required to disclose the reconciliation of major differences in the "Supplementary Information" section of the annual financial report for 2006 in the form of reconciliation statement of differences in consolidated shareholders' equity between the new and old accounting standards ("reconciliation statement of differences") in accordance with relevant requirements of the Accounting Standard for Business Enterprises No. 38 — First time adoption of Accounting Standards for Business Enterprises ("ASBE 38") and the Notice.

2 Basis of preparation

The Company issued H shares and prepared financial reports for external use under the PRC Accounting Rules and Regulations and the International Financial Reporting Standards ("IFRSs") for the previous years. As required by the "Opinion of the Expert Team on the Implementation of the Accounting Standards for Business Enterprises" ("the Opinion"), on the date of first adoption, the following retrospective adjustments have been made to items relevant to the changes in accounting policies arising from the implementation of New Accounting Standards.

For the principles of the New Accounting Standards which are different from the old accounting standards, if the Company had already adopted the principles of the New Accounting Standards in the preparation of financial statements under IFRSs for the previous years, retrospective adjustments will be made to the changes in accounting policies arising from the implementation of New Accounting Standards based on the information relied upon by the Company in preparing the financial statements under IFRSs for the previous years.

This reconciliation statement of differences has been prepared in accordance with the principle of retrospective adjustment as stated above, the characteristics and actual situation of the Group and the principle of materiality on the basis of the consolidated financial statements of 2006. References have been made to the Notice in respect of the presentation and disclosure of information in the reconciliation statement of differences.

In respect of the areas that are not specified in Art. 5 to Art.19 of ASBE 38 and the Opinion, this reconciliation statement of differences is prepared under the following principles:

- (1) Upon the adoption of the New Accounting Standards, the Company has accounted for minority interests in the consolidated shareholders' equity in accordance with the Accounting Standards for Business Enterprises No.33 Consolidated Financial Statements, and the adjustment is reflected in separately-presented items in the reconciliation statement of differences.

Sinopec Shanghai Petrochemical Company Limited

31 December 2006 and 1 January 2007

Notes to the reconciliation statement of differences in consolidated shareholders' equity between the new and old accounting standards (continued)

3 Significant items explanation

- (1) The figures of consolidated shareholders' equity as at 31 December 2006 (under the Old Accounting Standards) are extracted from the Company's consolidated financial statements for the year ended 31 December 2006 prepared under the Old Accounting Standards. These financial statements were audited by KPMG Huazhen, which issued an auditors' report with unqualified opinion on 29 March 2007. The basis of presentation and the significant accounting policies of these financial statements are set out in the Company's 2006 consolidated financial statements.

This reconciliation statement of differences and its notes should be read in conjunction with the 2006 financial statements.

- (2) Financial assets available for sale measured at fair value
According to the requirements to measure financial assets available for sale at fair value under the "Accounting Standards for Business Enterprises No.22 Recognition and Measurement of Financial Instruments", the Company determined the fair value of the financial assets available for sale as at 1 January 2007 based on the bidding prices in an open market amounted to RMB81,118,700. The Company made the adjustment to increase the consolidated shareholders' equity amounting to RMB25,822,000 based on the differences between the book value and the fair value.
- (3) Income tax
In accordance with "Accounting Standards for Business Enterprises No.18 Income Tax", the Company increased the deferred tax liabilities amounted to RMB24,672,000 on implementation of the new accounting standards as at 1 January 2007 at the first time, the net decrease of retained earnings amounted to RMB 24,672,000.
- (4) Minority interests
The Company adjusted the minority interests amounting to RMB336,013,000 in accordance with the new accounting standards.
- (5) Interest capitalisation of general borrowings
In accordance with "Accounting Standards for Business Enterprises No.17 Borrowing Cost", the interest expenses of general borrowing for the construction or production of the qualifying asset should be capitalized as part of the cost of that asset. The Company increased fixed assets and construction in progress by the capitalisation interest of general borrowings amounting to RMB138,657,000 on implementation of the new accounting standards as at 1 January 2007 at the first time, the net increase of retained earnings amounted to RMB 138,657,000.

4 Important notes

The Company commenced adoption of the New Accounting Standards on 1 January 2007, and is in the process of making an assessment of its impact on the Company's financial position, operating results and cash flow. After giving careful consideration to this and the further briefing on the New Accounting Standards by the Ministry of Finance, the Company may adjust related accounting policies or significant perception applied in the preparation of the reconciliation statement of differences, while preparing the 2007 financial statements. This will, in turn, cause a difference between the consolidated shareholders' equity (under the New Accounting Standards) as at 1 January 2007 as stated in the reconciliation statement of differences and the respective figures as presented in the 2007 financial statements.