

SINOPEC SHANGHAI PETROCHEMICAL CO LTD

Form 6-K

September 23, 2005

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# SECURITIES AND EXCHANGE COMMISSION

Washington D.C. 20549

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## FORM 6-K

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**REPORT OF FOREIGN PRIVATE ISSUER  
PURSUANT TO RULE 13a-16 OR 15d-16 UNDER  
THE SECURITIES EXCHANGE ACT OF 1934**

For the month of September 2005

Commission File Number: 1-12158

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# Sinopec Shanghai Petrochemical Company Limited

(Translation of registrant's name into English)

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Jinshanwei, Shanghai

The People's Republic of China

(Address of principal executive offices)

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Indicate by check mark whether the registrant files or will file annual reports under cover Form 20-F or Form 40-F.

Form 20-F  Form 40-F

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(1):

Indicate by check mark if the registrant is submitting the Form 6-K in paper as permitted by Regulation S-T Rule 101(b)(7):

Indicate by check mark whether by furnishing the information contained in this Form, the registrant is also thereby furnishing the information to the Commission pursuant to Rule 12g3-2(b) under the Securities Exchange Act of 1934.

Yes  No

If  Yes is marked, indicate below the file number assigned to the registrant in connection with Rule 12g3-2(b): 82- Not Applicable

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**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

**SINOPEC SHANGHAI PETROCHEMICAL COMPANY LIMITED**

Date: September 23, 2005

By:           /s/ Rong Guangdao          

Name: Rong Guangdao  
Title: Chairman

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**IMPORTANT MESSAGE**

Sinopec Shanghai Petrochemical Company Limited (the Company ) and all of its Directors jointly and severally accept full responsibility for the authenticity, accuracy and completeness of the information contained in this report and confirm that there are no material omissions or false or misleading statements in this report.

Mr. Rong Guangdao, Chairman of the Company, Mr. Lei Dianwu and Mr. Xiang Hanyin, Directors of the Company, could not attend the second meeting of the fifth session of the Board, for reason of official duties, Mr. Rong Guangdao, Mr. Lei Dianwu and Mr. Xiang Hanyin each gave irrevocable authorization to Mr. Du Chongjun, Vice Chairman of the Company, to vote on their behalf, in respect of the resolutions put forward in the meeting of the Board.

The Company's interim financial report is unaudited.

Mr. Rong Guangdao, Chairman and President of the Company, Mr. Han Zhihao, Director and Chief Financial Officer overseeing the accounting operations and Mr. Hua Xin, Finance Manager in charge of the Accounting Department hereby warrant the authenticity and completeness of the financial statements contained in the interim report.

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### **REPORT OF THE BOARD OF DIRECTORS**

The following discussion and analysis should be read in conjunction with the Group's unaudited financial statements and the accompanying notes. The financial information presented in this section is derived from the Group's unaudited financial report that have been prepared in accordance with International Financial Reporting Standards ( IFRS ).

#### **To All Shareholders**

We hereby report the operating results of the Group for the six-month period ended 30 June 2005 ( reporting period ). For the six-month period ended 30 June 2005, the Group's turnover from principal operations amounted to RMB21,886.5 million (equivalent to HK\$20,552.6 million), an increase of RMB4,108.3 million (equivalent to HK\$3,857.9 million) or 23.11% as compared to the same period last year. Profit before tax amounted to RMB2,157.8 million (equivalent to HK\$2,026.3 million), representing an increase of 18.57% as compared to the same period last year. Profit after tax 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 same period last year.

#### **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.

#### **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.



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### **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.

### **Management Discussion and Analysis**

#### **1. Management Discussion and Analysis of the Company's Operations During the Reporting Period**

##### **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.

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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					
	2005			2004		
	Sales volume 000 tons	Net Sales Millions of RMB	% of Total	Sales volume 000 tons	Net Sales Millions of RMB	% of Total
<b>Self-produced products</b>						
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 petrochemical products	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 others		670	3.11		1,422	8.15
<b>Total</b>	<b>4,051</b>	<b>21,508</b>	<b>100.00</b>	<b>3,714</b>	<b>17,428</b>	<b>100.00</b>

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.

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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.

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).



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### **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.

### **Capital Expenditures**

In the first half of 2005, our capital expenditures amounted to RMB687.4 million, which includes renovation of No. 1 atmosphere and vacuum distillation facility, 12,000 ton/year polyester filament expansion project, renovation of 400,000 ton/year PTA facility, newly developed material supply pipeline between Shanghai Petrochemical and SECCO, and 380,000 ton/year ethylene glycol facility. In the second half of the year, other than the aforesaid projects, we will also push forward the diesel oil hydrogenization facility, the renovation of the oil refining process 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.

## **Disclosure required by the Listing Rules**

In compliance with Paragraph 40 of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, the Company confirms that, save as disclosed herein, there has been no material change in the current information regarding the Company in relation to those matters set out in Paragraph 32 of Appendix 16 to the Listing Rules from the information in relation to those matters disclosed in the Annual Report 2004 of the Company.

**Table of Contents****2. Scope and performance of the Company's principal business****(1) Description of the scope of the Company's principal business**

Scope of the Company's principal business: crude oil processing, oil refining, production of chemical products, synthetic fibres and monomers, resins and plastics and plastic articles, knitting-ware and textile products.

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

By segment	Income from principal operations (RMB 000)	Cost of sales (RMB 000)	Gross profit margin (%)	Increase/ decrease of income from principal operations compared to the same period last year (%)	Increase/ decrease of cost of sales compared to the same period last year (%)	Increase/ decrease of gross profit margin compared to the same 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 all 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.

