RIO TINTO LTD
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The following is a transcript of a media conference call with Marius Kloppers, Chief Executive Officer, BHP Billiton on December 12, 2007 and made available on December 13, 2007.

BHP Billiton

Media Conference Call

12 December 2007

DISCLAIMER

The directors of BHP Billiton accept responsibility for the information contained in this document. Having taken all reasonable care to ensure that such is the case, the information contained in this document is, to the best of the knowledge and belief of the directors of BHP Billiton, in accordance with the facts and contains no omission likely to affect its import.

In connection with BHP Billiton's proposed combination with Rio Tinto by way of the proposed Schemes of Arrangement (the "Schemes"), the new BHP Billiton shares to be issued to Rio Tinto shareholders under the terms of the Schemes have not been, and will not be, registered under the US Securities Act of 1933, as amended, or under the securities laws of any state, district or other jurisdiction of the United States, and no regulatory clearances in respect of the new BHP Billiton shares have been, or (possibly with certain limited exceptions) will be, applied for in any jurisdiction of the United States. It is expected that the new BHP Billiton shares will be issued in reliance upon the exemption from the registration requirements of the US Securities Act provided by Section 3(a)(10) thereof.

In the event that the proposed Schemes do not qualify (or BHP Billiton otherwise elects pursuant to its right to proceed with the transaction in a manner that does not qualify) for an exemption from the registration requirements of the US Securities Act, BHP Billiton would expect to register the offer and sale of the securities it would issue to Rio Tinto US shareholders and Rio Tinto ADS holders by filing with the US Securities and Exchange Commission (the “SEC”) a registration statement (the “Registration Statement”), which would contain a prospectus (“Prospectus”), as well as other relevant materials. No such materials have yet been filed. This communication is not a substitute for any Registration Statement or Prospectus that BHP Billiton may file with the SEC.

U.S. INVESTORS AND U.S. HOLDERS OF RIO TINTO SECURITIES AND ALL HOLDERS OF RIO TINTO ADSs ARE STRONGLY URGED TO READ THE REGISTRATION STATEMENT AND PROSPECTUS AND ANY OTHER DOCUMENTS MADE AVAILABLE TO THEM AND/OR FILED WITH THE SEC REGARDING THE POTENTIAL TRANSACTION, AS WELL AS ANY AMENDMENTS AND SUPPLEMENTS TO THOSE DOCUMENTS, IF AND WHEN THEY BECOME AVAILABLE BECAUSE THEY WILL CONTAIN IMPORTANT INFORMATION.

If and when filed, investors and security holders will be able to obtain a free copy of the Registration Statement, the Prospectus as well as other relevant documents filed with the SEC at the SEC's website (http://www.sec.gov), once such documents are filed with the SEC. Copies of such documents may also be obtained from BHP Billiton without charge, once they are filed with the SEC.

TRANSCRIPT BEGINS:

Marius Kloppers

Chief Executive Officer

Good morning to those of you in London. I was hoping to start this morning talking about our announcement in the presentation. I was woken up this morning by news of a fatality at Olympic Dam, and we obviously take safety very seriously. I have spoken about that on several occasions and I thought that it would be inappropriate for me to say anything before I recorded that fact and the fact that our hearts go out to the family and friends especially during this time leading up to the festive season.

I hope by now all of you have read today's announcement and the presentation that we will be making a little later on. What you will see from our announcement is that we are reiterating the compelling logic of our proposition, especially the three for one share proposal. Our feedback has confirmed that both sets of shareholders have a clear understanding of the logic of this proposal. Rio Tinto suggested that this proposal is all about the value. We agree. We are talking today about the value and the facts that underpin that value. Now rather than taking up your time by going through our announcement, which I am sure most of you will have read by now, I suggest that we move straight into answering your questions.

<u>Questions and Answers</u>

Question

Hello, I was just going to ask about Olympic Dam, if you can put some figures around the size of the expansion opportunities. I'm sure you are aware that Rio has made the capital cost of developing Olympic Dam to those levels an issue, as far as they are concerned, in the value argument. I notice there is no capital cost estimates in what you have said today, but are you prepared to give us a feel today for just how far it might be?

Marius Kloppers

Thank you. We obviously have not had any notice from Rio Tinto that they have spoken about something that is not yet formalised. I think, to reiterate what we have said in the past, this is still in pre-feasibility. The fact that we are putting this staged development approach on the table today is in direct response to changes in the market. In short we have seen a more buoyant future for nuclear, which was always the constraining element in the size of this development. The second element to emphasise is, we have stated over the last six months that we are looking towards intrinsically more capital effective ways of development. This development sequence reinforces that. We have not stated any capital investment for those three stages combined as we have not finalised it, but I want to stress one thing: we see Olympic Dam as something that will continue to be developed over many decades. This is the same story we have said over the last six months. So we should not look at any development here as a single point effort. What we hope to do is basically continuously expand this operation as the demand for uranium grows.

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Question

Tom Albanese said he does not think that mining and petroleum go well together. Have you any plans to divest the petroleum assets?

Marius Kloppers

The way we look at the world is that we have billions of people industrialising. What happens then is that they need all of the basic building blocks for their development – energy, minerals and metals. I would turn that question around and ask the question, how can a truly diversified player afford not to be more exposed to all the elements of the energy portfolio as part of its product offering? After all, energy is the largest out of all of these markets.

Question

I wanted to check, I read your compelling case but I think we have now moved to the next stage, and we are working on a formal offer. Can you give us an indication when that might happen?

Marius Kloppers

I think we should reflect on the fact we have said this has gone on for a decade or so. We have put this proposal on the table, the market has reacted incredibly favourably which indicates to us that they understand this. What we are trying to do here today is to move the discussion back to relative value because that is what it is about when you combine these two facts. We are going to use all the time that we need to continue to reiterate that relative value piece. What decision we take, if any, post-this is for another day.

Question

So when asked by the takeovers panel, you are allowed to be against any imminent bid?

Marius Kloppers

We clearly had contact with the takeover panel. They asked us for a submission which we have not yet made. We will use this period to talk about all of the things in our portfolio and there are two reasons for this. The first is that, remember that, this is what our shareholders get in any case. It is our baseline strategy. So by talking about that we tell the shareholders what they are going to get in any case. The second piece is they obviously would get more if we put these two companies together. But we have not taken any decision today beyond what is on the table. Whether we take a decision, and what form that decision will take, we will take all of the time that we have got to do so.

Question

I am just wondering whether the fact that you are highlighting your superior performance relative to that of Rio is a tactic that you think will get the Rio board to the negotiating table?

Marius Kloppers

In reality what has happened over the last month since we put our proposal on the table is that the value of Rio Tinto has obviously jumped quite dramatically from, what is it, a 2.4 exchange rate implied just before our proposal, to well beyond the 3 that we have offered. People have spoken about absolute value of these two stocks, but what we are trying to do today is just to remind everybody that this is all about relative value, and just highlighting to people what the relative contribution is that we are making. Obviously we would be absolutely delighted to talk to the Rio Tinto management and board. In fact we do not see any downside for them to talk to us given that the market has responded the way that it has.

Question

Given that that is the case and what you said earlier about the fact that both sets of shareholders have a clear understanding of the logic of the proposal, are you saying effectively that it is only the board that are blocking this thing going through?

Marius Kloppers

We are clearly very, very interested in talking to the Rio Tinto board and management. While we have not had the privilege of talking to them, we have clearly been communicated to, that they do not want to talk to us at this stage.

Question

Are you saying that the Rio board is defying what its own shareholders are telling it?

Marius Kloppers

I would not like to speculate on exactly what their decision-making process has been but I would like to take us back to where the market has been. Since the time our proposal, the market has clearly valued, and a lot of commentators have commented on the value to be unlocked here. So I think it is an indisputable fact that there is value to be unlocked here between this combination; value that cannot be unlocked without a transaction. So it is a little mystifying to us that we are not able to talk about a transaction, given that everybody knows that this value is here.

Question

You came out today and, after Rio has gone to the takeover panel to invoke the 'put up or shut up', and the first thing you have said, you reiterated your one for three. Does that mean you're ruling out raising your bid over whatever deadline period the takeovers panel is about to rule on?

Marius Kloppers

We believe that our proposition is compelling. We note the way that the Rio Tinto share prices have responded in response to our proposal. We will elaborate again later on today that that is a quite massive uplift, to where the company was trading before the proposal. Really what I want to talk about today is the relative contribution of BHP Billiton in such a combination and I really wouldn't like to speculate whether, or in what way, or if, indeed, we take any other additional steps beyond the proposal that is on the table today.

Question

A quick follow up, just following on the question about Olympic Dam. I know you said it is too early to have any capital out there. You have outlined some different production steps here going forward but there is no timing on those that I can see. Can you give us any timing on those?

Marius Kloppers

We have not given any updates to the various phases nor do I think we have given any additional guidance to the dates of first production that we indicated at our last set of results. What is very clear is that we want to move this into full feasibility during the course of next year, which I remind people, for us, is a pretty profound step. By the time we get into feasibility, we are really starting to go down the track of engineering, getting contracts in place and so on. We are nearing the end of all of the drilling programmes and all of the conceptual flow sheets and so on and starting down the next steps.

Question

Just looking at the four sets of assets you have highlighted here, Rio Tinto obviously believes they are stronger in iron ore. Olympic Dam, they have concerns over and petroleum they do not want. They have already said they have their own nickel business coming into production soon, which is probably going to be an equivalent level of production to the conceptual level you are talking about. How do you expect this series of assets here to change anything in the mind of the Rio Tinto board?

Marius Kloppers

I would like to take us back to our long stated strategy which is unchanged. That long stated strategy focuses on large low-cost things. We have an extraordinary focus just on big assets, the question I would ask back of you is: where would you expect to have the most certainty? In assets that are large, simple, relatively low-levels of infrastructure, ore bodies that you have operated on for decades, in known territories with workforces in place, all of the regulatory environments in place. Or things where all of those have yet got to be put in place? I think it goes to the head of our strategy to say that we want to own the definitive ore bodies and then we want to make those operations really huge and of low cost. I want to reiterate that simplicity – few, enormous, highly owned assets that are simple to manage and very upstream.

Question

I am wondering whether you would pursue with a bid if you did not first speak with the Rio board?

