

SINOPEC SHANGHAI PETROCHEMICAL CO LTD

Form 6-K

September 23, 2005

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SECURITIES AND EXCHANGE COMMISSION

Washington D.C. 20549

FORM 6-K

**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

Sinopec Shanghai Petrochemical Company Limited

(Translation of registrant's name into English)

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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2005 Interim Report

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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 |
| 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 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 |
| 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.

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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

| Project | Amount | Progress |
|---|----------------|---------------------------|
| | RMB 000 | As at 30 June 2005 |
| 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:

| Name of shareholders (full name) | Number of shares in circulation as at 30 June 2005 | Type (A, B, H shares or others) |
|---|---|--|
| 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 of the reporting period | at the end 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

| <u>Name of shareholder</u> | <u>Number and type of shares held</u> | <u>% of issued share capital</u> | <u>% of shareholding in the Company's total issued H share</u> | <u>Capacity</u> |
|--|--|----------------------------------|--|--|
| 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 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.

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

| <u>Related parties</u> | <u>Type of transactions</u> | <u>Amount RMB 000</u> | <u>Percentage of total amount of the type of transaction %</u> |
|---|-----------------------------|---------------------------|--|
| 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.

| <u>Related parties</u> | <u>Type of transactions</u> | <u>Amount RMB 000</u> | <u>Percentage of total amount of the type of transaction %</u> |
|-------------------------------|-----------------------------------|---------------------------|--|
| 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

| <u>Connected parties</u> | <u>Relations with the listed company</u> | <u>Funds provided by the listed company to the connected parties</u> | | <u>Funds provided by the connected parties to the listed company</u> | |
|---|--|--|----------------|--|----------------|
| | | <u>Net transaction amount</u> | <u>Balance</u> | <u>Net transaction amount</u> | <u>Balance</u> |
| 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 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 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

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

| | PRC Accounting Rules and Regulations RMB 000 | IFRS RMB 000 |
|---------------------|---|-------------------------|
| 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:

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

5. Various provisions under PRC Accounting Rules and Regulations:

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

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| | | | | | |
|--|--|---------|-------|---------|----------------|
| Of which: | Finished goods | 3,780 | | (3,780) | |
| | Spare parts and consumables | 52,890 | | (738) | 52,152 |
| Total provision for impairment losses of long-term investments | | | | | |
| | | 61,750 | 960 | (1,304) | 61,406 |
| Of which: | Long-term equity investments | 61,750 | 960 | (1,304) | 61,406 |
| | Long-term bond investments | | | | |
| Total provision for impairment losses of fixed assets | | | | | |
| | | 58,945 | | | 58,945 |
| Of which: | Land and buildings | | | | |
| | Plant, machinery, equipment and others | 58,945 | | | 58,945 |
| 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) | 228,769 |

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| Description | The Company | | | As at 30 June 2005 RMB 000 |
|--|---|--|---|---|
| | As at 31 December 2004 RMB 000 | Increase for the period RMB 000 | Write-off for the period RMB 000 | |
| Total provision for bad debts | 23,965 | | | 23,965 |
| Of which: Trade debtors | 19,610 | | | 19,610 |
| Other debtors | 4,355 | | | 4,355 |
| Total provision for diminution in short-term investment | | | | |
| Of which: Stock investment | | | | |
| Bond investment | | | | |
| Total provision for diminution in inventories | 47,550 | | | 47,550 |
| Of which: Finished goods | | | | |
| Spare parts and consumables | 47,550 | | | 47,550 |
| 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 | | | 58,945 |
| Of which: Land and buildings | | | | |
| Plant, machinery, equipment and others | 58,945 | | | 58,945 |
| 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 | 130,460 | | | 130,460 |

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6. Changes in shareholders' equity

| Item | Six-months Period ended 30 June 2005 RMB 000 | Twelve-months Period ended 31 December 2005 RMB 000 |
|--------------------------------------|---|--|
| Share capital | | |
| 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 |
| Capital reserve | | |
| 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 |
| Surplus reserve | | |
| 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 |
| Statutory public welfare fund | | |
| 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 |
| Undistributed profits | | |
| 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

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 |
| Turnover | 3 | 21,886,472 | 17,778,137 |
| 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 |

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) |
| Non-current assets | | | |
| 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 |
| Total non-current assets | | 19,509,091 | 19,660,691 |
| Current assets | | | |
| 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 |
| 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 | 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 |
| 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 |
| | <u> </u> | <u> </u> |
| Total equity attributable to equity holders of the parent | 18,742,980 | 18,416,989 |
| Minority interests | 359,458 | 373,084 |
| | <u> </u> | <u> </u> |
| Total equity | 19,102,438 | 18,790,073 |
| | <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 | 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> |
| Manufactured products | | |
| <i>Synthetic fibres</i> | | |
| External sales | 2,449,372 | 2,417,891 |
| Intersegment sales | 43 | 34 |
| Total | 2,449,415 | 2,417,925 |
| <i>Resins and plastics</i> | | |
| External sales | 6,930,737 | 5,442,159 |
| Intersegment sales | 27,797 | 15,047 |
| Total | 6,958,534 | 5,457,206 |
| <i>Intermediate petrochemicals</i> | | |
| External sales | 3,483,154 | 2,290,996 |
| Intersegment sales | 6,408,146 | 5,065,567 |
| Total | 9,891,300 | 7,356,563 |
| <i>Petroleum products</i> | | |
| External sales | 8,351,262 | 6,201,821 |
| Intersegment sales | 532,169 | 447,452 |
| Total | 8,883,431 | 6,649,273 |
| All others | | |
| External sales | 671,947 | 1,425,270 |
| Intersegment sales | 1,808,478 | 1,851,705 |
| Total | 2,480,425 | 3,276,975 |
| Eliminations of intersegment sales | (8,776,633) | (7,379,805) |
| Consolidated turnover | 21,886,472 | 17,778,137 |

External sales include sales to other Sinopec Corp group companies.

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

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

4. Profit before tax

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

| | Six-month periods ended 30 June | |
|---|---------------------------------|----------------|
| | 2005 | 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) |

Table of Contents**5. Taxation**

Taxation in the consolidated income statement represents:

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

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

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

6. Basic earnings per share

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

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

7. Dividend

| Six-month periods ended 30 June | |
|--|----------------|
| 2005 | 2004 |
| RMB 000 | RMB 000 |
| | |

| | | |
|---|------------------|---------|
| Final dividend in respect of the previous financial year, approved during the period, of RMB 0.20 per share(2004: RMB 0.08 per share) | 1,440,000 | 576,000 |
|---|------------------|---------|

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

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

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

9. Investment Property

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

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 |
| | | (audited) |
| Trade debtors | 387,977 | 440,632 |
| Less: Allowance for doubtful debts | (46,574) | (45,282) |
| | <u>341,403</u> | <u>395,353</u> |
| Bills receivable | 1,719,230 | 1,675,412 |
| Amounts due from parent company and fellow subsidiaries - trade | 516,090 | 585,419 |
| | <u>2,576,723</u> | <u>2,656,184</u> |

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 | | |
| | <u>2,576,723</u> | <u>2,656,184</u> |

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

Table of Contents**11. 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 |

12. Reserve movement

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

13. Related party transactions

- (a) Most of the transactions undertaken by the Group during the period ended 30 June 2005 have been effected with such counterparties and on such terms as determined by Sinopec Corp, the immediate parent company, and other relevant PRC authorities.

Sinopec Corp negotiates and agrees the terms of crude oil supply with suppliers on a group basis, which is then allocated among its subsidiaries, including the Group, on a discretionary basis. During the six-month periods ended 30 June 2005, the value of crude oil purchased in accordance with Sinopec Corp's allocation was as follows:

Six-month periods ended

30 June

| | 2005 | 2004 |
|------------------------|-------------------|-----------|
| | RMB 000 | RMB 000 |
| Purchases of crude oil | 12,424,946 | 8,871,835 |

Table of Contents**13. Related party transactions (continued)**

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

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

(c) Deposits with related parties

| | At 30 June 2005 RMB 000 | At 31 December 2004 RMB 000 |
|---|-------------------------------|-----------------------------------|
| | | |
| Deposits, with maturity within 3 months | 195,928 | 252,438 |

(d) Loans with related parties

| | At 30 June 2005 RMB 000 | At 31 December 2004 RMB 000 |
|------------------|-------------------------------|-----------------------------------|
| | | |
| Short-term loans | 130,000 | 130,000 |

Table of Contents**13. Related party transactions (continued)**

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

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

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

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

14. Commitments

(a) Capital commitments

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

| | At 30 June 2005 | At 31 December 2004 |
|--|--------------------|------------------------|
| | RMB 000 | RMB 000 |
| | | (audited) |
| <u>Property, plant and equipment</u> | | |
| Contracted but not provided for | 171,910 | 322,797 |
| Authorised by the Board but not contracted for | 1,665,288 | 1,824,985 |
| | 1,837,198 | 2,147,782 |
| <u>Investment</u> | | |

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| | | |
|---------------------------------|------------------|------------------|
| Contracted but not provided for | <u>146,909</u> | <u>295,886</u> |
| | <u>1,984,107</u> | <u>2,443,668</u> |

(b) Management fee commitments

At 30 June 2005, the Group had outstanding contracted obligation for management fee of approximately RMB3,793,070 (At 31 December 2004: RMB7,609,000).

Table of Contents**15. Contingent liabilities**

Contingent liabilities of the Group are as follows:

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

Guarantees issued to banks in favour of associates and other unlisted investment companies are given to the extent of the Company's respective interest in these entities. The Company monitors the conditions that are subject to the guarantees to identify whether it is probable that a loss has occurred, and recognize any such losses under guarantees when those losses are estimable. At 30 June 2005, it is not probable that the Company will be required to make payments under the guarantees. Thus no liability has been accrued for a loss related to the Company's obligation under the guarantees arrangement.

16. Subsequent event

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

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

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

Table of Contents**B. Interim Financial Statements prepared under PRC Accounting Rules and Regulations****Balance Sheets (unaudited)**

| | Note | The Group | | The Company | |
|---|-------|--------------------|------------------------|--------------------|------------------------|
| | | At 30 June 2005 | At 31 December 2004 | At 30 June 2005 | At 31 December 2004 |
| | | RMB 000 | RMB 000 | RMB 000 | RMB 000 |
| | | | (audited) | | (audited) |
| Assets | | | | | |
| Current assets | | | | | |
| Cash at bank and in hand | 3 | 1,400,257 | 1,694,500 | 1,017,542 | 1,163,399 |
| Bills receivable | 4 | 1,747,986 | 1,708,792 | 1,616,395 | 1,556,250 |
| Trade debtors | 5 | 719,945 | 602,597 | 525,459 | 449,810 |
| Other debtors | 6 | 373,931 | 619,281 | 381,715 | 729,750 |
| Advance payments | 7 | 144,075 | 260,736 | 138,455 | 186,284 |
| Inventories | 8 | 4,442,741 | 3,727,749 | 3,877,385 | 3,216,615 |
| Total current assets | | 8,828,935 | 8,613,655 | 7,556,951 | 7,302,108 |
| Long-term investments | | | | | |
| Long-term equity investments | 9 | 2,583,836 | 2,615,350 | 4,275,010 | 4,104,456 |
| Fixed assets | | | | | |
| Fixed assets at cost | 10 | 33,545,258 | 32,904,209 | 29,631,472 | 28,983,520 |
| Less: Accumulated depreciation | 10 | 17,002,829 | 16,164,713 | 15,101,614 | 14,348,615 |
| | | 16,542,429 | 16,739,496 | 14,529,858 | 14,634,905 |
| Less: Provision for impairment loss on fixed assets | 10 | 58,945 | 58,945 | 58,945 | 58,945 |
| Fixed assets net book value | 10 | 16,483,484 | 16,680,551 | 14,470,913 | 14,575,960 |
| Construction materials | 11 | 25,268 | 20,226 | 25,268 | 20,226 |
| Construction in progress | 12 | 729,192 | 763,450 | 665,979 | 708,089 |
| Total fixed assets | | 17,237,944 | 17,464,227 | 15,162,160 | 15,304,275 |
| Intangible assets | 13 | 15,691 | 22,415 | 15,691 | 22,415 |
| Deferred tax assets | 14(c) | 41,442 | 41,442 | 40,154 | 40,154 |
| Total assets | | 28,707,848 | 28,757,089 | 27,049,966 | 26,773,408 |

The notes on pages 49 to 88 form part of these unaudited financial statements.