**(3) Analysis of the geographical segments for the principal operations**

Region	Income from principal operations (RMB 000)	Increase/ decrease in income from principal operations compared to the same period of last year (%)
Eastern China	19,901,178	20.22
Other regions in China	1,939,172	61.41
Exports	46,122	108.31

**Table of Contents****3. Investment of the Company****(1) Capital raising**

The Company did not raise capital or the previous capital raised has been used during the reporting period.

**(2) Capital Expenditure**

<b>Project</b>	<b>Amount</b>	<b>Progress</b>
	<b>RMB 000</b>	<b>As at 30 June 2005</b>
Renovation of No. 1 atmosphere and vacuum distillation facility	388,000	Complete
12,000 tons/year polyester filament expansion project	198,000	Complete
Renovation of 400,000 tons/year PTA facility	246,000	Complete
Newly developed material supply pipeline between Shanghai Petrochemical and SECCO	100,000	Construction
380,000 ton/year ethylene glycol facility	1,249,000	Construction
North-south pipeline project	200,000	Construction

**Table of Contents****Change of Share Capital and Shareholders****1. Change of Share Capital**

During the reporting period, there was no change to the Company's share capital structure.

**2. Number of shareholders at the end of the reporting period**

At 30 June 2005, the share capital of the Company totaled 7.2 billion shares, which were held by 174,452, with 172,710 of them being holders of A shares and 1,742 of them being holders of H shares.

**3. Shareholding of major shareholders**

Top Ten Shareholders as at the end of the reporting period as follows:

Name of shareholders (full name)	Increase / decrease during the period	Number of shares held at end of the period	Percentage of total share capital (%)	Type of shares (circulating/ non-circulating)	Number of shares pledged or frozen	Type of shareholders (domestic shareholders or foreign shareholders)
China Petroleum & Chemical Corporation		4,000,000,000	55.56	Non-circulating	Nil	State-owned Shareholder
HKSCC (Nominees) Ltd.	216,000	1,916,102,857	26.61	Circulating	Unknown	Foreign Shareholder
HSBC (Nominees) Limited	46,000	355,810,000	4.94	Circulating	Unknown	Foreign Shareholder
Industrial and Commercial Bank of China - Shang Zheng 50 Jiao Yi Xing Kai Fang Shi Index Securities Investment Fund	Unknown	25,890,855	0.36	Circulating	Unknown	Legal Person Shareholder
Shanghai Kangli Gong Mao Company		16,730,000	0.23	Non-circulating	Unknown	Legal Person Shareholder
Bank of Communications - Yifangda 50 Index Securities Investment Fund	Unknown	13,620,700	0.19	Circulating	Unknown	Legal Person Shareholder
Zhejiang Province Economic Construction and Investment Company		12,000,000	0.17	Non-circulating	Unknown	Legal Person Shareholder
HSBC (Nominees) Limited	Unknown	10,388,000	0.14	Circulating	Unknown	Foreign Shareholder
Yulong Securities Investment Fund	Unknown	10,000,000	0.14	Circulating	Unknown	Legal Person Shareholder
China Merchants Bank Co., Ltd. - Zhong Xin Jing Dian Pei Zhi Securities Investment Fund	Unknown	9,024,485	0.13	Circulating	Unknown	Legal Person Shareholder



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Top Ten holders of shares in Circulation are as follows:

<b>Name of shareholders (full name)</b>	<b>Number of shares in circulation as at 30 June 2005</b>	<b>Type (A, B, H shares or others)</b>
HKSCC (Nominees) Ltd.	1,916,102,857	H
Hongkong & Shanghai Banking Corporation (Nominees) Limited	355,810,000	H
Industrial and Commercial Bank of China - Shang Zheng 50 Jiao Yi Xing Kai Fang Shi Index Securities Investment Fund	25,890,855	A
Bank of Communications - Yifangda 50 Index Securities Investment Fund	13,620,700	A
Hong Kong & Shanghai Banking Corporation (Nominees) Limited	10,388,000	H
Yulong Securities Investment Fund	10,000,000	A
China Merchants Bank Co., Ltd. - Zhong Xin Jing Dian Pei Zhi Securities Investment Fund	9,024,485	A
101 National Social Security Fund	6,822,119	A
Zhao Xia	5,720,016	A
103 National Social Security Fund	5,198,800	A

Description of any connected relationships or concerted party relationships among the above mentioned shareholders:

Of the above mentioned shareholders, China Petroleum & Chemical Corporation, the state-owned shareholder, does not have any connected relationship with the other shareholders, and is not a concerted party of the other shareholders under the Administration Measures for Disclosure of Shareholdings in Listed Companies . Of the above mentioned shareholders, HKSCC (Nominees) Ltd. and Hong Kong & Shanghai Banking Corporation (Nominees) Limited are nominee companies. The Company is not aware of whether or not there are connected relationships among the other shareholders, and whether or not they are concerted parties under the Administration Measures for Disclosure of Shareholdings in Listed Companies .

#### **4. Changes to the controlling shareholder and de facto controller of the company**

During the reporting period, there were no changes to the controlling shareholder and de facto controller of the company.