Marius Kloppers

I would not like to speculate on that. Clearly, we would like the market to rethink the relative value that the two parties bring and just noting that just before we made our proposal that the Rio Tinto market cap was about half of what ours is. People seem to have over the last couple of weeks forgotten about that. But where we go to from here and if we go anywhere from here, I really would not like to speculate on today.

Question

Just one other question. Of your total CAPEX over the last period that we are talking about, since 2001, how much of that, in ballpark, would have been spent on petroleum, is it 30%? 40%?

Marius Kloppers

I do not have an exact figure for you but we can get back to you. I will note that and make sure you get a call afterwards.

Question

A question on iron ore, you talk about the expansion capacity of Port Hedland from a port point of view. Can you give some sort of guidance on your big picture outlook for iron ore and how that can possibly match the conceptual outlook that Rio has come up with? I think the last figure we have for you only take us up to 300 million tonnes per year.

Marius Kloppers

I think we have obviously just outlined formally plans to go to 2015. I think the crux of the matter that we wanted to make absolutely sure that everyone understood today is firstly, when we talk about how that flows into the value of the two companies, we have to talk about the things that the companies actually own. That highly owned piece is the first message that I would like to leave you with. The second piece is simplicity and scope. On balance we prefer fewer things, rather than more, as long as they are large and create value. I think the whole presentation about our iron ore business will show the nature of our ore bodies. The fact that they are much larger in scale and the fact that you can optimise a relatively simple set of infrastructure is actually a huge advantage. It is the same message at Olympic Dam, Cerro Matoso, the clustering of all of these Petroleum assets in the Gulf of Mexico and Western Australia. There is a consistent theme there of scale, simplicity and manageability. We have not outlined plans beyond that 300 million tonne capacity but obviously we clearly indicate that, if anything, our mineralization is superior, rail and port will not be a constraint so we will take it from there.

Question

Are you suggesting you will be able to match Rio from a conceptual point of view? Obviously you are lagging behind by a couple of years but is it foreseeable to see BHP producing 400 million tonnes plus by the end of next decade for example?

Marius Kloppers

We would like to step back and examine that last comment a little bit. When you look at the growth rate of these two businesses, they have been very similar. We see no reason why they are not similar going forward and we have clearly indicated that, if anything, the way that our mineralization is configured and the quantum of mineralization actually, if anything, we believe we have the superior business that is more or less where I would like to leave it.

Question

Just continuing on about the Pilbara, you have mentioned that at Port Hedland you can build the outer harbour but that is a fairly substantial piece of engineering. Have you got any costings around that?

Marius Kloppers

We have not released any costings. We are obviously working on estimates internally and since we have discussed this obviously with the WA government, and a number of other parties. But I think as we indicated on our site visits, there are a number of things that have to happen which are well-advanced: double tracking the railway, the inner harbour optimisation and then the outer harbour. We are not at a point today to give you an exact capital cost of the Harbour itself.

Question

Can you give us a ballpark?

Marius Kloppers

I am unable to do so, unfortunately.

Question

I was hoping you could elaborate within the context of the statement that was released this evening, you say the company is considering its possible next steps, could you be more definite there?

Marius Kloppers

No, I actually would be very reluctant do to so. Really the purpose of today's presentation is to talk about the relative value that we contribute to this proposed combination, seen against a backdrop of a highly enthusiastic market response. We will obviously take all of the time to get our message out but I should reiterate that we are a disciplined company, we are a patient company, and we will take a decision, if any, in due course when the time comes for that.

Question

You do not feel under any pressure given yesterday's development with that request to the UK takeover panel, to get the ball rolling in terms of taking the next step?

Marius Kloppers

I am a very small cog in a large wheel, generations of management have worked on this. We have obviously crystallised something very, very interesting which the market has received very well. There is no sense of urgency at all on this side and again discipline and value is what we are all about for our shareholders.

Question

You say prospects are clearly superior in quantum and quality. Is the implicit message there that this is close to your limit in the current offer? Can you also comment on whether the 'put up and shut up' has an impact on the ability to propose a scheme?

Marius Kloppers

I think we do talk about our growth prospects against a backdrop of an organic growth profile that has delivered twice the growth rate of Rio Tinto. That is what we want to emphasise that going forward our strategy of simplicity, large assets and so on, there is no reason to believe that we will not continue to perform. In terms of limits and where we go to and so on, I think our only objective is to remind the market of the relative contribution of these two companies which is what is important as we put this together.

The proposal that is on the table is a scheme, as you note. A scheme needs a recommendation from the other party. That recommendation clearly has not been forthcoming to date. But I would really not like to speculate what form and again, I am at pains to stress, if any, additional steps we take beyond this. Can I just emphasise one thing as well: the growth path we have outlined, iron ore, copper and uranium and nickel and especially the petroleum growth path of 50% growth over the next couple of years. Our shareholders get that, that is our baseline strategy. So it is important for our shareholders to just be reminded again of just what they own, just in the base case.

Question

Is it not the case that 'put up or shut up' requires you to put something on the table for Rio to respond to and this scheme requires support from Rio ahead of that? Is that not a problem if 'put up or shut up' mechanisms mean a problem for the scheme or proposal?

Marius Kloppers

That is correct; but remember that a 'put up or shut up' requires us to put a proposal, or not.

Question

You mentioned there have been generations of managers involved in this and it has been on the table for a decade. Is it possible BHP will still be doing this in a decade's time?

Marius Kloppers

We believe that the market has responded so enthusiastically to this proposal that we would view it as a great pity if we cannot…For the first time we have actually crystallised what the market thinks about this, what it thinks the value is and so on and we have a very clear picture, and every market participant has got a clear picture of what this means. That has not been the case in the past. We are clearly several steps beyond where we have been in the past. We would consider this as a great pity if both sets of shareholders did not get that value this time around. But at the end of the day we are value focused people and any transaction that does eventuate out of this does need to be value creating for both sets of shareholders to be interesting.

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Question

How damaging is it for BHP if this continues for another year or two?

Marius Kloppers

Our baseline strategy remains intact. The time that we have been able to spend with our shareholders has given us a wonderful opportunity to talk to our shareholders about exactly what they own. I would say that we are patient people. We have a base line strategy that we are executing well, which is the basis of what we will highlight today, so we will take the time that is required here.

Question

I just wanted to clarify on the takeover panel. You say you have had some communication with them. Have they asked you to state what sort of timeframe you are comfortable with in this 'put up or shut up' provision?

Marius Kloppers

We have had communication from them. The way that the process normally works is that one puts a proposal to them. We have not done so, so we are at the early stages of that process and there is no definitiveness around this yet.

Question

You said before, the 'put up or shut up' requires us to put a proposal. You have been saying all alone that you had made that proposal, this is a proposal. Are you saying that this proposal satisfies the 'put up or shut up'?

Marius Kloppers

No, let me clarify that: we have made a proposal. What the takeovers panel requires is to make an offer. In the UK law under which this would take place, is definitely a different thing so let me clarify that if such a request comes, we would have to decide to put an offer, or not, at that time.

Question

Does that mean that if the Takeover Panel requires you to 'put up or shut up' formally, that means that a scheme arrangement is ruled out?

Marius Kloppers

Certainly a scheme of arrangement, again, needs a recommendation by the other party. Assuming that you could not reach agreement with the other party before any deadline, which does not exist yet, I should note, you would have to consider a different form of offer. We clearly have not done so and I do not want to speculate what we would or would not do in that case.

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Question

I just noticed that the takeovers panel seems extremely busy in the UK. A number of parties having a range of issues including possibly industry consolidation which leads me to ask, are there other targets you are looking at? Are you risking losing opportunities here by pursing Rio when they are refusing to engage at this stage?

Marius Kloppers

The way we look at our business is we have a baseline organic growth strategy, one that has served us extremely well over the last couple of years and has led to superior financial performance. That is the strategy that we are pursuing day-to-day. This value-unlock that we can do with Rio Tinto is really quite unique and comes on top of that. But I should emphasise something I stated a month ago in terms of potential value creation, the overlap the synergies and so on makes this proposal with Rio Tinto really quite unique.

Question

I just wondered, about this presentation, was it put together after you found out that Rio had gone to the takeover panel or is this something you had planned to do today anyway?

Marius Kloppers

It is very difficult to anticipate how things unfold in this, so obviously we have said we are going to use this period to talk to our shareholders, talk to the Rio Tinto shareholders, and what we want to especially do with this piece today was respond to the sort of absolute value piece that we have heard from the market, and just move the market back and remind them that it is the relative value and the relative contribution of the two parties. So I would say that the ongoing communication campaign that we have had, today is really just one step in that.

Question

Beneficial
owner;
investment
manager; others
(lending pool)

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* Such H shares were held through a nominee.

(b) **Interests in underlying shares of the Company**

No interests of substantial shareholders or other persons who are required to disclose their interests pursuant to Part XV of the SFO in the underlying shares of equity derivatives were recorded in the register required to be kept under Section 336 of the SFO.

(2) **Short positions in shares and underlying shares of the Company**

No short positions of substantial shareholders or other persons who are required to disclose their interests pursuant to Part XV of the SFO in the underlying shares of equity derivatives of the Company were recorded in the register required to be kept under Section 336 of the SFO.

Save as stated above, as at 30 June 2005, no interests or short positions of any person in the shares or underlying shares of equity derivatives of the Company were recorded in the register required to be kept under Section 336 of the SFO.

4.3 **Changes in Directorate and Supervisory Committee**

(1) **New Appointment**

On 28 June 2005 at the Company s annual general meeting for 2004, the shareholders of the Company elected the fifth session of the board of directors and supervisory committee.

With effect from 28 June 2005, Mr. Shi Wei has been appointed Executive Director and Vice President of the Company. Mr. Shi does not have any relationship with any directors, senior management or substantial or controlling shareholders of the Company. Mr. Shi will receive a remuneration package including a basic salary of RMB4,521 per month plus a discretionary bonus as determined by the Board with reference to his performance. Mr. Shi has confirmed that there is no other matter that needs to be brought to the attention of the Company s shareholders.

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With effect from the same date, Mr. Lei Dianwu has been appointed Non-Executive Director of the Company. Mr. Lei is a director of Development and Planning Division of China Petroleum and Chemical Corporation, the controlling shareholder of the Company. Mr. Lei will not receive any salary from the Company. Mr. Lei has confirmed that there is no other matter that needs to be brought to the attention of the Company s shareholders.