Table of Contents**Balance Sheets (unaudited)(continued)**

| | Note | The Group | | The Company | |
|--|-------|--------------------|------------------------|--------------------|------------------------|
| | | At 30 June 2005 | At 31 December 2004 | At 30 June 2005 | At 31 December 2004 |
| | | RMB 000 | RMB 000 | RMB 000 | RMB 000 |
| | | | (audited) | | (audited) |
| Liabilities and shareholders equity | | | | | |
| Current liabilities | | | | | |
| Short-term loans | 15 | 3,156,841 | 3,742,727 | 2,521,602 | 3,034,556 |
| Bills payable | 16 | 40,482 | 274,000 | 9,791 | 94,888 |
| Trade creditors | 16 | 961,774 | 911,940 | 731,996 | 708,151 |
| Receipts in advance | 16 | 278,668 | 321,869 | 285,209 | 291,540 |
| Wages payable | | 58,338 | 63,522 | 50,113 | 58,152 |
| Staff welfare payable | | 74,455 | 77,798 | 35,378 | 35,909 |
| Dividend payable | 17 | 1,440,000 | | 1,440,000 | |
| Taxes payable | 14(b) | 189,000 | 260,111 | 163,191 | 228,059 |
| Other creditors | | 24,906 | 17,554 | 19,228 | 7,226 |
| Other payables | 16 | 344,735 | 484,061 | 318,636 | 421,971 |
| Accrued expenses | 18 | 17,757 | 21,399 | 17,757 | 16,839 |
| Current portion of long-term loans | 19 | 1,997,900 | 1,257,578 | 1,870,000 | 1,114,899 |
| Total current liabilities | | 8,584,856 | 7,432,559 | 7,462,901 | 6,012,190 |
| Long-term liabilities | | | | | |
| Long-term loans | 19 | 621,941 | 2,014,614 | 474,264 | 1,858,937 |
| Other long-term liabilities | 20 | 28,792 | 34,551 | | |
| Total long-term liabilities | | 650,733 | 2,049,165 | 474,264 | 1,858,937 |
| Total liabilities | | 9,235,589 | 9,481,724 | 7,937,165 | 7,871,127 |
| Minority interests | | 359,458 | 373,084 | | |
| Shareholders equity | | | | | |
| Share capital | 21 | 7,200,000 | 7,200,000 | 7,200,000 | 7,200,000 |
| Capital reserves | 22 | 2,856,278 | 2,856,278 | 2,856,278 | 2,856,278 |
| Surplus reserves | 23 | 4,196,096 | 4,196,096 | 4,196,096 | 4,196,096 |
| of which: | | | | | |
| Statutory public welfare fund | | 1,375,702 | 1,375,702 | 1,375,702 | 1,375,702 |
| Undistributed profits | | 4,860,427 | 4,649,907 | 4,860,427 | 4,649,907 |
| Total shareholders equity | | 19,112,801 | 18,902,281 | 19,112,801 | 18,902,281 |
| Total liabilities and shareholders equity | | 28,707,848 | 28,757,089 | 27,049,966 | 26,773,408 |

The notes on pages 49 to 88 form part of these unaudited financial statements.

Table of Contents**Income Statements and Profit Appropriation Statements (unaudited)**

| | Six-month periods ended 30 June | | | | |
|---|---------------------------------|-------------------|------------|-------------------|------------|
| | Note | The Group | | The Company | |
| | | 2005 | 2004 | 2005 | 2004 |
| | | RMB 000 | RMB 000 | RMB 000 | RMB 000 |
| Income from principal operations | 24 | 21,886,472 | 17,778,137 | 20,450,652 | 15,705,915 |
| Less: Cost of sales | 24 | 18,362,576 | 14,579,417 | 17,219,018 | 12,838,239 |
| Sales taxes and surcharges | 25 | 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 | 26 | 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 | 27 | (116,089) | 15,653 | (100,505) | 137,663 |
| Non-operating income | | 10,766 | 15,092 | 2,734 | 3,699 |
| Less: Non-operating expenses | 28 | 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 | 14(a) | 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 | 17 | 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 |

The notes on pages 49 to 88 form part of these unaudited financial statements.

Table of Contents**Cash Flow Statements (unaudited)**

| | Six-month periods ended 30 June | | | | |
|--|---------------------------------|---------------------|-----------------|---------------------|-----------------|
| | Note | The Group | | The Company | |
| | | 2005 RMB 000 | 2004 RMB 000 | 2005 RMB 000 | 2004 RMB 000 |
| Cash flows from operating activities: | | | | | |
| Cash received from sale of goods and rendering of services | | 26,333,272 | 21,217,344 | 24,144,260 | 18,351,720 |
| Refund of taxes and levies | | 2,358 | 51,095 | | 10,262 |
| Other cash received relating to operating activities | | 2,394 | 2,996 | 1,064 | 944 |
| Sub-total of cash inflows | | 26,338,024 | 21,271,435 | 24,145,324 | 18,362,926 |
| Cash paid for goods and services | | (22,628,321) | (17,831,752) | (20,700,208) | (15,370,265) |
| Cash paid to and on behalf of employees | | (611,650) | (776,398) | (480,159) | (531,462) |
| Income tax paid | | (381,846) | (290,069) | (345,792) | (271,619) |
| Taxes paid other than income tax | | (398,601) | (405,321) | (393,376) | (395,038) |
| Other cash paid relating to operating activities | | (539,165) | (279,794) | (301,802) | (270,830) |
| Sub-total of cash outflows | | (24,559,583) | (19,583,334) | (22,221,337) | (16,839,214) |
| Net cash flows from operating activities | (a) | 1,778,441 | 1,688,101 | 1,923,987 | 1,523,712 |
| Cash flows from investing activities: | | | | | |
| Cash received from disposal of investments | | 25,576 | 1,457 | | |
| Maturity of time deposits with financial institutions | | 4,000 | 122,452 | | 52 |
| Cash received from investment income | | 59,871 | 34,138 | 133,106 | 65,970 |
| Cash received from disposal of fixed assets | | 98,574 | 12,347 | 74,031 | 7,526 |
| Other cash received relating to investing activities | | 18,613 | 20,100 | 14,785 | 15,367 |
| Sub-total of cash inflows | | 206,634 | 190,494 | 221,922 | 88,915 |
| Cash paid for acquisition of fixed assets | | (668,588) | (819,269) | (619,835) | (761,597) |
| Cash paid for purchase of investments | | (170,022) | (300,492) | (404,165) | (287,705) |
| Increase in time deposits with financial institutions | | | (23,900) | | |
| Sub-total of cash outflows | | (838,610) | (1,143,661) | (1,024,000) | (1,049,302) |
| Net cash flows from investing activities | | (631,976) | (953,167) | (802,078) | (960,387) |

The notes on pages 49 to 88 form part of these unaudited financial statements.

Table of Contents**Cash Flow Statements (unaudited)(continued)**

| | Six-month periods ended 30 June | | | | |
|---|---------------------------------|--------------------|-----------------|--------------------|-----------------|
| | Note | The Group | | The Company | |
| | | 2005 RMB 000 | 2004 RMB 000 | 2005 RMB 000 | 2004 RMB 000 |
| Cash flows from financing activities: | | | | | |
| Proceeds from borrowings | | 3,089,286 | 3,469,978 | 2,520,980 | 2,894,645 |
| Sub-total of cash inflows | | 3,089,286 | 3,469,978 | 2,520,980 | 2,894,645 |
| Repayment of borrowings | | (4,327,523) | (4,121,907) | (3,663,506) | (3,372,519) |
| Cash paid for dividends, profit distribution and interest | | (198,382) | (357,516) | (125,175) | (307,579) |
| Sub-total of cash outflows | | (4,525,905) | (4,479,423) | (3,788,681) | (3,680,098) |
| Net cash flows from financing activities | | (1,436,619) | (1,009,445) | (1,267,701) | (785,453) |
| Effect of foreign exchange rate changes | | (89) | | (65) | |
| Net decrease in cash and cash equivalents | (b) | (290,243) | (274,511) | (145,857) | (222,128) |

The notes on pages 49 to 88 form part of these unaudited financial statements.

Table of Contents**Notes to the Cash Flow Statements****(a) Reconciliation of net profit to cash flows from operating activities**

| | Six-month periods ended 30 June | | | |
|--|---------------------------------|------------------|------------------|------------------|
| | The Group | | The Company | |
| | 2005 RMB 000 | 2004 RMB 000 | 2005 RMB 000 | 2004 RMB 000 |
| Net profit | 1,650,520 | 1,531,200 | 1,650,520 | 1,531,200 |
| Depreciation | 879,306 | 958,425 | 767,561 | 842,791 |
| Loss on disposal of fixed assets | 1,810 | 41,139 | 1,230 | 42,677 |
| Provision for impairment losses on fixed assets | | 34,345 | | 34,345 |
| Provision for bad debts | 1,978 | 4,876 | | |
| Provision for diminution in value of inventories | (4,518) | | | |
| Financial expenses | 128,115 | 165,682 | 111,308 | 139,826 |
| Investment losses/(income) | 116,089 | (15,653) | 100,505 | (137,663) |
| Amortisation of intangible assets | 6,724 | 6,724 | 6,724 | 6,724 |
| Deferred tax assets | | (16,427) | | (15,020) |
| Increase in inventories | (710,474) | (197,148) | (660,770) | (173,592) |
| Decrease/(increase) in operating receivables | 142,502 | (766,577) | 199,081 | (727,129) |
| Decrease in operating payables | (467,997) | (99,404) | (252,172) | (20,447) |
| Minority interests | 34,386 | 40,919 | | |
| Net cash flows from operating activities | 1,778,441 | 1,688,101 | 1,923,987 | 1,523,712 |

(b) Net decrease in cash and cash equivalents

| | Six-month periods ended 30 June | | | |
|---|---------------------------------|------------------|------------------|------------------|
| | The Group | | The Company | |
| | 2005 RMB 000 | 2004 RMB 000 | 2005 RMB 000 | 2004 RMB 000 |
| Cash at the end of the period | 1,400,257 | 1,565,840 | 1,017,542 | 1,176,122 |
| Less: Cash at the beginning of the period | 1,690,500 | 1,840,351 | 1,163,399 | 1,398,250 |
| Less: Cash equivalents at the beginning of the period | | | | |
| Net decrease in cash and cash equivalents | (290,243) | (274,511) | (145,857) | (222,128) |

The notes on pages 49 to 88 form part of these unaudited financial statements.

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Notes to the Interim Financial Statements

(Prepared under PRC Accounting Rules and Regulations)

1. Background of the Company

Sinopec Shanghai Petrochemical Company Limited (the Company), formerly Shanghai Petrochemical Company Limited, was established in the People s Republic of China (the PRC) on 29 June 1993 as a joint stock limited company to hold the assets and liabilities of the production divisions and certain other units of the Shanghai Petrochemical Complex (SPC), a State-owned enterprise. SPC was under the direct supervision of China Petrochemical Corporation (CPC).

CPC finished its reorganisation on 25 February 2000. After the reorganisation, China Petroleum & Chemical Corporation (Sinopec Corp) was established. As a part of the reorganisation, CPC transferred its 4,000,000,000 of the Company s stated owned legal shares, which represented 55.56 percent of the issued share capital of the Company, to Sinopec Corp. Sinopec Corp became the largest shareholder of the Company.

The Company changed its name to Sinopec Shanghai Petrochemical Company Limited on 12 October 2000.

The Company and its subsidiaries (the Group) is a highly integrated entity which processes crude oil into synthetic fibres, resins and plastics, intermediate petrochemicals and petroleum products.

Details of the Company s principal subsidiaries are set out in Note 9(d) entitled Long-term equity investments .

2. Significant accounting policies

The significant accounting policies adopted in the preparation of the financial statement are in conformity with the Accounting Standards for Business Enterprises and Accounting Regulations for Business Enterprises and other relevant regulations issued by the Ministry of Finance (MOF).

(a) Accounting year

The accounting year of the Group is from 1 January to 31 December.

(b) Basis of consolidation

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The Group prepared the consolidated financial statements according to Accounting Regulations for Business Enterprises and Cai Kuai Zi [1995] No.11 Provisional regulations on consolidated financial statements issued by the MOF.