**Table of Contents****Directors, Supervisors and Senior Management's Interests in shares and substantial shareholders****1. Change of Shareholding of Directors, Supervisors and Senior Management**

Name	Position	Number of shares held	Number of shares held	Change
		at the beginning	at the end	
		of the reporting period	of the reporting period	
Rong Guangdao	Chairman and President	3,600	3,600	No change
Du Chongjun	Vice Chairman and Vice President	1,000	1,000	No change
Han Zhihao	Director and Chief Financial Officer	Nil	Nil	No change
Wu Haijun	Director and Vice President	1,500	1,500	No change
Gao Jinping	Director	Nil	Nil	No change
Shi Wei	Director and Vice President	Nil	Nil	No change
Lei Dianwu	External Director	Nil	Nil	No change
Xiang Hanyin	External Director	Nil	Nil	No change
Chen Xinyuan	Independent Director	Nil	Nil	No change
Sun Chiping	Independent Director	Nil	Nil	No change
Jiang Zhiquan	Independent Director	Nil	Nil	No change
Zhou Yunnong	Independent Director	Nil	Nil	No change
Dai Shuming	Chairman of Supervisory Committee	Nil	Nil	No change
Zhang Chenghua	Supervisor	Nil	Nil	No change
Wang Yanjun	Supervisor	Nil	Nil	No change
Lu Xiangyang	External Supervisor	Nil	Nil	No change
Geng Limin	External Supervisor	Nil	Nil	No change
Liu Xiangdong	Independent Supervisor	Nil	Nil	No change
Yin Yongli	Independent Supervisor	Nil	Nil	No change
Zhang Zhiliang	Vice President	3,600	3,600	No change
Yin Jihai	Vice President	Nil	Nil	No change
Zhang Jianping	Vice President	Nil	Nil	No change
Tang Chengjian	Vice President	Nil	Nil	No change
Zhang Jingming	Company Secretary	Nil	Nil	No change

The shares held by the above people are A shares and represented their personal interests in their capacity as beneficial owners.

**2. Interests and Short Positions of Directors and Supervisors in Shares, underlying Shares and Debentures**

Other than as set out above, as at 30 June 2005, none of the Directors or Supervisors of the Company had any interests or short positions in any shares, underlying shares of equity derivatives or debentures of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the "SFO")) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

As at 30 June 2005, none of the Directors or Supervisors of the Company or their respective spouses and children under 18 years of age had been granted by the Company or had exercised any rights to subscribe for shares or debentures of the Company or any of its associated corporations.



**Table of Contents****3. Interests and short positions of substantial shareholders and other persons in shares and underlying shares**

As at 30 June 2005, the interests and short positions of substantial shareholders (being persons who are entitled to exercise, or control the exercise of, 10% or more of the voting power at any general meeting of the Company) and other persons who are required to disclose their interests pursuant to Part XV of the SFO (other than Directors and Supervisors) in the shares and underlying shares of equity derivatives of the Company as recorded in the register required to be kept under Section 336 of the SFO were as set out below:

**(1) (a) Interests in ordinary shares of the Company**

Name of shareholder	Number and type of shares held	% of issued share capital	% of shareholding in the Company's total issued H share	Capacity
China Petroleum & Chemical Corporation	4,000,000,000 promoter legal person shares	55.56%		Beneficial owner
Alliance Capital Management L.P.*	116,493,210 H shares	1.62%	5.00%	Beneficial owner; investment manager; other (lending pool)

\* 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 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.

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.

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### **4. Change of Directors, Supervisors and Senior Management**

The Company convened the 2004 Annual General Meeting on 28 June 2005 at which Mr. Rong Guangdao, Mr. Du Chongjun, Mr. Han Zhihao, Mr. Wu Haijun, Mr. Gao Jinping, Mr. Shi Wei, Mr. Lei Dianwu, Mr. Xiang Hanyin, Mr. Chen Xingyuan, Mr. Sun Chiping, Mr. Jiang Zhiquan, Mr. Zhou Yunnong were elected as members of the fifth session of the Board of Directors. Mr. Dai Shuming, Mr. Zhang Chenghua, Ms. Wang Yanju, Mr. Lu Xiangyang, Mr. Geng Limin, Mr. Liu Xiangdong and Mr. Yin Yongli were elected as members of the fifth session of the Supervisory Committee.

At the first meeting of the fifth session of the board of directors, Mr. Rong Guandao was elected Chairman of the Company, Mr. Du Chongjun was elected Vice Chairman of the Company. Mr. Rong Guangdao, Mr. Du Chongjun, Mr. Han Zhihao, Mr. Wu Haijun, Mr. Gao Jinping, Mr. Shi Wei are Executive Directors of the Company. Mr. Rong Guangdao was appointed President. Mr. Du Chongjun, Mr. Zhang Zhiliang, Mr. Wu Haijun, Mr. Yin Jihai, Mr. Shi Wei, Mr. Zhang Jianping and Mr. Tang Chengjian were appointed Vice Presidents of the Company. Mr. Han Zhihao was appointed Chief Financial Officer. Mr. Zhang Jingming was appointed Company Secretary and Director of the Secretarial Office to the Board of Directors.

At the first meeting of the fifth session of Supervisory Committee held on 28 June 2005, Mr. Dai Shuming was elected Chairman of the Supervisory Committee.

### **5. 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.

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 Hanyin 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.



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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 Zhiqian 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.

As at the date of this report, 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.

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### **(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.

### **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).

### **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.

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### **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.

### **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 has commenced 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.

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### **SIGNIFICANT EVENTS**

#### **A. Corporate Governance**

The Company has strictly complied with relevant requirements of the Company Law, Securities Law, Corporate Governance Principles for Listed Companies, Notice on Issuing the Guidelines for Introducing Independent Directors to the Board of Directors of Listed Companies, the Shanghai Stock Exchange, The Stock Exchange of Hong Kong Limited and the New York Stock Exchange to put forward the advancement of the Company's system and management, improve the corporate governance structure, strengthen the formulation of the Company's system in order to enhance the overall image of the Company.