With effect from the same date, Mr. Xiang Hangyin has been appointed Non-Executive Director of the Company. Mr. Xiang is a deputy director of Chemical Division of China Petroleum and Chemical Corporation, the controlling shareholder of the Company. Mr. Xiang will not receive any salary from the Company. Mr. Xiang has confirmed that there is no other matter that needs to be brought to the attention of the Company s shareholders.

With effect from the same date, Mr. Sun Chiping has been appointed Independent Non-Executive Director of the Company. Mr. Sun does not have any relationship with any directors, senior management or substantial or controlling shareholders of the Company. Mr. Sun will receive a remuneration package including a basic salary of RMB80,000 per year. Mr. Sun has confirmed that there is no other matter that needs to be brought to the attention of the Company s shareholders.

With effect from the same date, Mr. Jiang Zhiquan has been appointed Independent Non-Executive Director of the Company. Mr. Jiang does not have any relationship with any directors, senior management or substantial or controlling shareholders of the Company. Mr. Jiang will receive a remuneration package including a basic salary of RMB80,000 per year. Mr. Jiang has confirmed that there is no other matter that needs to be brought to the attention of the Company s shareholders.

With effect from the same date, Mr. Zhou Yunnong has been appointed Independent Non-Executive Director of the Company. Mr. Zhou does not have any relationship with any directors, senior management or substantial or controlling shareholders of the Company. Mr. Zhou will receive a remuneration package including a basic salary of RMB80,000 per year. Mr. Zhou has confirmed that there is no other matter that needs to be brought to the attention of the Company s shareholders.

With effect from the same date, Ms. Wang Yanjun has been appointed Supervisor of the Company. Ms. Wang does not have any relationship with any directors, senior management or substantial or controlling shareholders of the Company. Ms. Wang will receive a remuneration package including a basic salary of RMB4,015 per month plus a discretionary bonus as determined by the Board with reference to her performance. Ms. Wang has confirmed that there is no other matter that needs to be brought to the attention of the Company s shareholders.

With effect from the same date, Mr. Geng Limin has been appointed Supervisor of the Company. Mr. Geng is the deputy director of the Supervisory Division of China Petroleum and Chemical Corporation, the controlling shareholder of the Company. Mr. Geng will not receive any salary from the Company. Mr. Geng has confirmed that there is no other matter that needs to be brought to the attention of the Company s shareholders.

With effect from the same date, Mr. Yin Yongli has been appointed Supervisor of the Company. Mr. Yin does not have any relationship with any directors, senior management or substantial or controlling shareholders of the Company. Mr. Yin will not receive any salary from the Company. Mr. Yin has confirmed that there is no other matter that needs to be brought to the attention of the Company s shareholders.

The terms of services agreed between each of the above directors and supervisors and the Company do not include a specified length of service and do not expressly require the Company to give more than one year s notice period or to make payments equivalent to more than one year s emoluments to terminate the service. The new directors and supervisors are subject to retirement by rotation in annual general meetings in accordance with the articles of association of the Company. Please refer to the Company s Notice of 2004 Annual General Meeting dated 13 May 2005 for more information about the new directors and supervisors.

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As at the date of this announcement, none of the above directors and supervisors has any other interest in the shares of the Company within the meaning of Part VX of the Securities and Futures Ordinance.

(2) **Retirement by Rotation**

On 28 June 2005, Mr. Lu Yiping, Mr. Liu Wenlong, Mr. Zhang Baojian, Mr. Gu Chuanxun, Mr. Wang Yongshou and Mr. Wang Xingyu retired by rotation as directors of the Company. On the same date, Mr. Lu Yiping, Mr. Liu Wenlong, Mr. Zhang Baojian, Mr. Gu Chuanxun, Mr. Wang Yongshou and Mr. Wang Xingyu confirmed that they have no disagreement with the Board and are not aware of any matters in respect of their resignations that need to be brought to the attention of the shareholders of the Company.

On the same date, Mr. Zhu Weiyan, Ms. Zhang Jianjun and Mr. Zhou Yunnong retired by rotation as supervisors of the Company. On the same date, Mr. Zhu Weiyan, Ms. Zhang Jianjun and Mr. Zhou Yunnong confirmed that they have no disagreement with the Board and are not aware of any matters in respect of their resignations that need to be brought to the attention of the shareholders of the Company.

The Board expresses its sincerest gratitude to Mr. Lu Yiping, Mr. Liu Wenlong, Mr. Zhang Baojian, Mr. Gu Chuanxun, Mr. Wang Yongshou, Mr. Wang Xingyu, Mr. Zhu Weiyan, Ms. Zhang Jianjun and Mr. Zhou Yunnong for their contribution to the Company made during their period of service.

4.4 **Implementation of the Code on Corporate Governance Practices**

The Group had complied with all Code Provisions set out in the Code of Corporate Governance Practices contained in Appendix 14 of the Hong Kong Stock Exchange Listing Rules, with certain deviations from the Code Provisions listed below (other than Code Provision C.2 relating to internal controls):

Code Provision A.1.3: Notice of at least 14 days should be given of a regular board meeting to give all directors an opportunity to attend. For all other board meetings, reasonable notice should be given.

Deviation: The Articles of Associate of the Company provides that a minimum 10-day notice period is applicable to all board meetings. Accordingly, the Company s usual practice is to provide notice of only 10 days for a board meeting.

Explanation: To ensure full compliance with provisions of the Code of Corporate Governance Practices, the Company will commence giving 14 days notice for regular board meetings.

Code Provision A.2.1: The roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and chief executive officer should be clearly established and set out in writing.

Deviation: Mr. Rong Guangdao is appointed as the Company s chairman and president.

Explanation: Mr. Rong has many years of experience in managing large scale petrochemical productions and is most suited to perform both roles of chairman and president. The Company is unable to locate any person of Mr. Rong s calibre to fill either role separately.

§5. BUSINESS REVIEW

In the first half of 2005, the global economy was growing moderately, but the growth rate has slowed. The economy of the PRC maintained its growing trend at a fast and steady pace. As the effects of the State s macro-economic control measures slowly materialised, the domestic economy continued to operate steadily. In the first half of the year, the gross domestic product (GDP) grew by 9.5% as compared to the corresponding period last year. With sustained rapid growth in the domestic economy and with international crude oil prices continuing to increase and then fluctuating at a high level, the petroleum and petrochemical industry in the PRC continued to keep the momentum of strong production and sales in the first half year, resulting in an overall increase in output, prices and profits.

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Capital expenditure progressing smoothly

In the first half of 2005, the Company continued to work diligently on the construction of its major projects, while pushing forward the preparatory work for the next round of development projects. Overall, the progress on our development work was smooth. The newly built 3# atmosphere and vacuum distillation plant commenced operation in February, thus expanding the Company s once-through crude oil processing capabilities to 14 million ton per year. The feedstock mutual supply pipeline between the Company and Secco was mechanically completed in June and is now in operation. The construction of the 3.3 million ton per year diesel hydrogenation plant and the 380,000 ton per year EO/EG plant, both of which commenced construction in late 2004, is in full swing. At the same time, the Company is making pro-active efforts on the preliminary improvement work of the next round of development projects as well as actively seeking approvals for these projects.

During the reporting period, a Sino-foreign equity joint venture established between the Group, Sinopec Corp. and BP Chemicals East China Investments Limited was completed and commenced commercial operation.

Market outlook and business plan for the second half of the year

In the second half of 2005, both the global economy and the PRC economy are expected to maintain steady growth, but the growth may slow. Due to limited capabilities in increasing production by OPEC countries, reduction in increased production by non-OPEC countries, geo-political risks and rampant trading activity by speculative funds, it is anticipated that the price of crude oil will continue to rise and reach new highs. Reflecting the above factors, the petrochemical industry should maintain its strong development trend but demand growth may slow down. At the same time, following the completion and operation of large ethylene projects such as Shanghai Secco and Nanjing Yangba, the imbalance in the supply and demand for petrochemical products in the PRC should subside, and the industry s profitability level could significantly decline. Given the above, in the second half of 2005, the Group will closely monitor market development, make timely adjustments to its sales strategies, strengthen internal management, improve operation efficiency, and make efforts to complete its various work targets for the whole year, so as to lay a good foundation for the Company s comprehensively coordinated and sustainable development. In this respect, the Group will focus on the following:

(1) Strengthening three bases (infrastructure, basic tasks, basic capabilities training), emphasizing safety, stability and long-cycle operations of production facilities.

(2) Optimizing resources deployment and enhancing integrated efficiency of production operations.

(3) Implementing measures to reduce costs, and further enhancing resources saving and cost controls.

(4) Speeding up reforms and development and maintaining corporate harmony and stability.

§6 MANAGEMENT DISCUSSION AND ANALYSIS

The following discussion and analysis should be read in conjunction with the Group s unaudited financial statements and notes in the interim report. The financial data involved hereinafter is extracted from financial statements prepared in accordance with the IFRS.

Operating results

In the first half of 2005, the Company and its subsidiaries (the Group) actively captured the opportunities arising from the prosperous cycle of the global petrochemical industry, continued rapid growth of the domestic economy, and a steady and rapid growth of the petrochemical industry, and put in efforts to overcome various adverse factors such as the upsurge in the prices of fuel oil, electricity, coal and transportation and the decline in the prices of certain products. As a result, the Group maintained steady production and operation and improved performance to a large extent as compared to the corresponding period last year. For the period ended 30 June 2005, turnover amounted to RMB21,886.5 million (equivalent to HK$20,552.6 million), an increase of 23.11% or RMB4,108.3 million (equivalent to HK$3,857.9 million) as compared to the corresponding period last year; profit before tax amounted to RMB2,157.8 million (equivalent to HK$2,026.3 million), an increase of 18.57% as compared to the corresponding period last year; and profit after taxation and minority interests amounted to RMB1,763.4 million (equivalent to HK$1,655.9 million), an increase of 15.96% as compared to the corresponding period last year.