The consolidated financial statements include the financial statements of the Company and all of its principal subsidiaries. Subsidiaries are those entities held by the Company, directly or indirectly, over 50% of the equity interests (not including 50%), or less than 50% but the Company has the power to effectively control the entities. The consolidated income statement of the Company only includes the results of the subsidiaries during the period when the Company holds, directly or indirectly, over 50% of the equity interests or the Company has effective control over the subsidiaries. The effect of minority interests on equity and profit/loss attributable to minority interests are separately shown in the consolidated financial statements. For those subsidiaries whose assets and results of operation are not significant and have no significant effect on the Group's consolidated financial statements, the Company does not consolidate these subsidiaries, but includes in the long-term equity investments.

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2. Significant accounting policies (continued)

(b) Basis of consolidation (continued)

Where the accounting policies adopted by the subsidiaries are different from the policies adopted by the Company, the financial statements of the subsidiaries have been adjusted in accordance with the accounting policies adopted by the Company on consolidation. All significant inter-company balances and transactions, and any unrealised gains arising from inter-company transactions, have been eliminated on consolidation.

(c) Basis of preparation and measurement basis

The Group's financial statements are prepared on an accrual basis under the historical cost convention, unless otherwise stated.

(d) Reporting currency and translation of foreign currencies

The Group's financial statements are prepared in Renminbi. Foreign currencies transactions during the period are translated into Renminbi at exchange rates quoted by the People's Bank of China (PBOC rates) prevailing on the transaction dates. Foreign currency monetary assets and liabilities are translated into Renminbi at the PBOC rates at the balance sheet date. Exchange differences, other than those arising from foreign currency loans using to finance the construction of fixed assets before they are ready for their intended use are capitalised (see note2(i)), are recognised as income or expenses in the income statement.

(e) Cash equivalents

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

(f) Provision for bad debt

Trade accounts receivable showing signs of uncollectibility are identified individually and allowance is then made based on the probability of being uncollectible. Allowances for other receivables are determined based on the nature and corresponding collectibility.

(g) Inventories

Inventories, other than spare parts and consumables, are stated at the lower of cost and net realisable value. Difference between the cost and net realisable value of each category of inventories is recognised as provision for diminution in value of inventories. Cost of inventories includes the cost of purchase of raw materials, processing and other costs. Inventories are measured at their actual cost upon acquisition. The cost of inventories is calculated using weighted average method. In addition to the purchase cost of raw materials, work in progress and finished goods include direct labour and appropriate proportion of production overheads. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs and related taxes necessary to make the sale.

Spare parts and consumables are expensed when being consumed.

Inventories are recorded by perpetual method.

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2. Significant accounting policies (continued)

(h) Long-term equity investments

The Group's long-term equity investments in subsidiaries and associates are accounted for using the equity method. Equity method is to recognise the initial investment cost, subsequently adjusted in accordance with the share of shareholders' equity in respective investee companies. Equity investments difference, which is the difference between investment cost and the share of shareholders' funds of the investee companies is accounted for as follow.

Any excess of the initial investment cost over the share of shareholders' equity of the investee is amortised on a straight-line basis. The amortisation period is determined according to the investment period as stipulated in the relevant agreement, or 10 years if the investment period is not specified in the agreement. The amortisation is recognised as investment loss in the income statement in the relevant period.

Any shortfall of the initial investment cost over the share of shareholders' equity of the investee is recognised in capital reserve-reserve for equity investment. Such shortfall is amortised on a straight-line basis if the investment was acquired before the issuance of Cai Kuai [2003] No. 10 Questions and answers on implementing Accounting Regulations for Business Enterprises and related accounting standards (II) on 7 April 2003.

An associate is a company in which the Group holds, for long-term purposes, not less than 20% but not more than 50% of its equity interests and exercises significant influence in its management.

Long-term investments in entities in which the Group does not have control, joint control or does not exercise significant influence in their management are stated at cost. Investment income is recognised when an investee company declares cash dividend or distributes profit.

Disposals or transfers of long-term equity investments are recognised in the income statement based on the difference between the disposal proceeds and the carrying amount of the investments.

Long-term equity investments are valued at the lower of the carrying amount and the recoverable amount. A provision for impairment losses is made when the recoverable amount is lower than the carrying amount (see note 2(k)).

Table of Contents**2. Significant accounting policies (continued)****(i) Fixed assets and construction in progress**

Fixed assets represent the assets held by the Group for production of products and administrative purpose with useful life over 1 year and comparatively high unit value.

Fixed assets are stated in the balance sheet at cost or revalued amount less accumulated depreciation and impairment losses (see note 2(k)). Construction in progress is stated in the balance sheet at cost or revalued amount less impairment losses(see note 2(k)). Valuation is carried out in accordance with the relevant rules and regulations in the PRC and fixed assets are adjusted to the revalued amounts accordingly.

All direct and indirect costs related to the purchase or construction of fixed assets, incurred before the assets are ready for their intended uses, are capitalised as construction in progress. Those costs included borrowing costs, which include foreign exchange gains or losses on specific borrowings for the construction of the fixed assets during the construction period.

Construction in progress is transferred to fixed assets when the asset is ready for its intended use. No depreciation is provided in respect of construction in progress.

Depreciation is provided to write off the cost of fixed assets over their estimated useful lives on a straight-line basis, after taking into account their estimated residual values.

The respective estimated useful lives, residual values and annual depreciation rates on fixed assets are as follows:

| | <u>Useful life</u> | <u>Residual value</u> | <u>Depreciation rate</u> |
|--|--------------------|-----------------------|--------------------------|
| Land and buildings | 15 to 40 years | 3%-5% | 2.4%-6.5% |
| Plant, machinery, equipment and others | 5 to 26 years | 3%-5% | 3.7%-19.4% |

(j) Intangible assets

Intangible assets are carried in the balance sheet at cost or valuation less accumulated amortisation and provision for impairment losses (see note 2(k)). Amortisation is provided on a straight-line basis. Amortisation period is the shorter of the beneficial period as specified in the related agreement and the legal life of the intangible assets. Amortisation is provided over 10 years if it is not specified in agreements or stipulated by law.

(k) Impairment loss

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The carrying amounts of assets (including long-term equity investments, fixed assets, construction in progress, intangible assets and other assets) are reviewed regularly to determine whether their recoverable amounts have declined below their carrying amounts. Assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. When such a decline has occurred, the carrying amount is reduced to the recoverable amount. The amount by which the carrying amount is reduced is the impairment loss.

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

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2. Significant accounting policies (continued)

(k) Impairment loss (continued)

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

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

(l) Taxations

The principal taxes and the related rates are as follows:

(i) Income tax

Income tax is the provision for income tax recognised in the income statement for the period using the tax-effect accounting method. It comprises current and deferred tax.

Current tax

Current tax is the expected tax payable on the taxable income for the period, using tax rates enacted or substantially enacted at the balance sheet date.

Pursuant to the relevant PRC tax regulations, the income tax rate applicable to the Company is 15%. Other than those granted with tax concession as set out below, the subsidiaries are subject to income tax at a rate of 33% pursuant to the relevant PRC tax regulations.

The subsidiaries granted with tax concession are set out below:

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| <u>Name of subsidiaries</u> | <u>Applicable tax rate</u> | <u>Reasons for granting concession</u> |
|---|----------------------------|--|
| Shanghai Jindong Petrochemical Industrial Company Limited | 15% | Preferential tax rate at Pudong new district |
| Shanghai Golden-Phillips Petrochemical Company Limited | 27% | A Sino-foreign Joint-equity manufacturing enterprise in old urban district |
| Shanghai Jinhua Industrial Company Limited | 15% | Preferential tax rate at Pudong new district |
| Shanghai Golden Way Petrochemical Company Limited | 27% | A Sino-foreign Joint-equity manufacturing enterprise in old urban district |
| Shanghai Jinchang Engineering Plastics Company Limited | 27% | A Sino-foreign Joint-equity manufacturing enterprise in old urban district |
| SPC Marketing Development Corporation | 15% | Preferential tax rate at Pudong new district |

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2. Significant accounting policies (continued)

(l) Taxations (continued)

Deferred tax

Deferred tax is provided under the liability method, for timing differences between the accounting profit before tax and the taxable income arising from the differences in the accounting and tax treatment of income and expenses or losses. When the tax rates change or new types of tax are levied, adjustments should be made to the amounts originally recognised for the timing differences. The enacted tax rates are used in arriving at the reversal amounts when the timing differences are reversed.

Deferred tax assets arising from the tax value of losses, which are expected to be utilised against future taxable income, are set off against the deferred tax liabilities of the same taxpayer and within the same jurisdiction. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

(ii) Value-added tax (VAT)

The VAT rate applicable to the Group is 17%.

(iii) Consumption tax

Pursuant to the relevant PRC tax regulations, the Group's sales of gasoline and diesel oil are subject to the consumption tax at a rate of RMB277.61 per tonne and RMB117.61 per tonne respectively.

(m) Provisions and contingent liabilities

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

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

(n) Deferred income

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

(o) Revenue recognition

Revenue from the sale of goods is recognised when the significant risks and rewards of ownership have been transferred to the buyer. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due, the possible return of goods, or when the amount of revenue and the costs incurred or to be incurred in respect of the transaction cannot be measured reliably.

Revenue from the rendering of services is recognised upon performance of the services.

Interest income is recognised on a time-apportioned basis by reference to the principal outstanding and the rate applicable.

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2. Significant accounting policies *(continued)*

(p) Repairs and maintenance expenses

Repairs and maintenance expenses, including overhauling expense, are recognised as expenses in the period in which they are incurred.

(q) Research and development costs

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

(r) Borrowing costs

Borrowing costs incurred on specific borrowings for the construction of fixed assets are capitalised into the cost of the fixed assets during the construction period which brings the assets to their intended uses.

Except for the above, other borrowing costs are recognised as financial expenses in the income statement when incurred.

(s) Retirement scheme costs

Pursuant to the relevant laws and regulations in the PRC, the Group has joined a defined contribution retirement plan for the employees arranged by a governmental organisation. The Group makes contributions to the retirement scheme at the applicable rate(s) based on the employees salaries. The required contributions under the retirement plans are charged to the income statement. Further information is set out in Note 30.

(t) Profit distribution

Profit distribution is made in accordance with the relevant rules and regulations set out in the Company Law of the PRC and the Articles of Association of the Company and its subsidiaries.

Dividends appropriated to shareholders are recognised in the profit appropriation statement when approved. Dividends proposed or approved after the balance sheet date but before the date on which the financial statements are authorised for issue are separately disclosed under shareholders' equity on the balance sheet.

(u) Related parties

Parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common

control or common significant influence. Related parties may be individuals or entities.

Table of Contents**3. Cash at bank and in hand**

The Group's and the Company's cash at bank and in hand as at 30 June 2005 are analysed as follows:

| | The Group | | | | The Company | | |
|---|-------------------------------------|-----------------------------|----------------------------|--------------------------------|-----------------------------|----------------------------|--------------------------------|
| | 30 June 2005 Exchange rate | Original currency 000 | 30 June 2005 RMB 000 | 31 December 2004 RMB 000 | Original currency 000 | 30 June 2005 RMB 000 | 31 December 2004 RMB 000 |
| | | | | (audited) | | | (audited) |
| Cash in hand | | | | | | | |
| Renminbi | | | 202 | 327 | | 84 | 174 |
| Cash at bank | | | | | | | |
| Renminbi | | | 1,025,160 | 1,281,744 | | 779,129 | 863,500 |
| Hong Kong Dollars | 1.0649 | 108,966 | 116,038 | 39,656 | 104,351 | 111,127 | 36,729 |
| United States Dollars | 8.2765 | 7,359 | 60,903 | 118,173 | 53 | 441 | 11,927 |
| Swiss Francs | 6.4582 | 129 | 835 | 944 | 129 | 835 | 944 |
| Euro Yuan | 9.961 | 116 | 1,156 | 1,181 | | | |
| Japanese Yen | 0.075149 | 462 | 35 | 37 | | | |
| Cash at bank and in hand | | | 1,204,329 | 1,442,062 | | 891,616 | 913,274 |
| Deposits at related party (note 29(f)) | | | | | | | |
| Renminbi | | | 195,928 | 252,438 | | 125,926 | 250,125 |
| | | | 1,400,257 | 1,694,500 | | 1,017,542 | 1,163,399 |

Deposits at related party represent bank deposits placed at Sinopec Finance Company Limited. Deposits interest is calculated at market rates.