At the Annual General Meeting for 2004, the Company passed a resolution to approve the proposed amendments to the Articles of Association of the Company.

#### **B. 2004 Profit Appropriation Plan**

The Profit appropriation plan for 2004 was approved at the Company's 2004 Annual General Meeting. A dividend of RMB 2.00 (tax included) per 10 shares will be distributed to shareholders, based on the total share capital of 7,200,000,000 shares at the end of 2004. Relevant announcement was published on Shanghai Securities News, China Securities Journal, South China Morning Post and Hong Kong Commercial Daily on 29 June 2005. On 11 July 2005, the Company published the profit appropriation plan for A shares. In respect of the distribution of A-share dividend, the share right registration date was 14 July 2005, ex-dividend date was 15 July 2005. The dividend payment date for social public shares of A shares and H shares was 21 July 2005. Such profit appropriation plan has been implemented as scheduled.

#### **C. Interim dividend for 2005**

The Board of Directors of the Company does not recommend any interim dividend for the six-month period ended 30 June

2005.

#### **D. Material Litigation and Arbitration**

The Group was not involved in any material litigation or arbitration during the reporting period.

#### **E. Acquisition, Sale and Merger**

There was no significant acquisition, sale and merger made by the Company during the reporting period.

**F. Major Connected Transactions**

On 28 June 2005, the Company held an Extraordinary General Meeting. On the meeting, the resolutions of the Sales and Framework Agreement, the Comprehensive Services Framework Agreement and the caps for each of the Continuing Connected Transactions for the years ended 31 December 2005, 31 December 2006 and 31 December 2007 was approved by independent shareholders.

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- (a) The following transactions are the significant related party transactions relating to purchases of goods that occurred during the reporting period

Related parties	Type of transactions	Amount RMB 000	Percentage of total amount of the type of transaction %
Sinopec Pipeline Storage and Transport Branch	Purchase	9,077,446	49.43
China International United Petroleum & Chemicals Co. Ltd	Purchase	2,586,930	14.09
Sinopec International Co., Ltd.	Purchase	790,210	4.30
Other fellow subsidiaries	Purchase	647,957	3.53

- (b) The following transactions are the significant related party transactions relating to sales of goods and provision of services that occurred during the reporting period.

Related parties	Type of transactions	Amount RMB 000	Percentage of total amount of the type of transaction %
Sinopec Huadong Sales Company	Sales of products	7,082,931	32.36
Other fellow subsidiaries	Sales of products and service fee	1,993,028	9.11

- (c) Connected debts and liabilities

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)	
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 RMB 81.842 million, and with a balance of RMB 6.884 million.



**Table of Contents****G. Material contracts**

## 1. Trust, sub-contract and leasing

During the reporting period, the Group did not enter into any trust, sub-contract or lease arrangements relating to its own assets or the assets of any other company.

## 2. Guarantees

Guaranteed entities	Date	Guarantee amount (RMB 000)	Type of guarantee	Guarantee period	Guarantee expired	Guarantee for a connected party
	(Agreement signing date)					
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(RMB 000)	1,500
Amount of guarantees at the end of the reporting period(RMB 000)	78,586

**Guarantees to subsidiaries:**

Amount of guarantees to subsidiaries signed by the company during the reporting period(RMB 000)	152,077
Amount of guarantees to subsidiaries at the end of the reporting period(RMB 000)	772,139

**Total guarantee amount (including guarantees to subsidiaries):**

Total guarantee amount(RMB 000)	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%(RMB 000)	48,286
Amount of guarantee provided directly or indirectly to guarantee target with gearing ratio exceeding 70%(RMB 000)	574,013
Total guarantee amount exceeding 50% of the net assets of the Company(RMB 000)	0
Amount of guarantee in violation of regulations(RMB 000)	616,563

## 3. Trust Financial Management

During the reporting period, the Company did not arrange trust financial management.

## 4. Other material contracts

During the reporting period, the Company had no other material contracts for which the Company did not perform its obligations.



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### **H. Commitments of the Company or any shareholders with a shareholding above 5% of the total shares in issue**

Neither the Company nor any shareholder with a shareholding above 5% of the total shares in issue has disclosed in the designated newspaper or websites any commitment with any party.

### **I. Auditors**

KPMG Huazhen and KPMG were re-appointed as the Company's domestic and international auditors respectively for the year 2005, as approved at the 2004 Annual General Meeting.

### **J. Penalties on the Company, the Board and the Directors**

During the reporting period, the Board and the Directors had not been investigated, administratively punished or publicly criticized by the China Securities Regulatory Commission or publicly reprimanded by the Shanghai Stock Exchange.

### **K. Other important events**

On 28 June 2005, the Company held Annual General Meeting for 2004 and Extraordinary General Meeting for 2005, respectively.