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In the first half of 2005, the Group processed 4,780,800 tons of crude oil, an increase of 5.52% or 250,000 tons as compared to the corresponding period last year, in which imported oil and offshore oil amounted to 4,585,200 tons and 195,600 tons, respectively. The output of gasoline amounted to 417,700 tons, a decrease of 13.01% as compared to the corresponding period last year. The output of diesel amounted to 1,602,400 tons, an increase of 18.23% as compared to the corresponding period last year. Production of jet fuel amounted to 360,900 tons, an increase of 9.24% as compared to the corresponding period last year. The output of ethylene amounted to 491,200 tons, an increase of 2.10% as compared to the corresponding period last year. Production of propylene amounted to 262,900 tons, a decrease of 1.23% as compared to the corresponding period last year. The output of synthetic resins and plastics amounted to 529,000 tons, a decrease of 2.08% as compared to the corresponding period last year. The output of synthetic fibre feed-stocks and synthetic fibre polymers amounted to 370,200 tons and 287,300 tons, respectively, representing increases of 14.16% and 9.88%, respectively, as compared to the corresponding period last year. The output of synthetic fibres amounted to 179,600 tons, a decrease of 2.93% as compared to the corresponding period last year. The Group s product-to-sale ratio in the first half of the year was 98.76%.

The following table sets forth the Group s sales volumes and net sales, net of sales taxes and surcharges, for the reporting period:

	For the six-month periods ended 30 June					
	Net Sales in 2005			Net Sales in 2004		
	Sales Volume			Sales Volume		
	(000 tons)	*(Millions of RMB)*	*% of Total*	*(000 tons)*	*(Millions of RMB)*	*% of Total*
Self-produced products						
Synthetic Fibres	181	2,439	11.34	204	2,406	13.80
Resins and Plastics	735	6,900	32.08	708	5,413	31.06
Intermediate Petrochemicals	531	3,464	16.11	474	2,272	13.04
Petroleum Products	2,604	8,035	37.36	2,328	5,915	33.95
Trading and All Others		670	3.11		1,422	8.15
Total	4,051	21,508	100.00	3,714	17,428	100.00

In the first half of 2005, the Group realized net sales of RMB21,508.3 million an increase of 23.41% as compared to the corresponding period last year, in which net sales derived from refined petroleum products, intermediate petrochemicals, resins and plastics and synthetic fibres increased by 35.84%, 52.46%, 27.47% and 1.37%, respectively. This was mainly due to continued increases in the prices of energy and raw materials, which have compelled the sales prices of the products to follow. Compared to the first half of 2004, the average prices (excluding tax) of the Group s four major products - petroleum products, intermediate petrochemicals, resins and plastics and synthetic fibres - increased by 21.44%, 36.20%, 22.86% and 14.34%, respectively, during the reporting period.

A majority of the Group s products are sold in eastern China.

In the first half of 2005, the Group s cost of sales increased by 25.52% to RMB18,949.9 million as compared to the corresponding period last year, and it accounted for 88.11% of the net sales.

Crude oil is the Group s major raw material. Under the impact of continued growth in global demand, limited capabilities to increase output by major oil producing countries, instability in the Middle East, and the impact of the US dollar exchange rates and trading activities of speculative funds during the year, prices of international crude oil reached a record high and fluctuated at a high level. As a result, the weighted average cost of crude oil increased by RMB744.71 per ton from the corresponding period last year to RMB2,875.79 per ton in the first half of the year, representing an increase of 34.95% as compared to the corresponding period last year. The increase in both the Group s volume of crude oil processed and the average price of crude oil purchased resulted in an increase in the total cost of crude oil processed to RMB13,205.4 million, an increase of 48.55% as compared to the corresponding period last year. The cost of crude oil of the Group accounted for 69.69% of cost of sales.

Expenses for other ancillary materials amounted to RMB3,401.0 million in the first half of 2005, a substantial increase of 31.84% as compared to the corresponding period last year, which was primarily due to increase in the volume of intermediate petrochemicals purchased to meet production needs. Depreciation and maintenance costs during the reporting period amounted to RMB864.5 million and RMB347.0 million, respectively, a slight decrease as compared to the corresponding period last year. Energy and power costs amounted to RMB436.4 million, an increase of RMB79.1 million as compared to the corresponding period last year, which was due to increases in both purchase volumes and purchase prices of thermal coal and external electricity to various degrees as compared to the corresponding period last year.

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Selling and administrative expenses in the first half of 2005 amounted to RMB196.9 million, a decrease of 13.87% compared with RMB228.6 million in the first half of 2004.

Other operating expenses in the first half of 2005 amounted to RMB134.0 million, a decrease of RMB60.2 million as compared to the corresponding period last year, primarily due to the decrease in the loss from the Group s disposal of fixed assets during the reporting period.

Financial costs in the first half of 2005 amounted to RMB113.4 million, a decrease of 33.87% as compared to the corresponding period last year, which was primarily due to the decrease of our total amount of bank borrowings, in particular the reduction of long-term bank borrowings, thereby effectively reduced financial costs.

The Group s net profit after tax and minority interests increased by 15.96% from RMB1,520.7 million in the first half of 2004 to RMB1,763.4 million in the first half of 2005.

Liquidity and capital resources

Net cash inflow provided from operating activities amounted to RMB1,628.1 million in the first half of 2005, an increase of RMB117.6 million as compared to the corresponding period last year. Due to the growth in the profit before tax, the profit before tax net of depreciation has brought RMB3,014.5 million operating cash inflow, an increase of RMB259.6 million cash inflow as compared to the corresponding period last year. Increased inventories led to an increase in operating cash outflow by RMB715 million at the end of the reporting period (as compared to an increase in operating cash outflow by RMB197.5 million in the corresponding period last year). Change in accounts payable and other payables led to an increase in operating cash outflow by RMB190.5 million at the end of the period (as compared to an increase in operating cash outflow by RMB46.7 million in the corresponding period last year). Decrease in debtors, bills receivable and deposits led to an increase in operating cash inflow by RMB75.2 million (as compared to a decrease in operating cash inflow of RMB540.4 million in the corresponding period last year). In addition, as a result of the changes in the accounts balances at the end of the period of the parent company and the subsidiaries, the Group s cash outflow was increased to RMB178.9 million (as compared to a decrease in operating cash outflow of RMB263.1 million).

Borrowings

The Group s long-term borrowings were mainly applied to capital expansion projects. In general, the Group arranges long-term borrowings according to capital expenditure plans, and in overall, there was no seasonal borrowings. Short-term borrowings was used to meet our needs for working capital during the normal production and operation process. Our borrowings at the end of the first half of 2005 amounted to RMB5,776.7 million, a decrease of RMB1,238.3 million compared to the beginning of the period, of which, short-term borrowings increased by RMB154.4 million, and long-term borrowings decreased by RMB1,392.7 million.

As at 30 June 2005, guarantees provided by the Group to the Company s subordinate joint ventures and associates in favor of the bank, and the contingent liabilities to be undertaken on the guarantees provided by the joint venture to third parties amounted to RMB78.6 million.

Foreign Exchange Risks

Since we purchase our major raw materials, particularly crude oil through Sinopec Corp. from overseas sources, and also export a portion of our petroleum products directly through Sinopec Corp., a change in exchange rates will indirectly affect the prices of our raw materials and products which will have a discernible impact on our profitability. In addition, as discussed above, since a small part of our debts are denominated in foreign currencies, a change in the relevant exchange rates will affect the level of our financial expense which will also have an impact on our profitability.

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Capital Expenditures

In the first half of 2005, our capital expenditures amounted to RMB687.4 million, which included the renovation of No. 1 atmosphere and vacuum distillation facility, the 12,000-ton/year polyester filament expansion project, the expansion of 400,000-ton/year PTA facility, the newly built feedstock mutual supply pipeline between Shanghai Petrochemical and SECCO, and the 380,000-ton/year ethylene glycol plant. In the second half of the year, other than the aforesaid projects, we will also push forward the diesel hydrogenation plant, the renovation of the crude oil refining and other technological renovation projects and investment projects. The Group plans to fund the capital expenditures from operating cash income and credit facilities from banks.

During the reporting period, a Sino-foreign equity joint venture established between the Group, Sinopec Corp. and BP Chemicals East China Investments Limited was completed and commenced commercial operation. As at 30 June 2005, the Group invested RMB1,349.5 million in the joint venture.

Debt-equity ratio

As at 30 June 2005, our debt-equity ratio was 23.22% compared to 33.23% as at 30 June 2004. The ratio is computed by (total loans) /(total loans + shareholders equity).

Employees

As at 30 June 2005, the number of our employees was approximately 26,460. Our staff costs for the period ended 30 June 2005 totaled RMB524.4 million.

Save as disclosed herein, pursuant to paragraph 40 in Appendix 16 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (Listing Rules), the Company confirmed that there have been no material changes in the existing information of the Company relating to the matters as set out in paragraph 32 in Appendix 16 and the information disclosed in the Company s 2004 annual report.

6.1 **Summary of segmental results (Prepared under PRC Accounting Rules & Regulations)**

Unit: RMB 000

By segment	Income from principal operations	Cost of sales	Gross profit margin (%)	Increase/ decrease of income from principal operations compared to the corresponding	Increase/ decrease of cost of sales compared to the corresponding period last year (%)	Increase/ decrease of gross profit margin compared to the corresponding period last year (%)

				period last year (%)		
Synthetic fibres	2,449,372	2,073,613	15.34	1.30	-5.48	6.07
Resins and plastics	6,930,737	5,195,695	25.03	27.35	19.65	4.82
Intermediate petrochemicals	3,483,154	2,347,794	32.60	52.04	48.40	1.65
Petroleum products	8,351,262	8,175,333	2.11	34.66	58.00	-14.46
Trading and others	671,947	570,141	15.15	-52.85	-55.70	5.44
Including: connected transactions	9,000,362	8,056,537	10.49	26.70	36.69	-6.53

Price-setting principles of connected transactions	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.