4. Bills receivable

| | The Group | | The Company | |
|-------------------------|----------------------------|--------------------------------|----------------------------|--------------------------------|
| | 30 June 2005 RMB 000 | 31 December 2004 RMB 000 | 30 June 2005 RMB 000 | 31 December 2004 RMB 000 |
| | | (audited) | | (audited) |
| Bank bills | 1,721,521 | 1,695,577 | 1,596,395 | 1,556,250 |
| Commercial bills | 26,465 | 13,215 | 20,000 | |
| Total | 1,747,986 | 1,708,792 | 1,616,395 | 1,556,250 |

Bills receivable are due in six months. As at 30 June 2005, there are no significant bills receivable at discount or pledged.

Except for the balances disclosed in Note 29(e), there is no amount due from major shareholders who held 5% or more shareholding included in the balance of bills receivable.

Table of Contents**5. Trade debtors**

| | The Group | | | | | | | |
|---------------------------|------------------------|-------------------|-----------------|------------------|--------------------------------------|-------------------|-----------------|------------------|
| | At 30 June 2005 | | | | At 31 December 2004 (audited) | | | |
| | Amount | Proportion | Bad debt | Provision | Amount | Proportion | Bad debt | Provision |
| RMB 000 | % | RMB 000 | % | RMB 000 | % | RMB 000 | % | |
| Within 1 year | 729,789 | 95.21 | 16,674 | 2.28 | 587,441 | 90.67 | 1,762 | 0.30 |
| Between 1 and 2 years | 7,069 | 0.92 | 239 | 3.38 | 17,404 | 2.69 | 486 | 2.79 |
| Between 2 and 3 years | 8,785 | 1.15 | 8,785 | 100.00 | 9,142 | 1.41 | 9,142 | 100.00 |
| Over 3 years | 20,876 | 2.72 | 20,876 | 100.00 | 33,892 | 5.23 | 33,892 | 100.00 |
| Total | 766,519 | 100.00 | 46,574 | | 647,879 | 100.00 | 45,282 | |
| Trade debtors, net | 719,945 | | | | 602,597 | | | |

| | The Company | | | | | | | |
|---------------------------|------------------------|-------------------|-----------------|------------------|--------------------------------------|-------------------|-----------------|------------------|
| | At 30 June 2005 | | | | At 31 December 2004 (audited) | | | |
| | Amount | Proportion | Bad debt | Provision | Amount | Proportion | Bad debt | Provision |
| RMB 000 | % | RMB 000 | % | RMB 000 | % | RMB 000 | % | |
| Within 1 year | 525,112 | 96.34 | 1,092 | 0.21 | 440,173 | 93.77 | 1,243 | 0.28 |
| Between 1 and 2 years | 1,590 | 0.29 | 151 | 9.50 | 11,031 | 2.35 | 151 | 1.37 |
| Between 2 and 3 years | 6,048 | 1.11 | 6,048 | 100.00 | 2,784 | 0.59 | 2,784 | 100.00 |
| Over 3 years | 12,319 | 2.26 | 12,319 | 100.00 | 15,432 | 3.29 | 15,432 | 100.00 |
| Total | 545,069 | 100.00 | 19,610 | | 469,420 | 100.00 | 19,610 | |
| Trade debtors, net | 525,459 | | | | 449,810 | | | |

Table of Contents**5. Trade debtors (continued)**

Bad debt provision

| | The Group | | The Company | |
|----------------------------------|-----------------|---------------------|-----------------|------------------|
| | At 30 June 2005 | At 31 December 2004 | At 30 June 2005 | 31 December 2004 |
| | RMB 000 | RMB 000 | RMB 000 | RMB 000 |
| | | (audited) | | (audited) |
| Balance at 1 January | 45,282 | 39,811 | 19,610 | 33,091 |
| Additions for the period / year | 1,978 | 22,814 | | 3,862 |
| Provision written off | (686) | (17,343) | | (17,343) |
| Balance at 30 June / 31 December | 46,574 | 45,282 | 19,610 | 19,610 |

The aggregate amount and proportion of five largest trade debtors of the Group at the end of the period / year are shown below:

| | At 30 June 2005 | At 31 December 2004 |
|-----------------------------------|-----------------|---------------------|
| Amount(RMB 000) | 348,132 | 207,923 |
| Percentage of total trade debtors | 45.42% | 32.09% |

Except for balances disclosed in Note 29(e), there is no amount due from major shareholders who held 5% or more shareholding included in the balance of trade debtors.

During the period, the Group and the Company had no individually significant write off or write back of doubtful debts which had been fully or substantially provided for in prior years. As at 30 June 2005, the Group and the Company did not have individually significant other debtors that aged over three years.

6. Other debtors

| | The Group | | | | | | | |
|-----------------------|-----------------|--------------|--------------------|--------------|-------------------------------|--------------|--------------------|--------------|
| | At 30 June 2005 | | | | At 31 December 2004 (audited) | | | |
| | Amount | | Bad debt provision | Provision | Amount | | Bad debt provision | Provision |
| | RMB 000 | Proportion % | RMB 000 | proportion % | RMB 000 | Proportion % | RMB 000 | proportion % |
| Within 1 year | 340,856 | 88.85 | 880 | 0.26 | 584,442 | 92.92 | 1,217 | 0.21 |
| Between 1 and 2 years | 11,535 | 3.01 | 336 | 2.91 | 9,090 | 1.44 | 223 | 2.45 |

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| | | | | | | | | |
|-----------------------|----------------|---------------|--------------|--------------|----------------|---------------|--------------|-------|
| Between 2 and 3 years | 6,658 | 1.74 | 223 | 3.35 | 7,983 | 1.27 | 502 | 6.28 |
| Over 3 years | 24,574 | 6.40 | 8,253 | 33.58 | 27,458 | 4.37 | 7,750 | 28.22 |
| Total | 383,623 | 100.00 | 9,692 | | 628,973 | 100.00 | 9,692 | |
| <hr/> | | | | | | | | |
| Other debtors, net | 373,931 | | | | 619,281 | | | |
| <hr/> | | | | | | | | |

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Table of Contents6. **Other debtors** (continued)

| | The Company | | | | | | | |
|--------------------------|-------------------|---------------|----------------------------------|---------------------------|-------------------------------|---------------|----------------------------------|---------------------------|
| | At 30 June 2005 | | | | At 31 December 2004 (audited) | | | |
| | Amount RMB 000 | Proportion % | Bad debt provision RMB 000 | Provision proportion % | Amount RMB 000 | Proportion % | Bad debt provision RMB 000 | Provision proportion % |
| Within 1 year | 365,822 | 94.76 | 747 | 0.20 | 710,330 | 96.76 | 956 | 0.13 |
| Between 1 and 2 years | 1,243 | 0.32 | 209 | 16.81 | 4,268 | 0.58 | 153 | 3.58 |
| Between 2 and 3 years | 186 | 0.05 | 153 | 82.26 | 283 | 0.04 | 6 | 2.12 |
| Over 3 years | 18,819 | 4.87 | 3,246 | 17.25 | 19,224 | 2.62 | 3,240 | 16.85 |
| Total | 386,070 | 100.00 | 4,355 | | 734,105 | 100.00 | 4,355 | |
| Other debtors,net | 381,715 | | | | 729,750 | | | |

Bad debt provision

| | The Group | | The Company | |
|---|--------------------|------------------------|--------------------|------------------------|
| | At 30 June 2005 | At 31 December 2004 | At 30 June 2005 | At 31 December 2004 |
| | RMB 000 | RMB 000 | RMB 000 | RMB 000 |
| | | (audited) | | (audited) |
| Balance at 1 January | 9,692 | 6,676 | 4,355 | 4,355 |
| Additions for the period / year | | 3,016 | | |
| Provision written off | | | | |
| Balance at 30 June / 31 December | 9,692 | 9,692 | 4,355 | 4,355 |

The aggregate amount and the proportion of five largest other debtors of the Group at the end of period / year are shown below:

| | At 30 June 2005 | At 31 December 2004 |
|-----------------------------------|--------------------|------------------------|
| Amount(RMB 000) | 153,673 | 106,142 |
| Percentage of total other debtors | 40.06% | 16.88% |

Except for balances disclosed in Note 29(e), there is no amount due from major shareholders who held 5% or more shareholding included in the balance of other debtors.

During the period, the Group and the Company had no individually significant write off or write back of doubtful debts which have been fully or substantially provided for in prior years. At 30 June 2005, the Group and the Company did not have individually significant other debtors that aged over three years.

Table of Contents**7. Advance payments**

All advance payments are aged within one year.

Except for the balances disclosed in Note 29(e), there is no amount due from major shareholders who held 5% or more shareholding included in the balance of advance payments.

8. Inventories

| | The Group | | | | The Company | | | |
|-----------------------------|-----------------------------|---------------|-----------------------------|---------------|-----------------------------|---------------|-----------------------------|--|
| | At 30 June 2005 | | At 31 December 2004 | | At 30 June 2005 | | At 31 December 2004 | |
| | Provision for diminution in | | Provision for diminution in | | Provision for diminution in | | Provision for diminution in | |
| Amount | value | Amount | value | Amount | value | Amount | value | |
| RMB 000 | RMB 000 | RMB 000 | RMB 000 | RMB 000 | RMB 000 | RMB 000 | RMB 000 | |
| | | | (audited) | | | (audited) | (audited) | |
| Raw materials | 1,202,940 | | 1,163,508 | | 967,605 | | 934,855 | |
| Work in progress | 1,776,177 | | 1,340,643 | | 1,697,972 | | 1,268,444 | |
| Finished goods | 940,620 | | 761,861 | 3,780 | 752,019 | | 606,423 | |
| Spare parts and consumables | 575,156 | 52,152 | 518,407 | 52,890 | 507,339 | 47,550 | 454,443 | |
| Total | 4,494,893 | 52,152 | 3,784,419 | 56,670 | 3,924,935 | 47,550 | 3,264,165 | |
| Inventories, net | 4,442,741 | | 3,727,749 | | 3,877,385 | | 3,216,615 | |

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

| | The Group | | | | The Company | | | |
|-------------------------------|----------------|-----------------------------|----------------|-----------------------------|----------------|-----------------------------|----------------|-----------------------------|
| | 2005 | | 2004 | | 2005 | | 2004 | |
| | Finished goods | Spare parts and consumables | Finished goods | Spare parts and consumables | Finished goods | Spare parts and consumables | Finished goods | Spare parts and consumables |
| RMB 000 | RMB 000 | RMB 000 | RMB 000 | RMB 000 | RMB 000 | RMB 000 | RMB 000 | |
| | | | (audited) | (audited) | | (audited) | (audited) | |
| At 1 January | 3,780 | 52,890 | 3,897 | 64,614 | 47,550 | 1,415 | 62,385 | |
| Additions for the period/year | | | 3,780 | 670 | | | | |
| Written off | (3,780) | (738) | (3,897) | (12,394) | | (1,415) | (14,835) | |

| | | | | | |
|--------------------------|---------------|-------|--------|---------------|--------|
| At 30 June / 31 December | 52,152 | 3,780 | 52,890 | 47,550 | 47,550 |
|--------------------------|---------------|-------|--------|---------------|--------|

All inventories were acquired through purchase or production.

| | Six-month periods ended 30 June | | | |
|---|---------------------------------|------------|-------------------|------------|
| | The Group | | The Company | |
| | 2005 | 2004 | 2005 | 2004 |
| | RMB 000 | RMB 000 | RMB 000 | RMB 000 |
| Cost of inventories recognised as cost and expenses | 18,362,576 | 14,579,417 | 17,219,018 | 12,838,239 |