### **L. Other Important Information**

- a. On 24 March 2005, the Company released 2004 Annual Results Announcement, Resolutions of the Twenty First Meeting of the Fourth Session of the Board of Directors and Resolutions of the Thirteenth Meeting of the Fourth Session of the Supervisory Committee, which were published on Shanghai Securities News, China Securities Journal, South China Morning Post and Hong Kong Commercial Daily and on the Shanghai Stock Exchange ( SSE ) website [www.sse.com.cn](http://www.sse.com.cn) accessible by entering the Company's Code (600688) in the section headed Listed Companies Information Search .
- b. On 29 April 2005, the Company released First Quarterly Report of 2005, Resolutions of the Twenty Second of the Fourth Session of the Board of Directors, Resolutions of the Fourteenth Meeting of the Fourth Session of the Supervisory Committee and the Continuing Connected Transaction Announcement and Connected Transaction Announcement which were published on Shanghai Securities News, China Securities Journal, South China Morning Post and Hong Kong Commercial Daily and SSE website.
- c. On 13 May 2005, the Company released Notice to Annual General Meeting for 2004 and Notice to Extraordinary General Meeting for 2005 which were published on Shanghai Securities News, China Securities Journal, South China Morning Post and Hong Kong Commercial Daily and SSE website.

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- d. On 29 June 2005, the Company released Resolutions of Annual General Meeting for 2004, Resolutions of Extraordinary General Meeting for 2005, Resolutions of the First Meeting of the Fifth Session of the Board of Directors of the Company and Resolution of the First Meeting of the Fifth Session of the Supervisory Committee of the Company which were published on Shanghai Securities News, China Securities Journal, South China Morning Post and Hong Kong Commercial Daily and SSE website.

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**Documents for Inspection**

- A. The Company's documents for inspection are ready and complete and comprise the following:
1. interim report signed by the Vice Chairman of the Company;
  2. financial statements signed and stamped by the Company 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 DSRC during the reporting period;
  4. the Company's Articles of Association.
- B. The Company has kept all the above documents in the Company's Secretariat Department
- C. All information as required by the Listing Rules Appendix 16 paragraph 46(1) to paragraph 46(6) will be disclosed on the websites of the Hong Kong Stock Exchange and that of the Company.

**Address:**

The Secretary Office to the Board of Directors, No. 48 Jinyi Road, Jinshan District, Shanghai, PRC

Telephone: (8621) 5794-3143

Fax: (8621) 5794-0050

Web Site: <http://www.spc.com.cn>

E-mail: [spc@spc.com.cn](mailto:spc@spc.com.cn)

**Table of Contents****Financial Highlights**Prepared under PRC Accounting Rules and Regulations (*Unaudited*)

## 1. Major business data for the first half of 2005

<u>Item</u>	<u>RMB 000</u>
Total profit	2,042,636
Net profit	1,650,520
Profit from principal operations	3,145,761
Profit from other operations	68,785
Profit from operations	2,303,182
Investment loss	(116,089)
Non-operating loss, net	(144,457)
Net decrease of cash and cash equivalents	(290,243)

## 2. Major financial data and financial indicators

	<u>30 June</u>	<u>31 December</u>	<u>Increase/(decrease )</u>
	<u>2005</u>	<u>2004</u>	<u>compared to the beginning</u>
			<u>of the year (%)</u>
Current assets (RMB 000)	8,828,936	8,613,655	2.449
Current liabilities (RMB 000)	8,584,856	7,432,559	15.503
Total assets (RMB 000)	28,707,848	28,757,089	(0.171)
Shareholders' equity(excluding minority interests)(RMB 000)	19,112,801	18,902,281	1.114
Net asset value per share (RMB)	2.655	2.625	1.143
Adjusted net asset value per share(RMB)	2.652	2.623	1.106

	<u>Six-month periods ended 30 June</u>		<u>Increase/ (decrease)</u>
	<u>2005</u>	<u>2004</u>	<u>compared to the</u>
			<u>period ended</u>
			<u>30 June 2004 (%)</u>
Net profit ( 000)	1,650,520	1,531,200	7.793
Net profit excluding non-recurring items ( 000)	1,773,308	1,645,861	7.743
Earnings per share (RMB)	0.229	0.213	7.512
Return on net assets (%)	8.636	9.301	(7.150)
Net cash flows from operating activities ( 000)	1,778,441	1,688,101	5.352

<u>Non-recurring items</u>	<u>Amount</u>
	<u>RMB 000</u>

Non-operating income	(10,766)
Non-operating expenses excluding provision for impairment loss on fixed assets	155,223
Tax adjustments for the above items	(21,669)
Total	122,788

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3. Differences between financial statements prepared under PRC Accounting Rules and Regulations and financial report prepared under IFRS

	<b>PRC Accounting Rules and Regulations RMB 000</b>	<b>IFRS RMB 000</b>
Net profit	1,650,520	1,763,442
Shareholders equity	19,112,801	18,742,980

Explanation of differences: For details, please refer to Section C of the interim financial report.

4. Return on net assets and earnings per share prepared in compliance with the Regulation on the preparation of information disclosures by companies publicly issuing securities, No.9 issued by the China Securities Regulatory Commission:

	<b>Return on net assets(%)</b>				<b>Earnings per share(RMB)</b>			
	<b>Fully diluted</b>		<b>Weighted average</b>		<b>Fully diluted</b>		<b>Weighted average</b>	
	<b>For the six-month periods</b>				<b>For the six-month periods</b>			
	<b>ended 30 June</b>				<b>ended 30 June</b>			
	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>	<b>2005</b>	<b>2004</b>
Profit from principal operations	<b>16.459</b>	17.30	<b>15.946</b>	17.82	<b>0.437</b>	0.40	<b>0.437</b>	0.40
Profit from operations	<b>12.050</b>	12.07	<b>11.675</b>	12.43	<b>0.320</b>	0.28	<b>0.320</b>	0.28
Net profit	<b>8.636</b>	9.30	<b>8.367</b>	9.58	<b>0.229</b>	0.21	<b>0.229</b>	0.21
Net profit excluding non-recurring items	<b>9.278</b>	10.00	<b>8.989</b>	10.30	<b>0.246</b>	0.23	<b>0.246</b>	0.23

