

**SHENZHEN PETROCHEMICAL INDUSTRY (GROUP) CO., LTD**  
(Incorporated in the People's Republic of China)  
**2001 INTERIM REPORT**

***Important:***

The Board of Directors of Shenzhen Petrochemical Industry (Group) Co., Ltd. (hereinafter referred to as the Company) individually and collectively accept responsibility for the correctness, accuracy and completeness of the contents of this report and confirm that there are no important omissions, fictitious information and misleading statement in this report. The interim financial report of the Company is un-audited.

**I. Company Profile**

1. Legal Name in Chinese: 深圳石化工业集团股份有限公司  
Short Form of the Stock (A-share): Shen Shihua A      Stock Code (A-share): 0013  
Short Form of the Stock (B-share): Shen Shihua B      Stock Code (B-share): 2013  
Legal Name in English: Shenzhen Petrochemical Industry (Group) Co., LTD.  
(Abbr. in English: SPEC)
2. Registered Address and Office Address: SPEC Building, Hongli West Road, Shenzhen  
Post Code: 518028  
E-mail: spec0013@spec.com.cn
3. Legal Representative: Mr. Ding Fuyi
4. Secretary of the Company: Mr. Cai Jianping  
Tel: (86) 755-3344355  
Fax: (86) 755-3324057  
E-mail: caijp@spec.com.cn  
Liaison Address: SPEC Building, Hongli West Road, Shenzhen
5. Place Where the Annual Report is Prepared and Placed:  
Secretariat of the Board of Directors of the Company
6. Stock Exchange Listed with: Shenzhen Stock Exchange
7. Media for Disclosing the Information of the Company:  
Internet Web Site: <http://www.cninfo.com.cn>  
Newspapers: Securities Times and Ta Kung Pao
8. Business scope: The Company is mainly engaged in the development and sale of chemical new materials, fine chemicals, bio-engineer, chemical fiber, plastics processing and relevant products; development of hi-tech products; investment and initiation of industrial and import and export.

**II. Major Accounting Data and Financial Indexes**  
**(Calculated according to the IAS)**

Year	(RMB'000)	
	June 30, 2001	June 30, 2000
Turnover	486,129	401,536
Gross Profit	88,581	67,800
Profit from operating activities	16,049	31,079
Share of profit of associated companies	7,291	8,261
Profit before taxes	17,428	30,849
Profit attributable to shareholders	3,599	18,314
Basic earnings (loss) per share (RMB)	0.012	0.06
	June 30, 2001	Dec.31, 2000
Total assets	2,688,577	2,328,420
Shareholders' Equity	571,282	567,685
Net assets per share (RMB)	1.88	1.87
Net assets-income ratio (%)	0.63	3.23

Impact of IAS Adjustments on the Profit (Unit: RMB '000)

As reported consolidated audited statutory	
Financial statements under PRC accounting standards	25,955
IAS and adjustments	
Provision for devaluation of fixed assets	(20,367)
Loss on disposal of staff quarters	(1,989)
As reported after IAS adjustment	3,599

### III. Change in share capital and Particulars about shareholdings of major Shareholders

#### (I) Change in share capital

##### Statement of change in share capital

(Unit: '000)

Items	Amount at beginning of the period	Increase / decrease in this change (+/-)					Amount at end of the period
		Allotted share	Bonus share	Shares capital transferred from public reserve	Additional	Others	
I. Unlisted shares	219,271						219,271
1. Promoters' shares	164,546.6						164,546.6
Including:							
State-owned shares	164,546.6						164,546.6
Domestic juristic person's shares							
Foreign juristic person's shares							
Others							
2. Raised juristic person's shares	54,724.4						54,724.4
3. Employee's shares							
4. Preference shares or others							
Total of unlisted shares	219,271						219,271
II. Listed shares							
1. RMB ordinary shares	51,324						51,324
2. Domestically listed foreign shares	32,760						32,760
3. Oversea listed foreign shares							
4. Others							
Total of listed shares	84,084						84,084
III. Total shares	303,355						303,355