Table of Contents**9. Long-term equity investments**

| | The Group | | | | | | Total |
|---|--|--|---|---|-------------------------------|--|------------------|
| | Interests in associates (Note(a)) | Equity investment differences (Note(b)) | Interests in non-consolidated subsidiaries (Note(c)) | Other unlisted investments (Note(e)) | Total before provision | Provision for impairment losses (Note(f)) | |
| | RMB 000 | RMB 000 | RMB 000 | RMB 000 | RMB 000 | RMB 000 | |
| Balance at 1 January 2005 | 2,258,863 | (272,549) | 274,623 | 416,163 | 2,677,100 | (61,750) | 2,615,350 |
| Additions for the period | 155,430 | | 8,783 | 5,809 | 170,022 | | 170,022 |
| Share of profits less losses from investments accounted for under the equity method | (179,328) | | | | (179,328) | | (179,328) |
| Dividends received and receivable | (2,401) | | | | (2,401) | | (2,401) |
| Disposals for the period | | | | (25,576) | (25,576) | | (25,576) |
| Amortisation for the period | | 5,425 | | | 5,425 | | 5,425 |
| Change in provision | | | | | | 344 | 344 |
| Balance at 30 June 2005 | 2,232,564 | (267,124) | 283,406 | 396,396 | 2,645,242 | (61,406) | 2,583,836 |

| | The Company | | | | |
|---|--|--|---|---|------------------|
| | Interests in associates (Note(a)) | Equity investment differences (Note(b)) | Interests in consolidated subsidiaries (Note(d)) | Other unlisted investments (Note(e)) | Total |
| | RMB 000 | RMB 000 | RMB 000 | RMB 000 | RMB 000 |
| Balance at 1 January 2005 | 2,121,384 | (272,549) | 2,090,849 | 164,772 | 4,104,456 |
| Additions for the period | 148,977 | | 255,188 | | 404,165 |
| Share of profits less losses from investments accounted for under the equity method | (176,885) | | 55,735 | | (121,150) |
| Dividends received and receivable | (2,401) | | (121,244) | | (123,645) |
| Amortisation for the period | | 5,425 | 5,759 | | 11,184 |
| Balance at 30 June 2005 | 2,091,075 | (267,124) | 2,286,287 | 164,772 | 4,275,010 |

Table of Contents**9. Long-term equity investments (continued)**

- (a) The particulars of the associates, which are limited companies established and operating in the PRC, which principally affected the results or assets of the Group at 30 June 2005 are as follows:

| Company | Percentage of equity | | | Principal activities |
|---|----------------------|-----------------------|------------------------|---|
| | Registered | | held by subsidiaries % | |
| | capital | held by the Company % | | |
| 000 | | | | |
| Shanghai Jinsen Hydrocarbon Resins Company Limited | US\$ | 23,395 | 40 | Production of resins products |
| Shanghai Jinpu Plastics Packaging Material Company Limited | US\$ | 20,204 | 50 | Production of polypropylene film |
| Shanghai YaNan Electrical Appliances Company | RMB | 5,420 | 44 | Trading of electrical appliances |
| XinLian Special Sealings Company | RMB | 5,000 | 33 | Production of special sealing material |
| Shanghai Secco Petrochemical Company Limited | US\$ | 901,441 | 20 | Manufacturing and distribution of chemical products |
| Shanghai Chemical Industry Park Development Company Limited | RMB | 2,372,439 | 38.26 | Planning, development and operation of the Chemical Industry Park in Shanghai, PRC. |

Table of Contents**9. Long-term equity investments (continued)**

(b) Equity investment difference

| Investments | Initial investment RMB 000 | Amortisation period | 1 January 2005 RMB 000 | Amortisation during the period RMB 000 | 30 June 2005 RMB 000 | Reason |
|---|---------------------------------------|--------------------------------|---------------------------------------|---|-------------------------------------|--------------------------|
| Shanghai Chemical Industry Park Development Co., Ltd | (300,000) | 30 years | (270,000) | 5,000 | (265,000) | Investment in associate |
| Shanghai Jindong Petrochemical Industrial Company Limited | (8,492) | 10 years | (2,549) | 425 | (2,124) | Investment in subsidiary |
| Total | (308,492) | | (272,549) | 5,425 | (267,124) | |

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

- (c) Interests in non-consolidated subsidiaries represent the Company's interest in these subsidiaries which do not principally affect the results or assets of the Group and, therefore, are not consolidated.
- (d) The particulars of subsidiaries, all of which are limited companies established and operating in the PRC which principally affected the results or assets of the Group, at 30 June 2005 are as follows:

| Company | Registered capital 000 | Percentage of equity | | Principal activities |
|---|-----------------------------------|--------------------------------------|---------------------------------------|---|
| | | held by the Company % | held by subsidiaries % | |
| Shanghai Petrochemical Investment Development Company Limited | RMB 800,000 | 100 | | Investment management |
| SPC Marketing Development Corporation | RMB 25,000 | 100 | | Trading in petrochemical products |
| China Jinshan Associated Trading Corporation | RMB 25,000 | 80 | | Import and export of petrochemical products and equipment |
| Shanghai Jinhua Industrial Company Limited | RMB 25,500 | | 81.46 | Trading in petrochemical products |
| Shanghai Jindong Petrochemical Industrial Company Limited | RMB 20,000 | | 60 | Trading in petrochemical products |
| Shanghai Golden Way Petrochemical Company Limited | US\$ 3,460 | | 75 | Production of vinyl acetate products |
| Shanghai Jinchang Engineering Plastics Company Limited | US\$ 4,750 | | 50.38 | Production of polypropylene products |

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| | | | | |
|---|-------------|-----|-----|--------------------------------------|
| Shanghai Golden-Phillips Petrochemical Company Limited | US\$ 50,000 | | 60 | Production of polyethylene products |
| Zhejiang Jin Yong Acrylic Fibre Company Limited | RMB 250,000 | 75 | | Production of acrylic fibre products |
| Shanghai Petrochemical Enterprise Development Company Limited | RMB 455,000 | 100 | | Investment management |
| Shanghai Golden Conti Petrochemical Company Limited | RMB 295,776 | | 100 | Production of petrochemical products |

None of these subsidiaries has issued any debt securities.

Table of Contents**9. Long-term equity investments (continued)**

- (e) The Group's other unlisted investments include non-controlling equity investments in various enterprises which are mainly engaged in manufacturing or trading activities related to the Group's operations. The Group's share of results attributable to these interests during the period ended 30 June 2005 is not material in relation to the profit of the Group for the said period and therefore is not equity accounted for.
- (f) Provision for impairment losses are analysed as follows:

| | The Group | |
|------------------------------------|-----------------|-----------------|
| | 2005 RMB 000 | 2004 RMB 000 |
| | | (audited) |
| Balance at 1 January | 61,750 | 31,788 |
| Provision for the period / year | 960 | 36,276 |
| Written off for the period / year | (1,304) | (1,000) |
| Written back for the period / year | | (5,314) |
| Balance at 30 June / 31 December | 61,406 | 61,750 |

The recoverable amount of certain individual long-term equity investments were considered lower than their carrying amount. As a result, the management of the Company has made provision for impairment losses of RMB 960,000 during the period.

- (g) Major investment changes

At 30 June 2005, details of principal equity investment changes of the Group are as follows:

| Name of investee | Investment terms | Percentage of equity interest held by the Group | Balance at 1 January 2005 RMB 000 | Addition for the period RMB 000 | Share of profits/(losses) accounted for under the equity method | Amortisation of equity investment differences RMB 000 | Dividends received RMB 000 | Balance at 30 June 2005 RMB 000 |
|---|------------------|---|--------------------------------------|------------------------------------|---|--|-------------------------------|------------------------------------|
| Shanghai Chemical Industry Park Development Company Limited | 30 years | 38% | 650,878 | | | 5,000 | (2,401) | 653,477 |
| Shanghai Secco Petrochemical | 50 years | 20% | 1,200,505 | 148,977 | (176,885) | | | 1,172,597 |

Company
Limited

| | | | | | | |
|---|----------|-----|--------|-------|---------|--------|
| Shanghai Jinpu Plastics Packaging Material Company Limited | 30 years | 50% | 93,405 | | (3,689) | 89,716 |
| Shanghai Jinsen Hydrocarbon Reins Company Limited | 40 years | 40% | 37,144 | 6,456 | 1,303 | 44,903 |

No provision for impairment losses was made for the long-term equity investments as set out above.

(h) At 30 June 2005, the Company's proportion of the total investments to the net assets was 22.37% (31 December 2004: 21.71%).

At 30 June 2005, the Group's proportion of the total investments to the net assets was 13.84% (31 December 2004: 14.15%).

Table of Contents**10. Fixed assets****(a) The Group**

| | Land and buildings | Plant, machinery, equipment and others | Total |
|---|-----------------------|--|------------|
| | RMB 000 | RMB 000 | RMB 000 |
| Cost or valuation: | | | |
| At 1 January 2005 | 6,723,530 | 26,180,679 | 32,904,209 |
| Additions | 16,746 | 84,732 | 101,478 |
| Transferred from construction in progress (Note 12) | 35,961 | 584,195 | 620,156 |
| Disposals | (17,773) | (62,812) | (80,585) |
| At 30 June 2005 | 6,758,464 | 26,786,794 | 33,545,258 |
| Accumulated depreciation: | | | |
| At 1 January 2005 | 2,987,597 | 13,177,116 | 16,164,713 |
| Charge for the period | 94,328 | 784,978 | 879,306 |
| Written back on disposal | (5,294) | (35,896) | (41,190) |
| At 30 June 2005 | 3,076,631 | 13,926,198 | 17,002,829 |
| Provision for impairment losses: | | | |
| At 1 January 2005 | | 58,945 | 58,945 |
| Charge for the period | | | |
| At 30 June 2005 | | 58,945 | 58,945 |
| Net book value: | | | |
| At 30 June 2005 | 3,681,833 | 12,801,651 | 16,483,484 |
| At 31 December 2004 (audited) | 3,735,933 | 12,944,618 | 16,680,551 |

Table of Contents**10. Fixed assets (continued)****(b) The Company**

| | Land and buildings | Plant, machinery, equipment and others | Total |
|---|-------------------------------|---|----------------|
| | RMB 000 | RMB 000 | RMB 000 |
| Cost or valuation: | | | |
| At 1 January 2005 | 5,541,168 | 23,442,352 | 28,983,520 |
| Additions | 5,746 | 62,118 | 67,864 |
| Transferred from construction in progress (Note 12) | 34,197 | 574,725 | 608,922 |
| Disposals | (1,000) | (27,834) | (28,834) |
| At 30 June 2005 | 5,580,111 | 24,051,361 | 29,631,472 |
| Accumulated depreciation: | | | |
| At 1 January 2005 | 2,621,322 | 11,727,293 | 14,348,615 |
| Charge for the period | 77,190 | 690,371 | 767,561 |
| Written back on disposal | (469) | (14,093) | (14,562) |
| At 30 June 2005 | 2,698,043 | 12,403,571 | 15,101,614 |
| Provision for impairment losses: | | | |
| At 1 January 2005 | | 58,945 | 58,945 |
| Charge for the period | | | |
| At 30 June 2005 | | 58,945 | 58,945 |
| Net book value: | | | |
| As at 30 June 2005 | 2,882,068 | 11,588,845 | 14,470,913 |
| As at 31 December 2004 (audited) | 2,919,846 | 11,656,114 | 14,575,960 |

All of the Group's buildings are located in the PRC (including Hong Kong).

Table of Contents**10. Fixed assets (continued)**

(c) At 30 June 2005, the cost of the Group's fully depreciated fixed assets was RMB6,388,642,216 (31 December 2004: RMB6,133,235,399).

(d) At 30 June 2005, no fixed assets were pledged by the Group (31 December 2004: Nil).

11. Construction materials

| | The Group | | The Company | |
|---------------------------|--------------------|------------------------|--------------------|------------------------|
| | At 30 June 2005 | At 31 December 2004 | At 30 June 2005 | At 31 December 2004 |
| | RMB 000 | RMB 000 | RMB 000 | RMB 000 |
| | | (audited) | | (audited) |
| Equipment and accessories | 25,268 | 20,226 | 25,268 | 20,226 |

12. Construction in progress

| | The Group | | The Company | |
|--------------------------------------|------------------|-------------|------------------|-------------|
| | 2005 | 2004 | 2005 | 2004 |
| | RMB 000 | RMB 000 | RMB 000 | RMB 000 |
| | | (audited) | | (audited) |
| Balance at 1 January | 763,450 | 374,780 | 708,089 | 351,480 |
| Additions | 585,898 | 1,885,181 | 566,812 | 1,786,574 |
| of which: | | | | |
| Capitalised interest costs | | | | |
| | 1,349,348 | 2,259,961 | 1,274,901 | 2,138,054 |
| Transferred to fixed assets(Note 10) | (620,156) | (1,496,511) | (608,922) | (1,429,965) |
| Balance at 30 June / 31 December | 729,192 | 763,450 | 665,979 | 708,089 |

Table of Contents**12. Construction in progress (continued)**

At 30 June 2005, major projects of the Group are as follows:

| Project | Budgeted amount RMB 000 | At 1 January 2005 RMB 000 | Addition RMB 000 | At 30 June 2005 RMB 000 | Stage of completion |
|------------------------------------|------------------------------------|--------------------------------------|-----------------------------|------------------------------------|----------------------------|
| 380,000 tonne/annum glycol project | 1,249,000 | 63 | 112,738 | 112,801 | 9% |
| North-south pipeline project | 200,000 | 50,608 | 13,111 | 63,719 | 32% |
| Pipeline to Secco project | 100,000 | 97 | 88,603 | 88,700 | 89% |

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

13. Intangible assets

| | The Group and the Company | |
|------------------------------------|----------------------------------|-------------------------|
| | 2005 RMB 000 | 2004 RMB 000 |
| | | (audited) |
| Cost: | | |
| At 30 June / 31 December | 134,482 | 134,482 |
| Accumulated amortisation: | | |
| At 1 January | 112,067 | 98,619 |
| Amortisation for the period / year | 6,724 | 13,448 |
| At 30 June / 31 December | 118,791 | 112,067 |
| Net book value: | | |
| At 30 June / 31 December | 15,691 | 22,415 |

On 16 August 1996, the Company acquired the equity interest in Shanghai Jinyang Acrylic Fibre Plant (Jinyang) for consideration of RMB 38,800,000 satisfied in cash. Equity investment difference of RMB 134,482,000 on acquisition has been recognised in the financial statements. Such equity investment difference is amortised over 10 years which was the remaining economic useful life of the related plants of the subsidiary.