5. Various provisions under PRC Accounting Rules and Regulations:

<b>Description</b>	<b>The Group</b>			
	<b>As at 31 December 2004 RMB 000</b>	<b>Increase for the period RMB 000</b>	<b>Write-off for the period RMB 000</b>	<b>As at 30 June 2005 RMB 000</b>
	Total provision for bad debts	54,974	1,978	(686)
Of which: Trade debtors	45,282	1,978	(686)	<b>46,574</b>
Other debtors	9,692			<b>9,692</b>
Total provision for diminution in short-term investment				
Of which: Stock investment				
Bond investment				
Total provision for diminution in inventories	56,670		(4,518)	<b>52,152</b>

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Of which:	Finished goods	3,780		(3,780)	
	Spare parts and consumables	52,890		(738)	<b>52,152</b>
Total provision for impairment losses of long-term investments					
		61,750	960	(1,304)	<b>61,406</b>
Of which:	Long-term equity investments	61,750	960	(1,304)	<b>61,406</b>
	Long-term bond investments				
Total provision for impairment losses of fixed assets					
		58,945			<b>58,945</b>
Of which:	Land and buildings				
	Plant, machinery, equipment and others	58,945			<b>58,945</b>
Total provision for impairment losses of intangible assets					
Of which:	Patent rights				
	Trade mark rights				
Provision for impairment losses of construction in progress					
Provision for diminution in designated loan					
Total provisions		232,339	2,938	(6,508)	<b>228,769</b>

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<b>Description</b>	<b>The Company</b>			<b>As at 30 June 2005 RMB 000</b>
	<b>As at 31 December 2004 RMB 000</b>	<b>Increase for the period RMB 000</b>	<b>Write-off for the period RMB 000</b>	
Total provision for bad debts	23,965			<b>23,965</b>
Of which: Trade debtors	19,610			<b>19,610</b>
Other debtors	4,355			<b>4,355</b>
Total provision for diminution in short-term investment				
Of which: Stock investment				
Bond investment				
Total provision for diminution in inventories	47,550			<b>47,550</b>
Of which: Finished goods				
Spare parts and consumables	47,550			<b>47,550</b>
Total provision for impairment losses of long-term investments				
Of which: Long-term equity investments				
Long-term bond investments				
Total provision for impairment losses of fixed assets	58,945			<b>58,945</b>
Of which: Land and buildings				
Plant, machinery, equipment and others	58,945			<b>58,945</b>
Total provision for impairment losses of intangible assets				
Of which: Patent rights				
Trade mark rights				
Provision for impairment losses of construction in progress				
Provision for diminution in designated loan				
<b>Total provisions</b>	<b>130,460</b>			<b>130,460</b>

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## 6. Changes in shareholders' equity

<b>Item</b>	<b>Six-months Period ended 30 June 2005 RMB 000</b>	<b>Twelve-months Period ended 31 December 2005 RMB 000</b>
<b>Share capital</b>		
At the beginning of the period	7,200,000	7,200,000
Increase during the period		
Decrease during the period		
At the end of the period	7,200,000	7,200,000
<b>Capital reserve</b>		
At the beginning of the period	2,856,278	2,856,278
Increase during the period		
Decrease during the period		
At the end of the period	2,856,278	2,856,278
<b>Surplus reserve</b>		
At the beginning of the period	2,820,394	2,423,267
Increase during the period		397,127
Statutory Surplus reserve		397,127
Decrease during the period		
At the end of the period	2,820,394	2,820,394
Of which: Statutory Surplus reserve	1,457,791	1,457,791
<b>Statutory public welfare fund</b>		
At the beginning of the period	1,375,702	978,575
Increase during the period		397,127
Of which: retain from net profits		397,127
Decrease during the period		
At the end of the period	1,375,702	1,375,702
<b>Undistributed profits</b>		
At the beginning of the period	4,649,907	2,048,896
Increase during the period	1,650,520	3,971,265
Decrease during the period	1,440,000	1,370,254
At the end of the period	4,860,427	4,649,970

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### **Independent Review Report to the Board of Directors of Sinopec Shanghai Petrochemical Company Limited For the six-month period ended 30 June 2005**

#### **Introduction**

We have been instructed by the Company to review the interim financial report set out on pages 28 to 42.

#### **Respective responsibilities of directors and auditors**

The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of interim financial report to be in compliance with the relevant provisions thereof and International Accounting Standard 34 Interim Financial Reporting adopted by the International Accounting Standards Board. The interim financial report is the responsibility of, and has been approved by, the directors.

It is our responsibility to form an independent conclusion, based on our review, on the interim financial report and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

#### **Review work performed**

We conducted our review in accordance with Statement of Auditing Standards 700 Engagements to review interim financial reports issued by the Hong Kong Institute of Certified Public Accountants. A review consists principally of making enquiries of group management and applying analytical procedures to the interim financial report and based thereon, assessing whether the accounting policies and presentation have been consistently applied unless otherwise disclosed. A review excludes audit procedures such as tests of controls and verification of assets, liabilities and transactions. It is substantially less in scope than an audit and therefore provides a lower level of assurance than an audit. Accordingly, we do not express an audit opinion on the interim financial report.

#### **Review conclusion**

On the basis of our review, which does not constitute an audit, we are not aware of any material modifications that should be made to the interim financial report for the six-month period ended 30 June 2005.