#### (II) Status of shareholdings of major shareholders

##### 1. Status of shareholdings of major shareholders

Name of Shareholders	Number of Shares	Percentage of total share capital	Style
Shenzhen Petrochemical Corp.	164,546,553	54.24%	State-owned share
China Ping An Insurance Co., Ltd.	23,400,000	7.71%	Juristic person's share
China Communication Securities Co., Ltd.	19,380,532	6.39%	Juristic person's share
Shenzhen Jingye Plastics Co., Ltd.	2,208,772	0.73%	Juristic person's share
China Baoan Group Co., Ltd.	1,560,000	0.51%	Juristic person's share
Shenzhen Silverland Investment Co., Ltd.	1,560,000	0.51%	Juristic person's share
Everbright Bank of China, Shenzhen Securities Dept.	1,484,936	0.49%	Juristic person's share
China Prime Investment Management Co., Ltd.	936,000	0.31%	Juristic person's share
Xinhua Trust Company	780,000	0.26%	Juristic person's share
NanHai Eastern Petrochemical Economic and technology Development Corp.	780,000	0.26%	Juristic person's share

##### 2. Notes to shareholdings of the top ten shareholders:

There exists no relationship among the top ten shareholders of the Company.

## **. Business Review and Plan**

### ( ) Business Highlights in the Report Period

#### 1. Business scope and the operation

The Company is mainly engaged in research and development, production and operation of chemical new materials, fine chemicals, chemical fibers, plastics processing and bio-pharmaceutical.

#### Operation of major industrial business:

In the report period, the Company maintained a positive trend of persist, healthy and stable development in its main industrial subsidiaries after overcoming the difficulties including declining price of main products and shortage in revolving capital, etc through expanding their production scale, improving the product quality and exploiting market hardly.

Mainly manufacturing PVC sheet, Shenzhen SPEC Plastics Group Co., Ltd. produced 22 thousand tons of PVC products, a growth of 16% over the same period of previous year. Noticeably, production and sales of pipes and fittings of the company made great progress due to the increasing perfection on auxiliary services and actively exploit on the market. Shenzhen SPEC Fiber Co., Ltd. maintained its production level of polypropylene yarn even under the situation of declining price and sluggish demand in the market through minimizing cost and deploying potential. Shenzhen SPEC Donghong Laminating and Coating Fibers Co., Ltd. overcame various technical difficulties, production technology and technique of which became more mature after over one-year-operation. It adopted the computerized color matching system to improve the product quality and eligibility. In the report period, it produced totally 7 million yards chemical fiber fabric. Shenzhen SPEC Beauty Star Hotas Plastics Co., Ltd., mainly manufacturing packaging materials for high-grade cosmetics, produced totally 77.8 million pieces of packaging materials for high-grade cosmetics in the report period. Shenzhen SPEC Fine Chemical Co., Ltd. took significant measures in the report period, including technique innovation, adopting nanometer materials and realizing raw materials made in China, to improve the quality and characteristics of its products and reduce the cost. In the report period, the company produced totally 1,630 tons of fine chemicals represented by high-temperature organic silicone rubber. Principally producing Bio-pharmaceuticals, Shenzhen SPEC Bio-pharmaceutical Industry Co., Ltd. has achieved production license for EPO medicines and entered into production while actively exploiting the market at present.

#### 2. Other business impacts on the Company's profit

In the report period, there is no other business impacts on the Company's profit.

### (II) Investment

In the report period, the Company invested in no new project, except for the continual investment in technical renovation project carried out by subsidiaries.

### (III) Plan for the second half-year

1. To reform the traditional industry with advanced technology based on the market; improve the Company's technique standards; increase the production of goods with high added-value, improve quality, reduce cost and enhance efficiency so as to assure the long-term development of the industrial subsidiaries.
2. To assure the healthy operation of the Company, take effective measures to reclaim

the due account, reduce inventories, expedite capital revolving, and assure the timely supply of raw materials under the situation of industrial enterprises' increasing production and sales scale along with large amount of capital needed.