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6.2 **Analysis of the geographical segments for the principal operations**

Unit: RMB 000

Geographical segments	Income from principal operations	Change compared to the corresponding period last year (%)
Eastern China	19,901,178	20.22
Other regions in the PRC	1,939,172	61.41
Exports	46,122	108.31

§7 SIGNIFICANT EVENTS

7.1 Guarantees

Unit: RMB 000

	Company s external guarantees (excluding guarantees to subsidiaries)					
Guaranteed entities	**Date (Agreement signing date)**	**Guarantee amount**	**Type of guarantee**	**Guarantee period**	**Guarantee expired**	**Guarantee for a connected party**
Jinshan Hotel	28 December 2001	13,250	Bank Loan	5 years	No	Yes
Jinsen Limited	23 March 2004	40,000	Bank Loan	3 years	No	Yes
Others	1 March 1999 to 20 January 2005	25,336	Bank Loan	1 year to 6 years	No	Yes
Amount of guarantees signed during the reporting period						1,500
Amount of guarantees at the end of the reporting period						78,586
Guarantees to subsidiaries						
Amount of guarantees to subsidiaries signed by the company during the reporting period						152,077
Amount of guarantees to subsidiaries at the end of the reporting period						772,139
Total guarantee amount (including guarantees to subsidiaries)						
Total guarantee amount						850,725
Total guarantee amount as a percentage of net asset value of the Company						4.45%
Guarantees in violation of regulations						
Amount of guarantee provided to other related parties in which the shareholdings by the controlling shareholders and the Company are below 50%						48,286
Amount of guarantee provided directly or indirectly to entities with gearing ratio exceeding 70%						574,013
Total guarantee amount exceeding 50% of the net assets of the Company						0
Amount of guarantee in violation of regulations						616,563

7.2 Connected debts and liabilities

Unit: RMB 000

Connected parties	Relations with the listed company	Funds provided by the listed company to the connected parties		Funds provided by the connected parties to the listed company	
		Net transaction amount	Balance	Net transaction amount	Balance
Sinopec Corp. Transport and Storage Branch	Subsidiary wholly owned by the parent company	(162,057)		38,542	40,068
Controlling companies and other connected parties	Others	(81,328)	7,398	(167,872)	11,784
Total		(243,385)	7,398	(129,330)	51,852

Including: The net decrease of funds provided by the listed company to controlling shareholders and subsidiaries amounted to RMB81.842 million, and with a balance of RMB6.884 million.

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7.3 Audit Committee

The audit committee has reviewed jointly with the management of the Company and the auditors (KPMG) the accounting principles and accounting standards adopted by the Group and discussed matters relating to auditing, internal control and financial reporting (including reviewing the unaudited interim report for the six-month periods ended 30 June 2005).

7.4 Purchase, Sale or Redemption of Securities

During the reporting period, neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company s securities.

7.5 Model Code

The Company has adopted a code of conduct in respect of directors securities transactions in terms no less exacting than the required standard set out in the Model Code set out in Appendix 10 to the Listing Rules.

Specific enquiry has been made to the Directors who have confirmed that they have complied with the required standard set out in the Model Code and the Company s code of conduct in respect of directors securities transactions during the reporting period.

§8 FINANCIAL STATEMENTS

8.1 Financial Statements Prepared under PRC Accounting Rules and Regulations (unaudited)

Income Statement and Profit Appropriation Statement

	Six-month periods ended 30 June			
	The Group		The Company	
Item	**2005**	**2004**	**2005**	**2004**
	RMB 000	*RMB 000*	*RMB 000*	*RMB 000*
Income from principal operations	21,886,472	17,778,137	20,450,652	15,705,915
Less: Cost of sales	18,362,576	14,579,417	17,219,018	12,838,239
Sales taxes and surcharges	378,135	350,253	375,105	344,907
Profit from principal operations	3,145,761	2,848,467	2,856,529	2,522,769
Add: Profit from other operations	68,785	75,991	46,153	33,321
Less: Selling expenses	196,886	228,604	148,001	173,472
Administrative expenses	585,138	537,305	485,429	432,845
Financial expenses	129,340	171,495	112,187	144,218

Profit from operations	2,303,182	1,987,054	2,157,065	1,805,555
Add: Investment (losses)/income	(116,089)	15,653	(100,505)	137,663
Non-operating income	10,766	15,092	2,734	3,699
Less: Non-operating expenses	155,223	187,460	95,212	184,748
Total profit	2,042,636	1,830,339	1,964,082	1,762,169
Less: Income tax	357,730	258,220	313,562	230,969
Minority interests	34,386	40,919		
Net profit	1,650,520	1,531,200	1,650,520	1,531,200
Add: Undistributed profits at the beginning of the period	4,649,907	2,048,896	4,649,907	2,048,896
Distributable profits to shareholders	6,300,427	3,580,096	6,300,427	3,580,096
Less: Distributable dividends to ordinary shares	1,440,000	576,000	1,440,000	576,000
Undistributed profits at the end of the period	4,860,427	3,004,096	4,860,427	3,004,096

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8.2 **Consolidated Financial Statements** *(prepared under IFRS) (unaudited)*

The interim financial report for the six months ended 30 June 2005 is unaudited, but has been reviewed in accordance with Statement of Auditing Standards 700 Engagements to review interim financial reports, issued by the Hong Kong Institute of Certified Public Accountants, by KPMG, whose unmodified review report is included in the interim report to be sent to shareholders.

Consolidated Income Statement

	Note	Six-month periods ended 30 June 2005	Six-month periods ended 30 June 2004
		RMB 000	*RMB 000*
Turnover	3	21,886,472	17,778,137
Less: Sales taxes and surcharges		(378,135)	(350,253)
Net sales		21,508,337	17,427,884
Cost of sales		(18,949,942)	(15,097,255)
Gross profit		2,558,395	2,330,629
Selling and administrative expenses		(196,886)	(228,604)
Other operating income		137,365	100,814
Other operating expenses			
Employee reduction expenses		(90,792)	(86,713)
Others		(43,164)	(107,471)
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)
Profit before tax	3, 4	2,157,788	1,819,768
Taxation	5	(359,960)	(258,124)
Profit after tax		1,797,828	1,561,644
Attributable to:			
Equity holders of the parent		1,763,442	1,520,725
Minority interests		34,386	40,919
Profit after tax		1,797,828	1,561,644
Basic earnings per share	6	RMB 0.245	RMB 0.211

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Consolidated Balance Sheet

	Note	At 30 June 2005	At 31 December 2004
		RMB 000	*RMB 000 (audited)*
Non-current assets			
Property, plant and equipment		15,046,017	15,206,325
Investment property		520,990	511,307
Construction in progress		770,393	807,477
Investment in associates		1,966,346	1,906,917
Investments		619,613	630,377
Lease prepayments		516,630	526,956
Goodwill		22,415	22,415
Deferred tax assets		46,687	48,917
Total non-current assets		19,509,091	19,660,691
Current assets			
Inventories		4,442,741	3,727,749
Trade debtors	8	341,403	395,353
Bills receivable	8	1,719,230	1,675,412
Deposits, other debtors and prepayments		409,215	535,222
Amounts due from parent company and fellow subsidiaries	8	516,090	585,419
Income tax recoverable		2,016	2,255
Deposits with financial institutions			4,000
Cash and cash equivalents		1,400,257	1,690,500
Total current assets		8,830,952	8,615,910
Current liabilities			
Bank loans		5,024,741	4,870,305
Loans from a fellow subsidiary		130,000	130,000
Trade creditors	9	868,067	797,753
Bills payable	9	33,382	259,746
Other creditors		2,089,848	663,635
Amounts due to parent company and fellow subsidiaries	9	391,259	639,445
Income tax payable		49,575	73,930
Total current liabilities		8,586,872	7,434,814
Net current assets		244,080	1,181,096
Total assets less current liabilities		19,753,171	20,841,787
Non-current liabilities			
Deferred income		28,792	37,100
Bank loans		621,941	2,014,614
Total non-current liabilities		650,733	2,051,714
Net assets		19,102,438	18,790,073
Shareholders equity			
Share capital		7,200,000	7,200,000
Reserves		11,542,980	11,216,989

Total equity attributable to equity holders of the parent	18,742,980	18,416,989
Minority interests	359,458	373,084
Total equity	19,102,438	18,790,073

Notes on 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).

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.

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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.

(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 a majority of its business with enterprises directly or indirectly owned or controlled by the PRC government and government authorities and fellow subsidiaries (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.

3 Segment reporting

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

	Six-month periods ended 30 June	
	2005	**2004**
	RMB 000	***RMB 000***
Turnover		
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

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External sales include sales to other Sinopec Corp group companies.

	Six-month periods ended 30 June	
	2005	**2004**
	RMB 000	***RMB 000***
Profit before tax		
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	**2004**
	RMB 000	***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 RMB1,763,442,000 (period ended 30 June 2004: RMB1,520,725,000) and 7,200,000,000 (period ended 30 June 2004: 7,200,000,000) shares in issue during the period.

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The amount of diluted earnings per share is not presented as there were no dilutive potential ordinary shares in existence for both periods.

7 Dividends

	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 RMB0.20 per share (2004: RMB0.08 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 RMB1,440,000,000 (2004: RMB576,000,000) 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 Trade accounts receivable

	At 30 June 2005	**At 31 December 2004**
	RMB 000	***RMB 000 (audited)***
Trade debtors	387,977	440,635
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	**At 31 December 2004**
	RMB 000	***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.

9 **Trade accounts payable**

	At 30 June 2005	**At 31 December 2004**
	RMB 000	***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	**At 31 December 2004**
	RMB 000	***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

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10 **Reserve movement**

No transfers have been made to the statutory surplus reserve, the statutory public welfare fund nor the discretionary surplus reserve from the income statement for the period (period ended 30 June 2004: RMB Nil).

8.3 **Differences between financial reports prepared under PRC Accounting Rules and Regulations and IFRS**

The below figures are extracted from the interim financial statements prepared in accordance with PRC Accounting Rules and Regulations and IFRS, both of which have not been audited.

The Company also prepares a set of financial statements which complies with PRC Accounting Rules and Regulations. A reconciliation of the Group s net profit and shareholders equity prepared under PRC Accounting Rules and Regulations and IFRS is presented below.

Other than the differences in classification of certain financial statements assertions and the accounting treatment of the items described below, there are no material differences between the Group s financial statements prepared in accordance with PRC Accounting Rules and Regulations and IFRS. The major differences are:

(i) capitalisation of general borrowing costs

Under IFRS, to the extent that funds are borrowed generally and used for the purpose of obtaining a qualifying asset, the borrowing costs should be capitalised as part of the cost of that asset. Under PRC Accounting Rules and Regulations, only borrowing costs on funds that are specially borrowed for construction are eligible for capitalisation as fixed assets.

(ii) aluation surplus

Under PRC Accounting Rules and Regulations, the excess of fair value over the carrying value of assets given up in part exchange for investments should be credited to capital reserve fund. Under IFRS, it is inappropriate to recognise such excess as a gain as its realisation is uncertain.

(iii) Government grants

Under PRC Accounting Rules and Regulations, government grants should be credited to capital reserve. Under IFRS, such grants for the purchase of equipment used for technology improvements are offset against the cost of asset to which the grants related. Upon transfer to property, plant and equipment, the grant is recognised as income over the useful life of the property, plant and equipment by way of a reduced depreciation charge.