**KPMG**

**Certified Public Accountants**

**Hong Kong, China, 25 August 2005**

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**Table of Contents****A. Interim Financial Report prepared under International Accounting Standard 34 Interim Financial Reporting (see note 1)****Consolidated Income Statement (unaudited)**

	Note	Six-month periods ended 30 June	
		2005 RMB 000	2004 RMB 000
<b>Turnover</b>	3	<b>21,886,472</b>	17,778,137
<b>Sales taxes and surcharges</b>		<b>(378,135)</b>	(350,253)
<b>Net sales</b>		<b>21,508,337</b>	17,427,884
<b>Cost of sales</b>		<b>(18,949,942)</b>	(15,097,255)
<b>Gross profit</b>		<b>2,558,395</b>	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)
<b>Profit from operations</b>		<b>2,364,918</b>	2,008,655
Share of losses of associates		(93,723)	(17,392)
Net financing costs		(113,407)	(171,495)
<b>Profit before tax</b>	3,4	<b>2,157,788</b>	1,819,768
Taxation	5	(359,960)	(258,124)
<b>Profit after tax</b>		<b>1,797,828</b>	1,561,644
<b>Attributable to:</b>			
Equity holders of the parent		1,763,442	1,520,725
Minority interests		34,386	40,919
<b>Profit after tax</b>		<b>1,797,828</b>	1,561,644
<b>Basic earnings per share</b>	6	<b>RMB 0.245</b>	RMB 0.211

The notes on pages 31 to 42 form part of this unaudited interim financial report.

**Table of Contents****Consolidated Balance Sheet (unaudited)**

		At 30 June 2005	At 31 December 2004
	Note	RMB 000	RMB 000
			(audited)
<b>Non-current assets</b>			
Property, plant and equipment	8	15,046,017	15,206,325
Investment property	9	520,990	511,307
Construction in progress		770,393	807,477
Interests 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
<b>Total non-current assets</b>		<b>19,509,091</b>	<b>19,660,691</b>
<b>Current assets</b>			
Inventories		4,442,741	3,727,749
Trade debtors	10	341,403	395,353
Bills receivable	10	1,719,230	1,675,412
Deposits, other debtors and prepayments		409,215	535,222
Amounts due from parent company and fellow subsidiaries	10	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
<b>Total current assets</b>		<b>8,830,952</b>	<b>8,615,910</b>
<b>Current liabilities</b>			
Bank loans		5,024,741	4,870,305
Loans from a fellow subsidiary		130,000	130,000
Trade creditors	11	868,067	797,753
Bills payable	11	33,382	259,746
Other creditors		2,089,848	663,635
Amounts due to parent company and fellow subsidiaries	11	391,259	639,445
Income tax payable		49,575	73,930
<b>Total current liabilities</b>		<b>8,586,872</b>	<b>7,434,814</b>
<b>Net current assets</b>		<b>244,080</b>	<b>1,181,096</b>
<b>Total assets less current liabilities</b>		<b>19,753,171</b>	<b>20,841,787</b>
<b>Non-current liabilities</b>			
Deferred income		28,792	37,100
Bank loans		621,941	2,014,614
<b>Total non-current liabilities</b>		<b>650,733</b>	<b>2,051,714</b>
<b>Net assets</b>		<b>19,102,438</b>	<b>18,790,073</b>

<b>Shareholders equity</b>		
Share capital	7,200,000	7,200,000
Reserves	11,542,980	11,216,989
	<u>          </u>	<u>          </u>
<b>Total equity attributable to equity holders of the parent</b>	<b>18,742,980</b>	<b>18,416,989</b>
<b>Minority interests</b>	<b>359,458</b>	<b>373,084</b>
	<u>          </u>	<u>          </u>
<b>Total equity</b>	<b>19,102,438</b>	<b>18,790,073</b>
	<u>          </u>	<u>          </u>

Approved and authorised for issue by the Board of Directors on 25 August 2005.

**Du Chongjun**

*Vice Chairman and Vice President*

**Han Zhihao**

*Director and Chief Financial Officer*

The notes on pages 31 to 42 form part of this unaudited interim financial report.

**Table of Contents****Condensed Consolidated Cash Flow Statement (unaudited)**

	Six-month periods ended 30 June	
	2005	2004
	RMB 000	RMB 000
Cash flows provided from operating activities	1,628,071	1,510,506
Net cash used in investing activities	(631,976)	(952,824)
Net cash used in financing activities	(1,286,249)	(832,193)
Net decrease in cash and cash equivalents	(290,154)	(274,511)
Cash and cash equivalents at the beginning of the period	1,690,500	1,840,351
Effect of exchange rate fluctuations on cash held	(89)	
Cash and cash equivalents at the end of the period	1,400,257	1,565,840

**Consolidated Statement of Changes in Shareholders' Equity (unaudited)**

	Note	Share	Share	Reserves	Retained	Minority	Total
		capital	premium	(Note 12)	earnings	interests	
		RMB 000	RMB 000	RMB 000	RMB 000	Note 2(b)	RMB 000
As at 1 January 2004		7,200,000	2,420,841	3,257,418	2,143,627	341,240	15,363,126
Profit attributable to shareholders					1,520,725	40,919	1,561,644
Dividend approved in respect of previous year	7				(576,000)		(576,000)
Dividends paid to minority shareholders						(19,993)	(19,993)
As at 30 June 2004		7,200,000	2,420,841	3,257,418	3,088,352	362,166	16,328,777
As at 1 January 2005		7,200,000	2,420,841	4,051,672	4,744,476	373,084	18,790,073
Derecognition of negative goodwill	2(a)				2,549		2,549
As at 1 January 2005 (adjusted)		7,200,000	2,420,841	4,051,672	4,747,025	373,084	18,792,622
Profit attributable to shareholders					1,763,442	34,386	1,797,828
Dividend approved in respect of previous year	7				(1,440,000)		(1,440,000)
Dividends paid to minority shareholders						(48,012)	(48,012)
As at 30 June 2005		7,200,000	2,420,841	4,051,672	5,070,467	359,458	19,102,438

The notes on pages 31 to 42 form part of this unaudited interim financial report.