3. To further carry out the Company's assets reorganization with its controlling shareholder, Shenzhen Petrochemical Corporation, work hard to solve the problem from related transaction with the controlling shareholder (accounts due from the controlling shareholder); release the financial burden and reduce financial risks.
4. To attach great emphasis on the construction of existing projects (expanding production of Chemical fiber fabric, enlarging construction of Beauty Star and new project of bio-pharmaceuticals); strive for earlier production and cultivate new economic development point.

## **V. Significant Events**

### **(I) Preplan of interim profit distribution and capitalization of the capital public reserve:**

The Company shall conduct neither profit distribution nor capitalization of public reserve.

### **(II) Plan of profit distribution and capitalization of the capital public reserve in the previous year and the implementation:**

The Company conducted no neither profit distribution nor capitalization of public reserve in the previous year.

### **(III) Important Lawsuit and Arbitration Events**

1. The important lawsuit and arbitration events happened in the report period are as follows:
  - A. Buji sub-branch, Shenzhen Branch, Bank of China proceeded a lawsuit against China Baoan Group Co., Ltd. and the Company responsible for the joint duty concerning loan guarantee with RMB 9 million. No ruling was carried out so far.
  - B. Shangbu branch, Shenzhen Development Bank proceeded a lawsuit against the Company concerning borrows with HKD 4 million. No ruling was carried out so far.
  - C. Luohu branch, China Merchants Bank and Tianbei branch, Commercial Bank of China proceeded a lawsuit against Shenzhen Sunlight Industrial Co., Ltd. and the Company responsible for the joint duty concerning loan guarantee with RMB 6 million and RMB 2.95 million respectively. No ruling was carried out so far.
  - D. Guomao branch and Renminbei Branch of Agricultural Bank of China proceeded a lawsuit against Shenzhen Shun Kong Industrial & Trading Co. and the Company responsible for the joint duty concerning loan guarantee with RMB 9 million, HKD 1.5 million and RMB 3.5 million respectively. No ruling was carried out so far.
  - E. Shatoujiao branch, Shenzhen Development Bank proceeded a lawsuit against Shenzhen Lionda Holdings Co., Ltd. and the Company responsible for the joint duty concerning loan guarantee with RMB 8 million. No ruling was carried out so far.

- F. China Great Wall Management Company proceeded a lawsuit against Shenzhen Haipeng Import & Export Co., Ltd. and the Company responsible for the joint duty concerning loan guarantee with RMB 10.4 million. No ruling was carried out so far.
2. Progress of or judgment on lawsuit or arbitration disclosed in 2000 Annual Report without final judgment at that time and the relevant impact:
- A. Shenzhen Luohu branch, Commercial and Industrial Bank of China proceeded a lawsuit against Gintian Industrial (Group) Co., Ltd. and the Company responsible for the joint duty concerning loan guarantee with RMB 26.9 million. Shenzhen Superior People's Court made the judgment that the Company had the joint liability for satisfaction.
- B. Zhongdian branch, Shenzhen Development Bank proceeded a lawsuit against Shenzhen Shengang Industrial and Commercial Import and Export Co., Ltd. and the Company responsible for joint duty concerning loan guarantee with RMB 10 million. Shenzhen Superior People's Court made the judgment that the Company had the joint liability for satisfaction.

( ) Significant Related Transactions

The Company has relation with its associated companies (including subsidiaries excluded in the consolidation) in aspects of equity, liabilities and guarantee. The reasons of the relation and the impact are as follows:

In the report period, the Company have RMB 1.274 billion due from its controlling shareholder, Shenzhen Petrochemical Corporation; provided guarantees for loan amounting to USD 3 million and RMB 244 million respectively for its controlling shareholder and other associated companies. The said receivable accounts and guarantee were happened before and in the period of the strategic reorganization of the Company with its controlling shareholder. (For details, please refer to the Company's 1999 annual report and 2000 annual report).