(iv) Revaluation of land use rights

Under IFRS, land use rights are carried at historical cost less accumulated amortisation. Under PRC Accounting Rules and Regulations, land use rights are carried at revalued amount less accumulated amortisation.

(v) Pre-operating expenditure

Under IFRS, expenditure on start-up activities should be recognised as expenses when it is incurred. Under PRC Accounting Rules and Regulations, all expenses incurred during the start-up period are aggregated in long-term deferred expenses and then fully charged to the income statement in the month of commencement of operations.

(vi) Goodwill and negative goodwill amortization

Under PRC Accounting rules and regulations, goodwill and negative goodwill are amortized on a systematic basis over their useful lives.

Under IFRS, with reference to IFRS 3, Business combination , the Group no longer amortises positive goodwill effective 1 January 2005. Such goodwill is tested annually for impairment. Also in accordance with the transitional arrangements under IFRS 3, previous recognised negative goodwill was derecognised at the beginning of that period, with a corresponding adjustment to the opening balance of retained earnings.

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Effects on the Group s net profit and shareholders equity of significant differences between PRC Accounting Rules and Regulations and IFRS are summarised below:

	Note	Six-month periods ended 30 June 2005	2004
		RMB 000	*RMB 000*
Net profit under PRC Accounting Rules and Regulations		1,650,520	1,531,200
Adjustments:			
Capitalisation of borrowing costs, net of depreciation effect	(i)	13,119	(2,386)
Reduced depreciation on government grants	(iii)	13,380	13,380
Amortisation of revaluation of land use rights	(iv)	1,749	1,749
Write off of pre-operating expenditure	(v)		(23,314)
Reversal of pre-operating expenditure previously written-off	(v)	80,605	
Goodwill and negative goodwill amortisation	(vi)	6,299	
Deferred tax effect of the above adjustments		(2,230)	96
Profit attributable to shareholders under IFRS		1,763,442	1,520,725

	Note	At 30 June 2005	At 31 December 2004
		RMB 000	*RMB 000*
Shareholders equity under PRC Accounting Rules and Regulations		19,112,801	18,902,281
Adjustments:			
Capitalisation of borrowing costs	(i)	96,144	83,025
Valuation surplus	(ii)	(44,887)	(44,887)
Government grants	(iii)	(304,059)	(317,439)
Revaluation of land use rights	(iv)	(131,112)	(132,861)
Write off of pre-operating expenditure	(v)		(80,605)
Cumulative effect on negative goodwill of adopting IFRS 3	(vi)	2,549	
Goodwill and negative goodwill amortisation	(vi)	6,299	
Deferred tax effect of the above adjustments		5,245	7,475
Shareholders equity under IFRS		18,742,980	18,416,989

8.4 **Supplementary Information for North American Shareholders**

The Group s accounting policies conform with IFRS which differ in certain significant respects from accounting principles generally accepted in the United States of America (U.S. GAAP). Information relating to the nature and effect of such differences is presented below. The U.S. GAAP reconciliation presented below is included as supplemental information and is not required as part of the basic interim financial reports. Such information has not been subjected to independent audit or review.

Notes:

(a) **Foreign exchange gains and losses**

Under IFRS, foreign exchange differences on funds borrowed for construction are capitalised as property, plant and equipment to the extent that they are regarded as an adjustment to interest costs during the construction period. In the periods ended 30 June 2004 and 2005, no foreign exchange differences were capitalised to property, plant and equipment. Under U.S. GAAP, all foreign exchange gains and losses on foreign currency debt are included in current earnings. In the period ended 30 June 2004, the U.S. GAAP adjustments represent the effect of amortisation of amounts previously capitalised. Accordingly, the balances of cost and accumulated depreciation of property, plant and equipment under IFRS were higher than the balances under US GAAP by RMB 365,258,000 and RMB 365,258,000 respectively at 30 June 2005 and 31 December 2004.

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(b) **Capitalisation of property, plant and equipment**

In the periods prior of those presented herein, certain adjustments arose between IFRS and U.S. GAAP with regard to the capitalisation of interest and pre-production results under IFRS, that were reversed and expensed under U.S. GAAP. For the periods presented herein, no adjustments related to the capitalisation of construction costs, including capitalised interest, are necessary. The U.S. GAAP adjustments for 2004 represent the amortisation effect of such originating adjustments described above.

(c) **Revaluation of property, plant and equipment**

In the periods prior to those presented herein, the property, plant and equipment of the Company were revalued to reflect the then current fair value resulting in a revaluation surplus recorded in the Company s financial statements. Additional depreciation charges have been taken in the periods ended 30 June 2004 and 2005 on the revaluation surplus of RMB1,576,330,000.

Under U.S. GAAP, property, plant and equipment are stated at historical cost less accumulated depreciation. However, as a result of the tax deductibility of the revaluation, a deferred tax asset related to the reversal of the revaluation surplus is created under U.S. GAAP with a corresponding increase in shareholders equity.

(d) **Capitalised interest on investment in associates**

Under IFRS, investment accounted for by the equity method is not considered a qualifying asset for which interest is capitalised. Under US GAAP, an investment accounted for by the equity method while the investee has activities in progress necessary to commence its planned principal operations, provided that the investee s activities include the use of funds to acquire qualifying assets for its operations, is a qualifying asset for which interest is initially capitalised and subsequently amortised when the operation of the qualifying assets begin.

(e) **Goodwill and negative goodwill amortisation**

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.

Under U.S. GAAP, with reference to Statement of Financial Accounting Standards No. 142, Goodwill and Other Intangible Assets (SFAS No. 142), goodwill is no longer amortised beginning 1 January 2002, the date that SFAS No. 142 was adopted. Instead, goodwill will be reviewed for impairment upon adoption of SFAS No. 142 and annually thereafter. In addition, under U.S. GAAP, the unallocated negative goodwill that existed at the date of adoption of SFAS No. 142 was written off effective 1 January 2002 as a cumulative effect of a change in accounting principle.

As a result, there are no differences in respect of goodwill and negative goodwill amortisation between IFRS and U.S. GAAP effective 1 January 2005. The difference in the shareholders equity represents the three-year s amortization of positive goodwill during the period from 1 January 2002 to 31 December 2004 under IFRS.

(f) **Basic earnings per share**

The calculation of basic earnings per share is based on the net profit under U.S. GAAP of RMB 1,779,569,000 (period ended 30 June 2004: RMB 1,602,140,000) and the number of shares in issue during the period of 7,200,000,000 (period ended 30 June 2004: 7,200,000,000). Basic earnings per ADS is calculated on the basis that one ADS is equivalent to 100 shares.

The amount of diluted earnings per share is not presented as there were no dilutive potential ordinary shares in existence for both periods.

(g) **United States dollar equivalents**

For the convenience of the reader, amounts in Renminbi (RMB) have been translated into United States dollars at the rate of US$1.000 = RMB 8.2765 being the average of the buying and selling rates quoted by the People s Bank of China on 30 June 2005. No representation is made that the RMB amounts could have been, or could be, converted into United States dollars at that rate.

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The effect on the profit attributable to shareholders of significant differences between IFRS and U.S. GAAP is as follows:

	Note	Six-month periods ended 30 June		
		2005	2005	2004
		US$ 000	*RMB 000*	*RMB 000*
Profit attributable to shareholders under IFRS		213,066	1,763,442	1,520,725
U.S. GAAP adjustments:				
Foreign exchange gains and losses	(a)			2,473
Capitalisation of property, plant and equipment	(b)			10,852
Depreciation charge on revalued property, plant and equipment	(c)	959	7,941	64,997
Capitalised interest on investment in associates, net of amortisation effect	(d)	1,333	11,032	10,049
Negative goodwill amortisation	(e)			(425)
Positive goodwill amortisation	(e)			6,725
Deferred tax effect of the above adjustments		(344)	(2,846)	(13,256)
Net profit under U.S. GAAP		215,014	1,779,569	1,602,140
Basic earnings per share under U.S. GAAP	(f)	US$ 0.030	RMB0.247	RMB0.223
Basic earnings per ADS under U.S. GAAP	(f)	US$ 2.986	RMB24.716	RMB22.252

The effect on shareholders equity of significant differences between IFRS and U.S. GAAP is as follows:

	Note	At 30 June		At 31 December
		2005	2005	2004
		US$ 000	*RMB 000*	*RMB 000*
Shareholders equity under IFRS		2,264,602	18,742,980	18,416,989
U.S. GAAP adjustments:				
Foreign exchange gains and Losses	(a)			
Capitalisation of property, plant and equipment	(b)			
Revaluation of property, plant and equipment	(c)	(6,715)	(55,580)	(63,521)
Capitalised interest on investment in associates, net of amortisation effect	(d)	12,110	100,232	89,200
Negative goodwill	(e)			2,549
Positive goodwill	(e)	4,875	40,344	40,344
Deferred tax effect of the above adjustments		(809)	(6,698)	(3,852)
Shareholders equity under U.S. GAAP		2,274,063	18,821,278	18,481,709

§9. DOCUMENTS FOR INSPECTION

The Company s documents available for inspection are complete and comprise the following:

1. 2005 interim report signed by the Vice Chairman of the Company;

2. Financial statements signed and sealed by the Company s legal representative, chief financial officer and head of Accounting Department;

3. Original copies of all documents and announcements of the Company disclosed in newspapers designated by China Securities Regulatory Commission during the reporting period;

4. The Company s Articles of Association.

The Company has kept all the above documents in the Company s Company Secretariat Department.

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All information as required by the Listing Rules Appendix 16 paragraph 46(1) to 46(6) will be disclosed on the websites of the Hong Kong Stock Exchange and the Company.

By order of the Board

Rong Guangdao

Chairman

Shanghai, 25 August 2005

As of the date of this announcement, the executive directors of the Company are Rong Guangdao, Du Chongjun, Han Zhihao, Wu Haijun, Gao Jinping and Shi Wei; the non-executive directors of the Company are Lei Dianwu and Xiang Hanyin, and the independent non-executive directors of the Company are Chen Xinyuan, Sun Chiping, Jiang Zhiquan and Zhou Yunnong.

(A joint stock limited company incorporated in the People s Republic of China)

(Stock Code: 338)

Resolutions of the 2nd Meeting of

the Fifth Session of the Board of Directors

The board of directors of Sinopec Shanghai Petrochemical Company Limited (the Company) and its directors confirm the authenticity, accuracy and completeness of the information contained in this announcement and collectively accept full responsibility for any false or misleading information in, or any material omissions from this announcement.