In 2002, Jinyang was deregistered and all its operations, assets and liabilities were transferred to the Company of carrying value. Accordingly, Jinyang has changed from a wholly owned subsidiary to a division of the Company. Since there was no investment in subsidiary after the deregistration of Jinyang, the unamortised amount of the equity investment difference at 31 December 2002 was transferred to intangible assets and amortised over its remaining useful life.

Table of Contents**14. Taxation**

(a) Taxation in the income statement represents:

| | Six-month periods ended 30 June | | | |
|---|---------------------------------|-----------------|-----------------|-----------------|
| | The Group | | The Company | |
| | 2005 RMB 000 | 2004 RMB 000 | 2005 RMB 000 | 2004 RMB 000 |
| Provision for PRC income tax for the period | 357,730 | 284,909 | 313,562 | 256,251 |
| Deferred taxation | | (16,427) | | (15,020) |
| | 357,730 | 268,482 | 313,562 | 241,231 |
| Tax refund | | (10,262) | | (10,262) |
| | 357,730 | 258,220 | 313,562 | 230,969 |

The charge for PRC income tax is calculated at the rate of 15% (2004: 15%) on the estimated assessable profit of the period determined in accordance with relevant income tax rules and regulations. The Group did not carry out business in overseas and Hong Kong and therefore no provision has been made for overseas and Hong Kong income tax.

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. However, the Company continues to use the 15% tax rate in 2005.

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 received 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. During the period ended 30 June 2005, the Company did not receive an income tax refund relating to the purchase of equipment produced in the PRC for technological improvements.

Table of Contents**14. Taxation (continued)**

(b) Taxes payable in the balance sheets represents:

| | The Group | | The Company | |
|-----------------|--------------------|------------------------|--------------------|------------------------|
| | At 30 June 2005 | At 31 December 2004 | At 30 June 2005 | At 31 December 2004 |
| | RMB 000 | RMB 000 | RMB 000 | RMB 000 |
| | | (audited) | | (audited) |
| Income tax | 47,559 | 71,675 | 18,046 | 50,276 |
| VAT | 94,571 | 121,101 | 100,254 | 114,622 |
| Consumption tax | 30,532 | 40,048 | 30,532 | 40,048 |
| Business tax | 1,278 | 3,346 | 334 | 1,173 |
| Other taxes | 15,060 | 23,941 | 14,025 | 21,940 |
| | 189,000 | 260,111 | 163,191 | 228,059 |

(c) Deferred taxation

| | The Group | |
|--|-----------------|-----------------|
| | 2005 RMB 000 | 2004 RMB 000 |
| | | (audited) |
| At 1 January | 41,442 | 24,853 |
| Deferred taxation arising from provision for inventories and bad debts | | 11,437 |
| Provision for impairment losses and disposal losses of fixed assets | | 5,152 |
| At 30 June / 31 December | 41,442 | 41,442 |

| | The Company | |
|--|-----------------|-----------------|
| | 2005 RMB 000 | 2004 RMB 000 |
| | | (audited) |
| At 1 January | 40,154 | 24,853 |
| Deferred taxation arising from provision for inventories and bad debts | | 10,149 |
| Provision for impairment losses and disposal losses of fixed assets | | 5,152 |

| | | |
|--------------------------|---------------|--------|
| At 30 June / 31 December | 40,154 | 40,154 |
|--------------------------|---------------|--------|

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

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Table of Contents**15. Short-term loans**

The Group's and Company's short-term loans include:

| | The Group | | The Company | |
|---|--------------------|------------------------|--------------------|------------------------|
| | At 30 June 2005 | At 31 December 2004 | At 30 June 2005 | At 31 December 2004 |
| | RMB 000 | RMB 000 | RMB 000 | RMB 000 |
| | | (audited) | | (audited) |
| Short-term bank loans | 3,026,841 | 3,612,727 | 2,521,602 | 3,034,556 |
| Short-term loans with related party(Note 29(g)) | 130,000 | 130,000 | | |
| | 3,156,841 | 3,742,727 | 2,521,602 | 3,034,556 |

At 30 June 2005, there were no secured loans (31 December 2004: Nil).

All short-term loans are unsecured loans without guarantee and payable in full when due. The weighted average interest rate of short-term loans of the Group at 30 June 2005 was 4.31% (31 December 2004: 3.42%)

As at 30 June 2005 and 31 December 2004, the Group and the Company had no significant overdue short-term loan.

Except for the balances disclosed in note 29(g), there is no amount due from major shareholders who held 5% or more shareholding included in the above balance.

16. Trade creditors, bills payable, receipts in advance and other payables

There are no material trade creditors and other payables aged over 3 years.

There is no material receipts in advance aged over 1 year.

Bills payable are mainly bank bills issued for the purchase of material, merchandises and products, generally due in 3 to 6 months.

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Except for the balances disclosed in Note 29 (e), there is no amount due to shareholders who held 5% or more shareholding included in the balance of trade creditors, bills payable, receipts in advance and other payables.

Table of Contents**16. Trade creditors, bills payable, receipts in advance and other payables (continued)**

Ageing analysis of trade creditors is as follows:

| | The Group | | | |
|------------------------|------------------------|-------------------|----------------------------|-------------------|
| | At 30 June 2005 | | At 31 December 2004 | |
| | Amount | Proportion | Amount | Proportion |
| | RMB 000 | % | RMB 000 | % |
| | | | (audited) | |
| Within 3 months | 851,161 | 88.50 | 832,874 | 91.33 |
| Between 3 and 6 months | 62,846 | 6.53 | 52,682 | 5.78 |
| Over 6 months | 47,767 | 4.97 | 26,384 | 2.89 |
| | 961,774 | 100.00 | 911,940 | 100.00 |

| | The Company | | | |
|------------------------|------------------------|-------------------|----------------------------|-------------------|
| | At 30 June 2005 | | At 31 December 2004 | |
| | Amount | Proportion | Amount | Proportion |
| | RMB 000 | % | RMB 000 | % |
| | | | (audited) | |
| Within 3 months | 696,638 | 95.17 | 697,520 | 98.50 |
| Between 3 and 6 months | 5,106 | 0.70 | 908 | 0.13 |
| Over 6 months | 30,252 | 4.13 | 9,723 | 1.37 |
| | 731,996 | 100.00 | 708,151 | 100.00 |

17. Dividends

Pursuant to the shareholders' approval at the Annual General Meeting on 28 June 2005, a dividend of RMB 0.20 per share totalling RMB 1,440,000,000 (2003: RMB 0.08 per share totalling RMB 576,000,000) in respect of the year ended 31 December 2004 was approved. During the period ended 30 June 2005, no dividend was paid to shareholders.

18. Accrued expenses

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At 30 June 2005, the Group's and the Company's accrued expenses primarily represented accrued interest expenses and other production expenses.

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Table of Contents**19. Long-term loans and current portion of long-term loans**

| | The Group | | The Company | |
|------------------------------------|--------------------|------------------------|--------------------|------------------------|
| | At 30 June 2005 | At 31 December 2004 | At 30 June 2005 | At 31 December 2004 |
| | RMB 000 | RMB 000 | RMB 000 | RMB 000 |
| | | (audited) | | (audited) |
| Between 1 and 2 years | 450,447 | 1,430,178 | 408,668 | 1,404,899 |
| Between 2 and 3 years | 75,876 | 456,580 | 50,596 | 431,300 |
| Between 3 and 5 years | 80,618 | 62,297 | | 7,738 |
| After 5 years | 15,000 | 65,559 | 15,000 | 15,000 |
| | 621,941 | 2,014,614 | 474,264 | 1,858,937 |
| Current portion of long-term loans | 1,997,900 | 1,257,578 | 1,870,000 | 1,114,899 |
| | 2,619,841 | 3,272,192 | 2,344,264 | 2,973,836 |

Long-term loans are analysed as follows:

| | Interest rate | The Group | | The Company | | | |
|--|---------------|--------------------|-------------------------------|--------------------|------------------------|-----------|-----------|
| | | At 30 June 2005 | At 31 December 2004 | At 30 June 2005 | At 31 December 2004 | | |
| Repayment terms and last payment date | Interest type | Original currency | Exchange rate at 30 June 2005 | RMB 000 | RMB 000 | RMB 000 | RMB 000 |
| | | | | (audited) | | (audited) | |
| Arranged by Central Treasury of the Company: | | | | | | | |
| U.S. Dollar denominated: | | | | | | | |
| Due in 2007 | Floating | 2.24% | 50,000 | 82765 | 408,667 | 416,402 | 408,667 |
| Payable semi-annually through 2008 (Note(a)) | Fixed | 1.80% | 5,371 | 82765 | 50,597 | 52,434 | 50,597 |
| Renminbi denominated: | | | | | | | |
| Due in 2005 | Fixed | 5.05 5.30% | | | 550,000 | 1,100,000 | 550,000 |
| Due in 2006 | Fixed | 4.94% 5.30% | | | 1,220,000 | 1,220,000 | 1,220,000 |
| Due in 2006 | Fixed | 4.94% | | | 100,000 | 170,000 | 100,000 |
| Other loans due in 2005 | Interest free | | | | 15,000 | 15,000 | 15,000 |
| Arranged by subsidiaries: | | | | | | | |

| | | | | | |
|-------------------------------|---------------|-------|--------|---------------|--------|
| Payable annually through 2011 | Interest free | 2,160 | 8.2765 | 17,877 | 20,856 |
|-------------------------------|---------------|-------|--------|---------------|--------|

Table of Contents**19. Long-term loans and current portion of long-term loans (continued)**

Long-term loans are analysed as follows: (continued)

| Repayment terms and last payment date | Interest type | Interest rate at 30 June 2005 | Original currency 000 | Exchange rate at 30 June 2005 | The Group | | The Company | |
|--|---------------|-------------------------------|-----------------------|-------------------------------|------------------|---------------------|------------------|---------------------|
| | | | | | At 30 June 2005 | At 31 December 2004 | At 30 June 2005 | At 31 December 2004 |
| | | | | | RMB 000 | RMB 000 | RMB 000 | RMB 000 |
| | | | | | (audited) | | (audited) | |
| Arranged by subsidiaries: | | | | | | | | |
| Renminbi denominated: | | | | | | | | |
| Payable annually from 2001 through 2005 | | Interest free | | | 7,400 | 7,400 | | |
| Payable annually through 2010 | | Interest free | | | 113,000 | 123,000 | | |
| Due in 2005 and after | Fixed | 4.94%-5.58% | | | 126,500 | 134,500 | | |
| Payable annually through 2011 | | Interest free | | | 10,800 | 12,600 | | |
| Total long-term loans outstanding | | | | | 2,619,841 | 3,272,192 | 2,344,264 | |
| Less: | | | | | | | | |
| Amounts due within one year | | | | | (1,997,900) | (1,257,578) | (1,870,000) | |
| Amounts due after one year | | | | | 621,941 | 2,014,614 | 474,264 | |

Note: (a) Guaranteed by China Petrochemical Corporation.

Except for loans indicated as guaranteed, all loans are unsecured loans without guarantee.