The said issue increased the financial risk to the Company. If not settled timely, they are likely to bring the financial crisis to the Company and impact the normal operation

(V) Three separations between the Company and its controlling shareholder in terms of personnel, assets and finance

1. The Company is independent in aspects of labor, personnel and salary management. Only the chairman of the Board of the Company is the same person as the chairman of the Board of the controlling shareholder, other senior executives including general manager and deputy general manager or accounting personnel do not take concurrent position in the controlling shareholder or associated companies.
2. The Company is independent in assets. The Company and its subsidiaries have independent production system, supply system and sales system. There is no

competition between the Company and its shareholder on production or sales of same products in the same line.

3. The Company established independent financial dept., independent auditing system, standardized and independent accounting regulations and management system over the Company's subsidiaries' finance.

(VI) In the report period, the Company has never been involved in such events as keeping as custodian, contracting or leasing any other company's assets and vice versa.

(VII) In the report period, the Company have no new external guarantees, besides providing the extended guarantee to the original guaranteed companies for the renew borrowings. Ended the report period, the Company provided guarantee for bank loan totaling RMB 1.67 billion, including RMB 947 million for external companies (mutual guarantee); RMB 24.9 million for the controlling shareholder; RMB 250 million for associated companies; RMB 244 million for related companies; RMB 207 million for its subsidiaries. Comparing to that at the end of 2000, the total of loan guarantee provided by the Company in the report period was decreased by RMB 200 million, the reason of which was that debtors failed to repay the loan and the Court judged the Company with joint liabilities to repay the debts. On the base of relevant regulations of the Ministry of Finance, the Company calculated the possible losses from the lawsuit cases into the accrued liabilities, and the contingent liabilities was reduced accordingly.

(VIII) In the report period, name of the Company and the short form of stock remained unchanged.

(IX) Neither the Company nor its shareholder with over 5% equity made committeemen on the designated newspapers or websites.

(X) Event after the report period

Since the original Chairman of the Board, Mr. Chen Yongqing reached his retirement age, he no longer took the positions as director and chairman of the Board of the Company. Mr. Ding Fuyi was elected to be the chairman of the Board (legal representative) in the Board meeting held on July 28, 2001.

### **. Financial Report**

The Company's interim financial report (attached) was un-audited.

**. Documents for Reference**

- ( ) Interim Report carried with the signature of the Chairman of the Board;
  
- ( ) Financial Statements carried with the personal signature and seals of legal representative and the person in charge of the financial affairs;
  
- ( ) All the originals documents and public notices of the Company disclosed in the newspapers designated by China Securities Regulatory Commission in the report period.
  
- ( ) Articles of Association of the Company.

**Board of the Directors of  
Shenzhen Petrochemical Industry (Group) Co., Ltd.**

August 18, 2001



**Shenzhen Petrochemical Industry (Group) Co., Ltd.**  
**(Incorporated in the People's Republic of China)**

**Consolidated Statement of Income**

Ended June 30, 2001

	<u>June 30, 2001</u>	<u>June 30, 2000</u>
	RMB '000	RMB '000
Turnover	486,129	401,536
Cost of sales	(397,548)	(333,736)
Gross profit	88,581	67,800
Other revenue	5,160	5,003
Distribution Costs	(16,566)	(11,509)
Administrative expenses	(38,833)	(29,819)
Other operating expenses	(22,293)	(396)
Profit from operating activities	16,049	31,079
Financial costs	(5,912)	(8,491)
Share of profits in associated companies	7,291	8,261
Recovery of provision for loss on investment (provision)	0	0
Profit before taxation	17,428	30,849
Taxation	(3,753)	(2,857)
Profit before minority interests	13,675	27,992
Minority interests	(10,076)	(9,678)
Profit attributable to Shareholders	3,599	18,314
Retained profits at beginning of year	(60,908)	(97,973)
Profit available for appropriations	(57,309)	(79,659)
Appropriations:		
Transfers to Reserve	35,113	
Dividends		
Issue of Bonus share		
Retained profits	(22,196)	(79,659)
Earnings per share ( loss ) - basic	RMB 0.012	RMB 0.060

\* There is no other profit or loss unrecognized in the financial report.