The directors were informed in respect of the 2nd meeting of the fifth session of the board of directors of the Company (the Meeting) via facsimile and courier on 15 August 2005. The Meeting was held on 25 August 2005 at the No. 8 Conference Room of the Company s headquarters. Of the 12 directors entitled to attend the Meeting, 9 of them attended the Meeting. Mr. Rong Guangdao, Chairman, was engaged in business and did not attend the Meeting. He had authorized Mr. Du Chongjun, Vice Chairman, to preside over the Meeting, and as his irrevocable voting proxy; Mr. Lei Dianwu and Mr. Xiang Hanyin, Directors, were engaged in business and did not attend the Meeting. They had authorized Mr. Du Chongjun, Vice Chairman, as their irrevocable voting proxy. The Meeting complied with the PRC Company Law and the articles of association of the Company. Some of the supervisors and senior management staff members of the Company attended the Meeting. The Meeting considered and approved the following resolutions:

Resolution 1 The 2005 interim report; the announcement of interim results; the publication of the interim results announcement in Shanghai Securities News, China Securities News, and Hong Kong newspapers South China Morning Post and Hong Kong Commercial Daily; and the dispatch of the interim report to every overseas holder of the Company s H shares and relevant parties, including 25 copies to The Stock Exchange of Hong Kong Limited, were approved. The Vice Chairman and the company secretary were authorized to submit the relevant information in respect of the interim report to the China Securities Regulatory Commission (CSRC), the Shanghai Stock Exchange, The Stock Exchange of Hong Kong Limited, the U.S Securities and Exchange Commission and the New York Stock Exchange (with 12 votes in favor, 0 vote against, 0 abstention);

Resolution 2 The Directors resolution of not declaring an interim dividend was approved in consideration of the international practice and the time and cost needed for an interim results audit due to the CSRC s requirement of audited interim results for interim dividend distribution (with 12 votes in favor, 0 vote against, 0 abstention);

Resolution 3 The Company s entering into a petrochemical products agency sales contract with China Petroleum and Chemical Corporation was approved. Connected directors Mr. Lei Dianwu and Mr. Xiang Hanyin abstained form voting at the resolution (with 10 votes in favor, 0 vote against, 0 abstention).

Sinopec Shanghai Petrochemical Company Limited

Shanghai, 25 August 2005

As of the date of this announcement, the executive directors of the Company are Rong Guangdao, Du Chongjun, Han Zhihao, Wu Haijun, Gao Jinping and Shi Wei; the non-executive directors of the Company are Lei Dianwu and Xiang Hanyin, and the independent non-executive directors of the Company are Chen Xinyuan, Sun Chiping, Jiang Zhiquan and Zhou Yunnong.

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(A joint stock limited company incorporated in the People s Republic of China)

(Stock Code: 338)

CONNECTED TRANSACTION

Important Highlights

The Contract

On 25 August 2005, the Company entered into a petrochemical products agency sales contract (the Contract) with China Petroleum and Chemical Corporation (Sinopec Corp.). Pursuant to the Contract, the Company appoints Sinopec Corp. as a non-exclusive sales agent for the sales of (i) synthetic resins, (ii) synthetic fibres, (iii) synthetic fibre monomers and polymers, (iv) organic petrochemical products and (v) by-products from ethylene cracking and aromatics plants and other substandard products related to the above five products. In consideration of the provision of sales agency services, the Company will pay Sinopec Corp. an agency fee of not more than 0.9% of the total sales revenue of products sold pursuant to the Contract.

Connected Persons Abstained from Voting

Sinopec Corp. is the controlling shareholder of the Company having a beneficial interest of 55.56% in the Company s registered capital. This transaction constitutes a connected transaction between the Company and Sinopec Corp. Directors Lei Dianwu (Director of the Development and Planning Department of Sinopec Corp.) and Xiang Hanyin (Deputy Director of the Petrochemical Business Department of Sinopec Corp.) who are deemed to have an interest in the Contract pursuant to the Company s Articles of Association abstained from voting at the board of directors meeting in respect of the connected transaction.

Note to Investors

In accordance with the Shanghai Listing Rules and Hong Kong Listing Rules, the transaction constitutes a connected transaction under the Shanghai Listing Rules and Hong Kong Listing Rules, requiring disclosure by way of announcement.

The Company and all members of the board of directors confirm that the information contained in this announcement is true, accurate and complete, and severally and jointly accept full responsibility for any false statements, misleading representations or material omissions in this announcement.

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I. Definitions

Company	Sinopec Shanghai Petrochemical Company Limited, the H shares of which are listed on the Hong Kong Stock Exchange, the American Depositary Shares of which are listed on the New York Stock Exchange, and the A shares of which are listed on the Shanghai Stock Exchange, and includes the subsidiaries of the Company except where the context otherwise requires
Contract	the petrochemical products agency sales contract between the Company and Sinopec Corp. dated 25 August 2005
connected person	shall have the meaning ascribed to it in the Listing Rules
controlling shareholder	shall have the meaning ascribed to it in the Shanghai Listing Rules
Directors	the directors of the Company, including independent non-executive directors
Group	the Company and its subsidiaries
HKD	Hong Kong dollars, the lawful currency of the Hong Kong Special Administrative Region
Hong Kong Listing Rules	The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited
Shanghai Listing Rules	Rules for Listing of Shares of the Shanghai Stock Exchange
Listing Rules	the Hong Kong Listing Rules and Shanghai Listing Rules
PRC	People s Republic of China
Relevant Petrochemical Products	synthetic resins, synthetic fibres, synthetic fibre monomers and polymers, organic petrochemical products, by-products from ethylene cracking and aromatics plants, and other substandard products related to the five products stated above
RMB	Renminbi, the lawful currency of the PRC
Sinopec Corp.	China Petroleum and Chemical Corporation, the controlling shareholder of the Company, the H shares of which are listed on the Stock Exchange, the A shares of which are listed on the Shanghai Stock Exchange, and the American Depositary Shares of which are listed on the New York Stock Exchange and London Stock Exchange
Hong Kong Stock Exchange	The Stock Exchange of Hong Kong Limited

II. Overview of the Connected Transaction

(1) *The Contract*

On 25 August 2005, the Company entered into the Contract with Sinopec Corp..

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Pursuant to the Contract, the Company appoints Sinopec Corp. for the sales of the Relevant Petrochemical Products. The Company agrees pursuant to the Contract to sell its output of the Relevant Petrochemical Products through Sinopec as its non-exclusive sales agent, and the Company will reserve the right to make sales of any of the Relevant Petrochemical Products independently or through a third party agent.

In addition, the Company warrants to Sinopec Corp. that the quality of the petrochemical products offered to Sinopec Corp. for sales as an agent will comply with the laws and regulations of the government and the industry s standards, and/ or the requirement standards stipulated in the contract entered into with the buyer. If there is any claim or loss incurred to Sinopec Corp. as a result of quality defects or incorrect specifications on the petrochemical products sold or other mistakes on the part of the Company, the Company will be liable to pay for damages, unless such a claim or loss arises from any material mistakes or negligence made by Sinopec Corp. If there is any dispute between the Company and a third party in respect of the products sold by Sinopec Corp., Sinopec Corp. should provide assistance to the Company for resolving such dispute.

The Contract will be effective from the date of signing and will expire on 31 December 2007.

As each of the of the applicable percentage ratios (other than the profits ratio) (as defined in the Hong Kong Listing Rules) for the Contract is on an annual basis more than 0.1% but less than 2.5%, it is subject to the reporting and announcement requirements but is exempt from independent shareholders approval requirements.

(2) *Consideration and Value of the Contract*

In consideration of the provision of sales agency services, the Company will pay Sinopec Corp. an agency fee of not more than 0.9% of the total sales revenue of products sold pursuant to the Contract. This fee is determined by reference to the actual costs incurred by Sinopec Corp. in relation to the agency arrangement and also based on the agency fee payable to Sinopec Corp. in past agency arrangements. This fee does not exceed the Company s comparable sales and marketing expenses if the sales are to be conducted by the Company itself. Sinopec Corp. shall bear all expenses in relation to the provision of the sales agency services. As the fee is intended to cover costs and expenses only without any provision for profit to Sinopec Corp., the Company believes that such terms are more favorable than those offered by independent third parties.

The selling prices to customers (which will include sales of finished petrochemical products to independent third parties and sales of intermediate feed stocks to connected persons) for the Relevant Petrochemical Products will be based on the price adjustment advice on the selling prices of petrochemical products given by Sinopec Corp. with regard to the changes of market conditions, and the Company will determine the selling prices. The Company considers that the participation of Sinopec Corp. and the latter s stronger bargaining power and coordination will contribute to the Company in obtaining better prices for the sales of its products and in turn will also secure its source of supply of intermediate petrochemical feed stocks.

As the agency fee is determined by reference to the actual costs incurred by Sinopec Corp. in relation to the sales of the Relevant Petrochemical Products, and Sinopec Corp. will incur substantially less costs in arranging sales to a connected person as compared to sales to a third party, therefore the agency fee payable to Sinopec Corp for sales to a connected person will be significantly lower than that to a third party.

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Any sale of the Relevant Petrochemical Products to a connected person (including Sinopec Corp. and its associates) under the Contract constitutes a connected transaction under the Hong Kong Listing Rules and will be conducted strictly under the terms specified in the circular to the Company s shareholders dated 13 May 2005 (the Circular), as approved by the shareholders at an extraordinary general meeting on 28 June 2005.

The Company will collect the proceeds directly from the petrochemical products sold by Sinopec Corp. as an agent, while Sinopec Corp. will be entitled to receive the agency fee based on such proceeds. Both parties agreed that the agency fee will be settled once every 10 days, which means the prepayment dates will be the 15th day and the 25th day of each month and the settlement date will be the 5th day of the following month. If the payment for a sales proceed is not made on the due date by any third party, Sinopec Corp. will be liable to recover such amount.