Table of Contents**20. Other long-term liabilities****Deferred income**

| | The Group | |
|------------------------------------|------------------|------------------|
| | 2005 | 2004 |
| | RMB 000 | RMB 000 |
| | _____ | _____ |
| | | (audited) |
| Cost: | | |
| At 30 June / 31 December | 115,177 | 115,177 |
| Accumulated amortisation: | | |
| At 1 January | 80,626 | 69,108 |
| Amortisation for the period / year | 5,759 | 11,518 |
| | _____ | _____ |
| At 30 June / 31 December | 86,385 | 80,626 |
| | _____ | _____ |
| Net book value: | | |
| At 30 June / 31 December | 28,792 | 34,551 |
| | _____ | _____ |

In 1998, the Group obtained the assets, liabilities and employees of certain businesses and various other net assets from the community of Jinshanwei without monetary consideration. The value of net assets obtained amounted to RMB115,177,000 and was recorded as deferred income in the consolidated financial statements.

Table of Contents**21. Share capital**

| | The Group and the Company | |
|---|----------------------------------|----------------------------|
| | At 30 June 2005 | At 31 December 2004 |
| | RMB 000 | RMB 000 |
| | | (audited) |
| Registered capital: | | |
| 4,870,000,000 A shares at par value of RMB 1 each | 4,870,000 | 4,870,000 |
| 2,330,000,000 H shares at par value of RMB 1 each | 2,330,000 | 2,330,000 |
| | 7,200,000 | 7,200,000 |
| Issued and paid up capital | | |
| Shares not in trade: | | |
| 4,150,000,000 A shares at par value of RMB 1 each of which: | | |
| Domestic legal persons owned shares | 4,150,000 | 4,150,000 |
| Total shares not in trade | 4,150,000 | 4,150,000 |
| Shares in trade: | | |
| 720,000,000 A shares at par value of RMB 1 each | | |
| 2,330,000,000 H shares at par value of RMB 1 each of which: | | |
| RMB ordinary A shares listed in the PRC | 720,000 | 720,000 |
| Foreign investment H shares listed overseas | 2,330,000 | 2,330,000 |
| Total shares in trade | 3,050,000 | 3,050,000 |
| Total share capital | 7,200,000 | 7,200,000 |

All the A and H shares rank pari passu in all respects.

Capital verifications of the issued and paid up capital were performed by KPMG Huazhen. Capital verification reports were issued on 27 October 1993, 10 June 1994, 15 September 1996 and 20 March 1997 accordingly.

Table of Contents**22. Capital reserves**

| | The Group and the Company | |
|----------------------------------|----------------------------------|------------------|
| | 2005 | 2004 |
| | RMB 000 | RMB 000 |
| | | (audited) |
| Balance at 30 June / 31 December | 2,856,278 | 2,856,278 |

Balance of capital reserves at 30 June 2005 and 31 December 2004 is represented by:

| | | The Group and the Company | |
|-------------------|-------------|----------------------------------|--------------------------------|
| | | At 30 June 2005 | At 31 December 2004 |
| | Note | RMB 000 | RMB 000 |
| | | | (audited) |
| Share premium | | 2,420,841 | 2,420,841 |
| Safety fund | (a) | 4,180 | 4,180 |
| Valuation surplus | (b) | 44,887 | 44,887 |
| Government grants | (c) | 386,370 | 386,370 |
| | | 2,856,278 | 2,856,278 |

- (a) The safety fund represents gifts or grants received from Sinopec for enhancement of production safety.
- (b) Valuation surplus represents the excess of fair value over the carrying value of assets given up in part exchange for investments.
- (c) Government grants represent grants received for the purchase of equipment used for technology improvements.

Table of Contents**23. Surplus reserves**

| | The Group and the Company | | | | | |
|---------------------------------------|----------------------------------|--|-------------------------------|-------------------------------------|-----------|-----------|
| | Statutory surplus reserve | Statutory public welfare fund | General surplus reserve | Discretionary surplus reserve | Total | |
| | Note | RMB 000 | RMB 000 | RMB 000 | RMB 000 | |
| Balance at 1 January 2004 | | 1,060,664 | 978,575 | 82,089 | 1,280,514 | 3,401,842 |
| Appropriation of net profit | (a) | 397,127 | 397,127 | | | 794,254 |
| Balance at 1 January and 30 June 2005 | | 1,457,791 | 1,375,702 | 82,089 | 1,280,514 | 4,196,096 |

(a) Pursuant to resolution of the Board, the Company transfer the following proportion of net profit to the surplus reserve for the year ended 31 December 2004:

| | |
|------------------------------------|-----|
| (i) Statutory surplus reserve | 10% |
| (ii) Statutory public welfare fund | 10% |

24. Income from principal operations

The Group's principal activity is the processing of crude oil into petrochemical products for sale. The Group's income from principal activity and cost of sales represent income received and cost incurred in relation to above activity. The Group's segment information is set out in Note 34.

Income from principal operations represents the invoiced value of goods sold to customers, net of VAT.

For the period ended 30 June 2005, total sales to top five customers are shown below:

| | 2005 | 2004 |
|---------------------------|-----------|-----------|
| Amount (RMB 000) | 8,880,209 | 6,103,952 |
| Percentage of total sales | 40.57% | 34.33% |

Table of Contents**25. Business taxes and surcharges**

| | Six-month periods ended 30 June | | | |
|--------------------------------|---------------------------------|---------|----------------|---------|
| | The Group | | The Company | |
| | 2005 | 2004 | 2005 | 2004 |
| | RMB 000 | RMB 000 | RMB 000 | RMB 000 |
| Consumption tax | 276,516 | 249,422 | 276,516 | 249,422 |
| City construction tax | 70,904 | 69,562 | 69,012 | 66,840 |
| Education surcharge and others | 30,715 | 31,269 | 29,577 | 28,645 |
| Total | 378,135 | 350,253 | 375,105 | 344,907 |

The charge for consumption tax is calculated at RMB277.6 per tonne and RMB117.6 per tonne on the sales of gasoline and diesel respectively in accordance with relevant tax rules and regulations. The charges for city construction tax and education surcharge are based on 7% and 3% respectively of the VAT, consumption tax and business tax paid during the period.

26. Financial expenses

| | Six-month periods ended 30 June | | | |
|-----------------------|---------------------------------|----------|-----------------|----------|
| | The Group | | The Company | |
| | 2005 | 2004 | 2005 | 2004 |
| | RMB 000 | RMB 000 | RMB 000 | RMB 000 |
| Interest expenses | 146,728 | 185,842 | 126,093 | 155,253 |
| Less: Interest income | (18,613) | (20,160) | (14,785) | (15,427) |
| Net interest expenses | 128,115 | 165,682 | 111,308 | 139,826 |
| Exchange loss | 1,594 | 3,670 | 1,064 | 3,301 |
| Less: Exchange gain | (741) | (9) | (428) | |
| Others | 372 | 2,152 | 243 | 1,091 |
| Total | 129,340 | 171,495 | 112,187 | 144,218 |

Table of Contents**27. Investment (losses)/income**

| | Six-month periods ended 30 June | | | |
|---------------------------------|---------------------------------|-----------------|------------------|-----------------|
| | The Group | | The Company | |
| | 2005 RMB 000 | 2004 RMB 000 | 2005 RMB 000 | 2004 RMB 000 |
| Cost method | 57,814 | 13,965 | 15,220 | 11,292 |
| Share of profit of subsidiaries | | | 55,735 | 120,946 |
| Share of loss of associates | (179,328) | (3,737) | (176,885) | |
| Investment differences | 5,425 | 5,425 | 5,425 | 5,425 |
| Total | (116,089) | 15,653 | (100,505) | 137,663 |

28. Non-operating expenses

| | Six-month periods ended 30 June | | | |
|---|---------------------------------|-----------------|-----------------|-----------------|
| | The Group | | The Company | |
| | 2005 RMB 000 | 2004 RMB 000 | 2005 RMB 000 | 2004 RMB 000 |
| Employee reduction expenses | 90,792 | 86,713 | 35,465 | 86,713 |
| Loss on disposal of fixed assets | 4,423 | 47,416 | 2,900 | 45,372 |
| Provision for impairment losses on fixed assets | | 34,345 | | 34,345 |
| Service fee | 22,500 | 16,000 | 22,500 | 16,000 |
| Donations | 7,280 | 389 | 7,280 | 369 |
| Other expenses | 30,228 | 2,597 | 27,067 | 1,949 |
| Total | 155,223 | 187,460 | 95,212 | 184,748 |

In accordance with the Group's voluntary employee reduction plan, the Group recorded employee reduction expenses of RMB 90,792,000 (period ended 30 June 2004: RMB 86,713,000) during the six-month periods ended 30 June, in respect of the voluntary resignation of approximately 1,246 employees (period ended 30 June 2004: 1,100 employees).

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29. Related parties and related party transactions

(a) Company having the ability to exercise significant influence over the Group

| | | |
|-------------------------------|---|--|
| Name of company | : | China Petroleum & Chemical Corporation (Sinopec Corp) |
| Registered address | : | No.6, Hui Xin Dong Jie Jia, Chao Yang Qu, Beijing |
| Scope of operations | : | Exploring for, extracting and selling crude oil and natural gas; oil refining; production, sale and transport of petro-chemical, chemical fibres and other chemical products; pipe transport of crude oil and natural gas; research and development and application of new technologies and information. |
| Relationship with the Company | : | The immediate parent company |
| Economic nature | : | Joint stock limited company |
| Authorised representative | : | Chen Tonghai |
| Registered capital | : | RMB 86.7billion (2004: RMB 86.7billion) |

The above registered capital has not been changed during the six-month periods ended 30 June 2005.

As at 30 June 2005, Sinopec Corp held 4 billion shares of the Company. There are no changes during the reporting period.

(b) Companies not having the direct ability to exercise significant influence over the Group

| | <u>Relationships with the Company</u> |
|---|--|
| China Petrochemical Corporation | The ultimate parent company |
| Sinopec Finance Company Limited | Subsidiary of the ultimate parent company |
| Sinopec Zhenhai Refining and Chemical Company Limited | Subsidiary of the immediate parent company |
| Sinopec Huadong Sales Company | Branch of the immediate parent company |
| Sinopec Storage and Transportation Branch | Branch of the immediate parent company |
| China International United Petroleum and Chemical Company Limited | Subsidiary of the immediate parent company |
| Sinopec Acrylic Fibre Sales Branch | Branch of the immediate parent company |

Table of Contents**29. Related parties and related party transactions (continued)**

- (c) Most of the transactions undertaken by the Group during the reporting period have been effected with such counterparties and on such terms as have been determined by Sinopec Corp and other relevant authorities.

Sinopec Corp negotiates and agrees the terms of crude oil supply with suppliers on a group basis, which is then allocated among its subsidiaries, including the Group, on a discretionary basis. During the reporting period, the value of crude oil purchased in accordance with Sinopec Corp's allocation was as follows:

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

- (d) Other transactions between the Group and the other related parties during the period were as follows:

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

The sales and purchases transactions between the Group and the other related parties as disclosed in note (b) accounted for approximately 90% of the transactions of the similar nature.

The Directors of the Company are of the opinion that the above transactions were entered into in the normal course of business and on normal commercial terms or in accordance with the agreements governing such transactions, and this has been confirmed by the non-executive Directors.