**Consolidated Balance Sheet**

Ended June 30, 2001

	<u>June 30, 2001</u>	<u>Dec. 31, 2000</u>
	RMB '000	RMB '000
Assets		
Non-current assets		
Fixed assets	385,894	398,237
Deferred expenditures	327	3,273
Investments in unconsolidated subsidiaries	53,000	53,000
Interests in associated companies	36,804	38,888
Other investments	33,591	35,622
	<u>509,616</u>	<u>529,020</u>
Current assets:		
Cash and Bank balances	101,192	83,912
Short term investments	5,537	3,789
Inventories	157,970	142,008
Accounts receivable, other receivable and prepayments	1,914,262	1,569,691
	<u>2,178,961</u>	<u>1,799,400</u>
Current liabilities:		
Accounts payable and other payables	674,804	357,422
Tax payable	4,512	6,724
Staff Bonus and Welfare Fund	3,254	2,615
Bank loan due within one year	1,105,516	1,072,617
	<u>1,788,086</u>	<u>1,439,378</u>
Net Current assets (Liabilities)	<u>390,875</u>	<u>360,022</u>
Total assets less current liabilities	<u>900,491</u>	<u>889,042</u>
Long-term bank loans	164,578	165,578
Long-term payables	6,041	5,241
Minority interests	158,590	150,538
Net assets	<u>571,282</u>	<u>567,685</u>
Equity		
Share capital	303,355	303,355
Reserves	267,927	264,330
Shareholders' equity	<u>571,282</u>	<u>567,685</u>

**Consolidated Cash flow**  
 Ended June 30, 2001

	June 30, 2001
	RMB '000
Cash flow from operating activities	
Operating Profit	3,599
Adjustments items:	
Profit attributable to minority shareholders	10,076
Accumulated depreciation	13,005
Amortization of deferred assets	1,779
Losses on disposal of fixed assets	(209)
Interest received	(49,262)
Interest paid	53,837
Exchange loss ( gain )	798
Share of profits of associated companies and companies	
Transferred in restructuring	(7,428)
Provision for Long-term investment	0
Increase (decrease) in inventory	(15,963)
Decrease (increase) in accounts receivable	(94,068)
Decrease (increase) in accounts payable	80,073
Provision for inventories (recovery of provision)	
Others	36,167
Net Cash inflow from operating activities	32,404
Income tax paid	(5,778)
Returns on investments and servicing of finance	
Interest received	12,133
Interest paid	(9,603)
Dividend received	2,539
Total Cash outflow from return on investments and servicing of finance	5,069
Investment activities	
Purchases of fixed assets	(16,242)
Proceeds from disposal of fixed assets	209
Increase in cash from return of investments	6,906
Cash paid of acquire equity investment	(2,008)
Cash equivalents in unconsolidated subsidiaries at beginning of year	(13,035)
Investment in future contracts	(356)
Net cash inflows from investment activities	(24,526)
Net cash inflows before financing activities	7,169

**Consolidated Statement of Cash Flows ( continued )**  
 Ended June 30, 2001

	<u>June 30, 2001</u>
	RMB '000
Financing activities	
Proceeds form new bank loans	155,614
Repayment of bank loans	(142,441)
Repayment of financial lease commitments	(780)
Proceeds from new Long-term bank loans	
Repayment of other long-term payables	(200)
Increase in minority shareholders' investment	1,450
Dividend paid minority shareholder	(1,322)
Other payment relating to financing activities	(195)
Payment of financing expenses	(268)
	<hr/>
Net cash outflows arising from financing activities	11,858
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Increase in cash and cash equivalents ( decrease )	19,027
Cash and cash equivalents at beginning of the report period	87,701
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Cash and cash equivalents at end of the report period	106,728
	=====
Analysis of cash and cash equivalents	
Monetary fund	101,192
Securities investment	5,536
	<hr/>
	106,728
	=====