For the years ended 31 December 2002, 2003 and 2004, the Company s consolidated sales revenue of the Relevant Petrochemical Products which are the subject of the Contract totaled RMB13.578 billion (equivalent to about HKD 13.182 billion), RMB18.910 billion (equivalent to about HKD 18.359 billion) and RMB26.055 billion (equivalent to about HKD 25.296 billion), respectively, representing 62.51%, 65.34% and 67.39% respectively of the Group s net sales for those periods. Pursuant to the Contract, with regard to the proposed sales agency fee of not more than 0.9%, the notional sales agency fees payable in these periods would have been RMB122 million (equivalent to about HKD 118.446 million), RMB170 million (equivalent to about HKD 165.048 million) and RMB235 million (equivalent to about HKD 228.155 million) (collectively, the Notional Agency Fees), respectively, as compared with the selling and marketing expenses for the Company of RMB421 million (equivalent to about HKD 408.737 million), RMB445 million (equivalent to about HKD 432.038 million) and RMB396 million (equivalent to about HKD 384.446 million), respectively, for the same periods. These selling and marketing expenses figures represent the historical expenses incurred by the Company for its entire range of petrochemical products. Accordingly, these figures should not be taken as representation that the agency arrangement with Sinopec Corp. will achieve complete saving of such selling and marketing expenses.

(3) *Caps*

(i) Agency Sales to Third Party Customers

For the three years ended 31 December 2007, the maximum aggregate agency fees payable to Sinopec Corp. under the Contract for the sales of the Relevant Petrochemical Products to third party customers shall not exceed the caps set out below:

	For the year ending 31 December 2005	**For the year ending 31 December 2006**	**For the year ending 31 December 2007**
		(RMB millions)	
Total amount to be paid under the Contract for sales to third party customers	126	291	340

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(ii) Agency Sales to Connected Persons

For the three years ended 31 December 2007, the maximum aggregate fees payable to Sinopec Corp. under the Contract for the sales of the Relevant Petrochemical Products to connected persons shall not exceed the caps set out below:

	For the year ending 31 December 2005	For the year ending 31 December 2006	For the year ending 31 December 2007
		(RMB millions)	
Total amount to be paid under the Contract for sales to connected persons	8	17	19

As each of the of the applicable percentage ratios (other than the profits ratio) (as defined in the Hong Kong Listing Rules) for the maximum aggregate fees payable to Sinopec Corp. under the Contract for the sales of the Relevant Petrochemical Products to (i) third party customers and (ii) connected persons is, on an annual basis, more than 0.1% but less than 2.5%, the Contract is subject to the reporting and announcement requirements but is exempt from independent shareholders approval requirements.

(iii) Basis of Determination of the Caps

The caps referred to above are determined with reference to:

(a) the previous transactions conducted and transaction amounts in respect of the Company s sales of the Relevant Petrochemical Products;

(b) the Company s estimate of the increase in the overall demand for the Relevant Petrochemical Products in the PRC;

(c) the Company s estimate of the increase in the crude oil prices; and

(d) the Company s estimate of its business growth.

The Company notes that the above caps are higher than the Notional Agency Fees in 2004. The Company has recently completed the construction of several facilities, including the 8,000,000 ton/year atmosphere and vacuum distillation plants, the expansion of the capacity of the PTA plant to 400,000 ton/year, the three-kettle process 150,000 ton/year PET plan and the construction of the technology upgrade project for industrial polyester filament of 12,000 ton/year. These newly completed projects have significantly increased the production capacity of the Company. Accordingly, the Company expects that its sales through its agents would increase as a result of the Company s enlarged production capacity.

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(4) *Relationships between the Company and Sinopec Corp.*

Sinopec Corp. is the controlling shareholder of the Company, having a beneficial interest of 55.56% of the registered capital of the Company. In accordance with the Shanghai Listing Rules and the Hong Kong Listing Rules, Sinopec Corp. and the Company are connected persons. Accordingly, the Contract constitutes a continuing connected transaction under the Shanghai Listing Rules and the Hong Kong Listing Rules and is subject to reporting and announcement requirements but is not subject to independent Shareholders approval at the Company s general meeting.

(5) *Review of the Connected Transaction*

At the second meeting of the fifth board of directors of the Company, the Contract was reviewed and approved. The board of directors has conscientiously discussed the Contract and the directors who are deemed to have an interest in the Contract pursuant to the Company s Articles of Association abstained from voting. All non-connected directors including independent directors have unanimously agreed to the connected transaction.

(6) *Necessary PRC Approvals*

The transaction does not require any approvals from the relevant government authorities.

III. Description of the Connected Parties

(1) *Information Required under the Shanghai Listing Rules*

(i) Basic Information on Sinopec Corp.

Name of the corporate:	China Petroleum and Chemical Corporation
Address:	A6 Hui Xin East Street, Chaoyang District, Beijing, PRC
Type of the corporate:	Joint stock limited company
Legal representative:	Chen Tonghai
Registered capital	RMB86,702,439,000

(ii) Historical Background of Sinopec Corp.

Sinopec Corp. was set up on 25 February 2000 as a joint stock limited company by China Petrochemical Corporation as the sole promoter pursuant to the approval document of Guo Jing Mao Qi Gai [2000] No.[154] issued by the State Economic and Trade Commission. The Legal Person Business License Number of the Company is 1000001003298. The H Shares of Sinopec Corp. were listed on the stock exchanges of Hong Kong, New York, Shanghai and London.

(2) *Principal Operations of Sinopec Corp. and the Company*

Sinopec Corp. is an integrated energy and petrochemical company with upstream, midstream and downstream operations. The principal operations of Sinopec Corp. include the exploration and production of oil and gas, oil refining, the production of petrochemicals and the sale and promotion of oil refining products.

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The Company is a highly integrated entity which processes crude oil into synthetic fibres, resins and plastics, intermediate petrochemicals and petroleum products.

(3) *Financial Information Required under the Shanghai Listing Rules in relation to Sinopec Corp.*

In accordance with the financial statement provided by Sinopec Corp. as prepared under PRC accounting rules and regulation, major financial data of Sinopec Corp. and as extracted from the annual report of Sinopec Corp. for the year 2004, is as follows:

	For the year ended 31 December 2004	For the year ended 31 December 2003	For the year ended 31 December 2002	
	RMB millions	*RMB millions*	*RMB millions*	
			Before adjustment (i)	After adjustment
Income from principal operations	590,632	417,191	324,184	324,184
Net profit	32,275	19,011	14,121	14,121
Earnings per share (RMB)				
Fully diluted	0.372	0.219	0.163	0.163
Weighted average	0.372	0.219	0.163	0.163
Net cash flow per share from operating activities (RMB)	0.809	0.743	0.693	0.693
Return on net assets (%)				
Fully diluted	17.320	11.667	9.307	9.638
Weighted average	18.403	12.048	9.478	9.723
Return on net assets excluding non-recurring profit and loss (%)				
Fully diluted	19.316	13.690	9.611	9.953
Weighted average	20.524	14.137	9.787	10.040

	As at 31 December 2004	As at 31 December 2003	As at 31 December 2002	
	RMB millions	*RMB millions*	*RMB millions*	
			Before adjustment	After adjustment
Net assets	460,081	390,213	368,375	368,375
Shareholders equity (excluding minority interests)	186,350	162,946	151,717	146,515
Net assets per share (RMB)	2.149	1.879	1.750	1.690
Net assets per share after adjustment (RMB)	2.102	1.850	1.736	1.676

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IV. Reasons for and benefits of the Contract

The Company entered into the Contract in order to consolidate its market position in the petrochemical industry and to improve its pricing mechanisms. The Directors consider that through the strategic arrangement envisaged under the Contract, the Company can leverage Sinopec Corp. s market share advantage in the sales of the Relevant Petrochemical Products, thereby increasing the Company s competitiveness. The arrangements contemplated under the Contract provides the Company with the benefits of the strong bargaining power and market position of Sinopec Corp. and its ability to coordinate the activities of other petrochemical producers within the PRC. The Directors consider that such benefits, as well as the operating scale of Sinopec Corp., are such that there are negligible risks associated with appointing Sinopec Corp. as a non-exclusive sales agent.

Prior to entering into the Contract, the Company conducted its own sales and marketing functions in relation to the products. The Company s sales and marketing force is discreetly segregated into various divisions by the Company s lines of products. As part of the implementation of the Contract, the Company intends to transfer the relevant division of its sales and marketing function to Sinopec Corp., thus reducing related sales and marketing expenses. The Company s own sales and marketing function will continue to conduct sales and marketing in respect of other products not covered under the Contract.

V. Opinions of Directors

Directors Lei Dianwu (Director of the Development and Planning Department of Sinopec Corp.) and Xiang Hanyin (Deputy Director of the Petrochemical Business Department of Sinopec Corp.) who are deemed to have an interest in the Contract pursuant to the Company s Articles of Association abstained from voting at the board of directors meeting in respect of the connected transaction.

Save as for the Directors who are deemed to have an interested in the Contract and who abstained from voting, all Directors, including the independent non-executive Directors, consider that the Contract is in the ordinary and usual course of the business of the Group and is in the interest of the Company and its shareholders as a whole are concerned.

The independent non-executive Directors of the Company, namely Chen Xinyuan, Sun Chiping, Jiang Zhiquan and Zhou Yunnong unanimously expressed their opinions as follows: The transaction has strictly complied with the relevant laws and regulations of the government, the requirements of regulatory documents and the relevant provisions of the articles of association of the Company. During the course of voting at the board of directors meeting in respect of the matter, directors who are deemed to have an interest in the Contract by virtue of the Company s Articles of Association abstained from voting. The voting procedures have complied with the relevant laws and regulations within and outside the country, the requirements of regulatory documents and the articles of association of the Company. This transaction is conducted in normal commercial terms. The terms of the Contract are fair and reasonable to the Company and its shareholders as a whole. The Company approves the signing of the Contract.

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VI. Documents for Inspection

The following documents are available for inspection from the date of the announcement at the legal address of the Company during normal business hours:

1. the resolution of the second meeting of the fifth session of the board of directors of the Company (including opinions of independent directors); and

2. the Contract.

This announcement contains translation between RMB amounts and HKD at 1.03, being the exchange rate prevailing on the date of the Contract. The translation shall not be taken as representation that RMB could actually be converted into HKD at that rate, or at all.

By Order of the Board

Zhang Jingming

Company Secretary

Shanghai, 25 August 2005

As at the date of this announcement, the executive directors of the Company are Rong Guangdao, Du Chongjun, Han Zhihao, Wu Haijun, Gao Jinping and Shi Wei; the non-executive directors of the Company are Lei Dianwu and Xiang Hanyin; and the independent non-executive directors of the Company are Chen Xinyuan, Sun Chiping, Jiang Zhiquan and Zhou Yunnong.

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