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### **Notes to the Unaudited Interim Financial Report**

#### **1. Principal activities and basis of preparation**

Sinopec Shanghai Petrochemical Company Limited ( the Company ) and its subsidiaries ( the Group ) is a highly integrated entity which processes crude oil into synthetic fibres, resins and plastics, intermediate petrochemicals and petroleum products. The Company is a subsidiary of China Petroleum & Chemical Corporation ( Sinopec Corp ).

This interim financial report is unaudited, but has been reviewed by KPMG in accordance with Statement of Auditing Standards 700

Engagements to review interim financial reports , issued by the Hong Kong Institute of Certified Public Accountants. KPMG 's independent review report to the Board of Directors is included on page 27.

The interim financial report has been prepared in accordance with the requirements of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with International Accounting Standards 34 Interim Financial Reporting adopted by the International Accounting Standards Board ( IASB ).

The financial information relating to the financial year ended 31 December 2004 included in the interim financial report do not constitute the Company 's statutory financial statements for that financial year but is derived from those financial statements. Statutory financial statements for the year ended 31 December 2004 are available from the Company 's registered office. The Company 's independent auditors have expressed an unqualified opinion on those financial statements in their report dated 23 March 2005.

Other than those set out in Note 2 below, the accounting policies have been consistently applied by the Group and are consistent with those adopted in the 2004 annual financial statements. The 2004 annual financial statements have been prepared in accordance with International Financial Reporting Standards ( IFRS ) promulgated by the IASB. IFRS includes International Accounting Standards ( IAS ) and related interpretations.

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### **Notes to the Unaudited Interim Financial Report** *(continued)*

#### **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.

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**Notes to the Unaudited Interim Financial Report** *(continued)*

**2. Changes in accounting policies** *(continued)*

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

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

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

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

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

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

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

**Table of Contents****3. Segment reporting**

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

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

External sales include sales to other Sinopec Corp group companies.

**Table of Contents****3. Segment reporting (continued)**

	Six-month periods ended 30 June	
	2005	2004
<b>Profit before tax</b>	<b>RMB 000</b>	<b>RMB 000</b>
<b>Profit / (loss) from operations</b>		
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
<b>Consolidated profit from operations</b>	<b>2,364,918</b>	<b>2,008,655</b>
<b>Share of losses of associates</b>	<b>(93,723)</b>	<b>(17,392)</b>
<b>Net financing costs</b>	<b>(113,407)</b>	<b>(171,495)</b>
<b>Consolidated profit before tax</b>	<b>2,157,788</b>	<b>1,819,768</b>

**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)	
<b>Interest expenses, net</b>	<b>130,795</b>	<b>185,842</b>
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)

**Table of Contents****5. Taxation**

Taxation in the consolidated income statement represents:

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

Pursuant to the document Cai Shui Zi (1999) No. 290 issued by the Ministry of Finance and the State Administration of Taxation of the PRC on 8 December 1999, the Company was entitled to an income tax refund of RMB 10,262,000 during the period ended 30 June 2004 relating to the purchase of equipment produced in the PRC for technological improvements. The Company was not entitled to income tax refund during the period ended 30 June 2005.

The charge for PRC income tax is calculated at the rate of 15% (2004: 15%) on the estimated assessable income of the period determined in accordance with relevant income tax rules and regulations. The Company did not carry out business overseas and therefore does not incur overseas income taxes. The Company has not received notice from the Ministry of Finance that the 15% tax rate will be revoked in 2005. It is possible that the Company's tax rate will increase in the future.

**6. Basic earnings per share**

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

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

**7. Dividend**

<b>Six-month periods ended 30 June</b>	
<b>2005</b>	<b>2004</b>
<b>RMB 000</b>	<b>RMB 000</b>

Final dividend in respect of the previous financial year, approved during the period, of RMB 0.20 per share(2004: RMB 0.08 per share)	<b>1,440,000</b>	576,000
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Pursuant to a resolution passed at the Annual General Meeting held on 28 June 2005, a final dividend of RMB 1,440,000,000 (2004: RMB 576,000,000) was declared and approved for the year ended 31 December 2004. The Directors do not recommend the payment of an interim dividend for the period (2004: RMB Nil).

**Table of Contents****8. Property, plant and equipment**

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

**9. Investment Property**

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

**Table of Contents****9. Investment Property** *(continued)*

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

The fair values of the investment property of the Group as at 30 June 2005 are estimated by the directors to be approximately RMB601,825,000 by reference to market conditions. The investment property has not been valued by an external independent valuer.

Rental income of RMB6,021,000 is received during the period ended 30 June 2005.

**10. Trade accounts receivable**

	At 30 June 2005	At 31 December 2004
	RMB 000	RMB 000
	<u>          </u>	<u>          </u>
		(audited)
Trade debtors	387,977	440,632
Less: Allowance for doubtful debts	(46,574)	(45,282)
	<u>          </u>	<u>          </u>