Table of Contents**29. Related parties and related party transactions (continued)**

(e) At 30 June, the Group's balances with related parties are as follow:

| | Immediate Parent Company | | Other related parties | |
|---------------------|--------------------------|------------------------|-----------------------|------------------------|
| | At 30 June 2005 | At 31 December 2004 | At 30 June 2005 | At 31 December 2004 |
| | RMB 000 | RMB 000 | RMB 000 | RMB 000 |
| | | (audited) | | (audited) |
| Bills receivable | 2,714 | 17,675 | 26,042 | 15,705 |
| Trade debtors | 43,401 | | 335,140 | 207,244 |
| Other receivables | 6,354 | 67,343 | 1,044 | 183,440 |
| Advance payments | 15,561 | 49,760 | 92,187 | 44,251 |
| Bills payable | | 14,254 | 7,100 | |
| Trade creditors | 134,837 | 98,105 | 176,519 | 287,538 |
| Other payables | 238 | 179,551 | 11,545 | 9,584 |
| Receipts in advance | 2,490 | 15,275 | 58,529 | 35,138 |

(f) Deposits in related party

| | The Group | | The Company | |
|--------------------------|--------------------|------------------------|--------------------|------------------------|
| | At 30 June 2005 | At 31 December 2004 | At 30 June 2005 | At 31 December 2004 |
| | RMB 000 | RMB 000 | RMB 000 | RMB 000 |
| | | (audited) | | (audited) |
| Cash at bank and in hand | 196,928 | 252,438 | 125,926 | 250,125 |

(g) Loans with related party

| | The Group | | The Company | |
|------------------|--------------------|------------------------|--------------------|------------------------|
| | At 30 June 2005 | At 31 December 2004 | At 30 June 2005 | At 31 December 2004 |
| | RMB 000 | RMB 000 | RMB 000 | RMB 000 |
| | | (audited) | | (audited) |
| Short-term loans | 130,000 | 130,000 | | |

Table of Contents**30. Retirement schemes**

As stipulated by the relevant regulations, the Group participates in a defined contribution retirement plan organised by the Shanghai Municipal Government for its staff. The Group is required to make contributions to the retirement plan at a rate of 22.5% of the salaries, bonuses and certain allowances of its staff. The contribution rate has been changed to 22% since 1 August 2004. A member of the plan is entitled to a pension equal to a fixed proportion of the salary prevailing at his retirement date. The Group has no other material obligation for the payment of pension benefits associated with this plan beyond the annual contributions described above. In addition, pursuant to a document Lao Bu Fa (1995) No.464 dated 29 December 1995 issued by the Ministry of Labour of the PRC, the Company has set up a supplementary defined contribution retirement plan for the benefit of employees. Employees who have served the Company for five years or more may participate in this plan. The Company and participating employees make defined contributions to their pension savings account according to the plan. The assets of this plan are held separately from those of the Company in an independent fund administered by a committee consisting of representatives from the employees and the Company. In April 2003, the Company revised certain terms of the plan and increased the amount of contributions. During the six-month period ended 30 June 2005, the Company's contribution to this plan amounted to RMB21,388,000 (period ended 30 June 2004: RMB21,230,000).

31. Capital commitments

Capital commitments outstanding at 30 June 2005 and 31 December 2004 are as follows:

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

At 30 June 2005, the Group and the Company do not have significant operating lease commitments.

Table of Contents**32. Contingent liabilities**

Contingent liabilities of the Group and the Company are as follows:

| | The Group | | The Company | |
|--|--------------------|------------------------|--------------------|------------------------|
| | At 30 June 2005 | At 31 December 2004 | At 30 June 2005 | At 31 December 2004 |
| | RMB 000 | RMB 000 | RMB 000 | RMB 000 |
| | | (audited) | | (audited) |
| Guarantees issued to banks in favour of: | | | | |
| -subsidiaries | | | 772,139 | 778,859 |
| -associates | 40,000 | 40,000 | 40,000 | 40,000 |
| -other unlisted investment companies | 38,586 | 61,886 | 4,400 | 29,200 |
| | 78,586 | 101,886 | 816,539 | 848,059 |

Guarantees issued to banks in favour of subsidiaries are given to the extent of the Company's respective equity interest in these entities.

Guarantees issued to banks in favour of associates and other unlisted investment companies are given to the extent of the Group's and the Company's respective equity interest in these entities.

The Group monitors the conditions that are subject to the guarantees to identify whether it is probable that a loss has occurred, and recognised any such losses under guarantees when those losses are estimable. At 30 June 2005, it is not probable that the Group will be required to make payments under the guarantees. Thus no liability has been accrued for a loss related to the Group's and the Company's obligation under these guarantee arrangements.

33. Events after the balance sheet date

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

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

At 30 June 2005
Original currency

| | <u>000</u> |
|-------------------------|------------|
| Cash at bank | |
| - Hong Kong dollars | 108,966 |
| - United States dollars | 7,359 |
| | <hr/> |
| Bank loans | |
| - United States dollars | 295,543 |
| | <hr/> |

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34. Segment reporting

Segment information is presented in respect of the Group's business segments, the format of which is based on the Group's management and internal reporting structure. In view of the fact that the Company and its subsidiaries operate mainly in the PRC, no geographical segment information is presented.

The Group evaluates performance based on operating profits before income tax and non-operating income and expenses. Certain administrative expenses are allocated based on the percentage of sales.

The Group principally operates in four operating segments: synthetic fibres, resins and plastics, intermediate petrochemicals and petroleum products. All of the Group's products are produced through intermediate steps from the principal raw material of crude oil. The specific products of each segment are as follows:

- (i) The synthetic fibres segment produces primarily polyester and acrylic fibres primarily used in the textile and apparel industries.
- (ii) The resins and plastics segment produces primarily polyester chips, low density polyethylene resins and films, polypropylene resins and PVA granules. The polyester chips are used in the processing of polyester fibres and construction coating materials and containers. Low density polyethylene resins and plastics are used in cable jacketing, sheeting, the manufacture of moulded products, such as housewares and toys and for agricultural and packaging uses. Polypropylene resins are used in the manufacturing of extruded films or sheets and injection moulded products such as housewares, toys and household electric appliance and automobile parts.
- (iii) The intermediate petrochemicals segment primarily produces ethylene and benzene. Most of the intermediate petrochemicals produced by the Group are used by the Group as raw materials in the production of other petrochemicals, resins, plastics and synthetic fibres. A portion of the intermediate petrochemicals as well as certain by-products of the production process are sold to outside customers.
- (iv) The Group's petroleum products segment has crude oil distillation facilities used to produce vacuum and atmospheric gas oils used as feedstocks of the Group's downstream processing facilities. Residual oil and low octane gasoline fuels are produced primarily as a co-product of the crude oil distillation process. A proportion of the residual oil is further processed into qualified refined gasoline and diesel oil. In addition, the Group produces a variety of other transportation, industrial and household heating fuels, such as diesel oils, jet fuels, heavy oils and liquefied petroleum gases.
- (v) All other operating segments represent the operating segments which do not meet the quantitative threshold for determining reportable segments. These include trading, consumer products and services and a variety of other commercial activities, which are not allocated to the above four operating segments.

Table of Contents**34. Segment reporting (continued)****Income from principal operations**

| | Six-month periods ended 30 June | |
|-----------------------------------|--|-------------------|
| | 2005 | 2004 |
| | RMB 000 | RMB 000 |
| Synthetic fibres | | |
| External sales | 2,449,372 | 2,417,891 |
| Intersegment sales | 43 | 34 |
| Sub-total | 2,449,415 | 2,417,925 |
| Resins and plastics | | |
| External sales | 6,930,737 | 5,442,159 |
| Intersegment sales | 27,797 | 15,047 |
| Sub-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 |
| Sub-total | 9,891,300 | 7,356,563 |
| Petroleum products | | |
| External sales | 8,351,262 | 6,201,821 |
| Intersegment sales | 532,169 | 447,452 |
| Sub-total | 8,883,431 | 6,649,273 |
| All others | | |
| External sales | 671,947 | 1,425,270 |
| Intersegment sales | 1,808,478 | 1,851,705 |
| Sub-total | 2,480,425 | 3,276,975 |
| Elimination of intersegment sales | (8,776,633) | (7,379,805) |
| Total | 21,886,472 | 17,778,137 |

Table of Contents**34. Segment reporting (continued)****Cost of principal operations**

| | Six-month periods ended 30 June | |
|-----------------------------|---------------------------------|-------------------|
| | 2005 | 2004 |
| | RMB 000 | RMB 000 |
| Synthetic fibres | 2,073,613 | 2,193,799 |
| Resins and plastics | 5,195,695 | 4,342,349 |
| Intermediate petrochemicals | 2,347,794 | 1,582,029 |
| Petroleum products | 8,175,333 | 5,174,371 |
| All others | 570,141 | 1,286,869 |
| Total | 18,362,576 | 14,579,417 |

Profit from principal operations

| | Six-month periods ended 30 June | |
|-----------------------------|---------------------------------|------------------|
| | 2005 | 2004 |
| | RMB 000 | RMB 000 |
| Synthetic fibres | 364,939 | 212,614 |
| Resins and plastics | 1,704,780 | 1,070,297 |
| Intermediate petrochemicals | 1,115,809 | 690,379 |
| Petroleum products | (139,473) | 740,622 |
| All others | 99,706 | 134,555 |
| Total | 3,145,761 | 2,848,467 |

35. Net profit before non-recurring items

In accordance with Standard questions and answers on the preparation of information disclosures by companies publicly issuing securities, No.1-Non-recurring items (2004 Revised), the Group's net profit excluding non-recurring items is set out as below:

| Six-month periods ended 30 June | |
|---------------------------------|---------|
| 2005 | 2004 |
| RMB 000 | RMB 000 |

| | _____ | _____ |
|--|-----------------|----------|
| Items under non-recurring items | | |
| Non-operating expenses (excluding provision for impairment loss on fixed assets) | 155,223 | 153,115 |
| Non-operating income | (10,766) | (15,092) |
| Reversal of provision for long-term equity investments in prior years | | (2,659) |
| Tax effect for the above items | (21,669) | (20,703) |
| | _____ | _____ |
| Total | 122,788 | 114,661 |
| | _____ | _____ |

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C. Differences between Financial Statements 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) Valuation 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.

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C. Differences between Financial Statements prepared under PRC Accounting Rules and IFRS (continued)

(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.

Table of Contents**C. Differences between Financial Statements prepared under PRC Accounting Rules and IFRS (continued)**

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 RMB 000 | 2004 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 RMB 000 | At 31 December 2004 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 |

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D. 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 on 30 June 2005 and 31 December 2004.

(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.

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D. Supplementary Information for North American Shareholders (continued)

Notes (continued):

(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.

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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.

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D. Supplementary Information for North American Shareholders (continued)

Notes (continued):

(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.

Table of Contents**D. Supplementary Information for North American Shareholders (continued)**

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 | RMB 0.247 | RMB 0.223 |
| Basic earnings per ADS under U.S. GAAP | (f) | US\$ 2.986 | RMB 24.716 | RMB 22.252 |

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 |

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| | | | | |
|--|-----|-------------------|-------------------|-------------------|
| 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) |
| | | <u> </u> | <u> </u> | <u> </u> |
| Shareholders' equity under U.S. GAAP | | 2,274,063 | 18,821,278 | 18,481,709 |
| | | <u> </u> | <u> </u> | <u> </u> |

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CORPORATE INFORMATION

1. Name of the Company in Chinese:

Short Name in Chinese:

Name of the Company in English: Sinopec Shanghai Petrochemical Company Limited

Short Name in English: SPC

2. Stock Exchange Listings, Stock Name and Stock Code

| Types of Shares | Place of Listing | Stock Abbreviation | Stock Code |
|-----------------|------------------|--------------------|------------|
| A Shares | Shanghai | | 600688 |
| H Shares | Hong Kong | | 338 |
| ADR | New York | SHI | |

3 Registered Office: 48 Jinyi Road, Jinshan District, Shanghai, People's Republic of China

General Office: 48 Jinyi Road, Jinshan District, Shanghai, People's Republic of China

Postal Code: 200540

Company Website: <http://www.spc.com.cn>

Email Address: spc@spc.com.cn

4. Authorised Representative: Rong Guangdao

5. Company Secretary: Zhang Jingming

Telephone: (8621) 5794 3143 / 5237 7880

Fax: (8621) 5794 0050 / 5237 5091

Email Address: spc@spc.com.cn

Address: 48 Jinyi Road, Jinshan District, Shanghai, People's Republic of China

Securities representative to the Board of Directors: Tang Weizhong

Telephone: (8621) 5237 7880

Fax: (8621) 5237 5091

E-mail: tom@spc.com.cn

Address: Suite B, 28/F, Huamin Empire Plaza, 728 West Yan'an Road, Shanghai 200050, P.R.China

6. Newspapers for announcements:

Shanghai Securities News, China Securities Journal, South China Morning Post and Hong Kong Commercial Daily (In case of any discrepancy between the Chinese and the English versions, the Chinese version should prevail.) Website for the Company's periodical report: www.sse.com.cn

Place for Access to the Company's periodical report: 48 Jinyi Road, Jinshan District, Shanghai, People's Republic of China

7. Date of the Company's Initial Registration: 29 June 1993

Initial Registered Office: Jinshanwei, Jinshan District, Shanghai, People's Republic of China

Date of Change of the Company's Name and

Legal Address: 12 October 2000

Change of Legal Address: 48 Jinyi Road, Jinshan District, Shanghai, People's Republic of China

SAIC Registration Number: 3100001002263

Tax Registration Number: 310043132212291