

1. Material litigation or arbitration

The Company was not involved in any material litigation or arbitration in 2006.

2. Company's purchase or disposal of assets, or merger or acquisition during the Reporting Period

(a) Disposal of assets

- (i) The Company transferred to its controlling shareholder Sinopec Corp. the 81.97% equity interests in Shanghai Jin Hua Industrial Company Limited, which is owned by the Company's subsidiary Shanghai Petrochemical Investment Development Company Limited. The relevant announcement was published in "China Securities Journal", "Shanghai Securities News", "South China Morning Post" and "Hong Kong Commercial Daily" on 25 January 2006.
- (ii) The Company and its subsidiary have entered into equity transfer agreements with Sinopec Finance Company Limited, respectively to transfer their respective equity interests in China Everbright Bank or Bank of Shanghai to Sinopec Finance Company Limited. The relevant announcement was published in "China Securities Journal", "Shanghai Securities News", "South China Morning Post" and "Hong Kong Commercial Daily" on 8 December 2006. For details, please refer to the section of "Company's major connected transactions during the Reporting Period".

(b) After the publication of the asset restructuring report or the announcement relating to the asset acquisition and disposal, the progress of the relevant matter and its impact on the operation and financial status during the Reporting Period

- (i) After the publication of the announcement relating to the asset disposal, the consideration amount of RMB61,600,400 in respect of the transfer of Shanghai Jin Hua Industrial Company Limited has been credited to the Company and booked as an investment gain of RMB24,307,945 for the year. To date, a number of actions in respect of the transfer of asset rights have not been completed pending approval from the State-owned Assets Supervision Commission of the State Council.
- (ii) After the publication of the announcement relating to the asset disposal, the equity transaction in respect of the transfer of China Everbright Bank and Bank of Shanghai were completed. The equity transfer consideration amount was RMB81,723,400 which will be transferred upon the approval of the relevant information by China Banking Regulatory Commission.

3. Company's major connected transactions during the Reporting Period

(a) Connected transactions in relation to routine operations

The purchases by the Company of crude oil-related materials from and sales of petroleum products by the Company to Sinopec Corp. and its associates were conducted in accordance with the State's relevant policy and applicable State tariffs or State guidance prices. As long as the State does not lift its control over purchases of crude oil, sales of petroleum products and pricing thereof, such connected transactions will continue to happen. The Company sells petrochemicals to Sinopec Corp. and its associates and Sinopec and its associates act as an agency for the sale of petrochemicals in order to reduce the Company's inventories, expand its trading, distribution and sales networks and improve our bargaining power with our customers. The Company accepts transportation, design, construction and installation, insurance agency and financial services from Sinopec and its associates in order to secure steady and reliable services at reasonable prices.

The prices of the on-going connected transactions conducted by the Company with Sinopec, Sinopec Corp. or their associates were determined, upon negotiations between both parties, on the basis of (1) State tariffs; or (2) State guidance prices; or (3) market prices. Such connected transactions were entered into in line with the Company's production and operation needs. Hence, the aforesaid on-going connected transactions did not have a major impact on the independence of the Company.

During the Reporting Period, pursuant to the Sales and Purchases Framework Agreement entered into with Sinopec Corp., the Company purchased raw materials from, and sold petroleum products and petrochemicals to, Sinopec Corp. and its associates. Pursuant to the Comprehensive Services Framework Agreement entered into with Sinopec, the Company accepted transportation, design, construction and installation, insurance agency and financial services provided by Sinopec and its associates. The relevant connected transactions were conducted in accordance with the terms of the Sales and Purchases Framework Agreement and the Comprehensive Services Framework Agreement. The transaction amount of the relevant connected transactions did not exceed the caps of the on-going connected transactions approved at the 2005 extraordinary general meeting and the 2005 second extraordinary general meeting.

During the Reporting Period, pursuant to the "Petrochemical Products Agency Sales Contract Agreement" entered into with Sinopec Corp. on 25 August 2005, the Company appointed Sinopec Corp. as a non-exclusive sales agent for the sales of synthetic resins, synthetic fibres, synthetic fibre monomers and polymers, organic petrochemical products and by-products from ethylene cracking and aromatic plants and other substandard products related to the above five products.

The Company believes that the purchase of goods from the above connected parties will ensure a steady and secure supply of raw materials, and that the sales to the above connected parties will ensure that the Group's important sales channels and sales volume can be maintained such that they are beneficial to the Group. The aforesaid connected transactions were priced at market prices. The installation fees were paid to Sinopec in strictly compliance with the respective contracts. The aforesaid connected transactions did not have an adverse impact on the profit of the Company.

Major connected transactions involving purchase of goods and provision of labour services

Type of transactions	Related parties	Amount RMB'000	Percentage of the total amount for this type of transaction (%)
Income from sale of products and services	Sinopec Huadong Sales Company	15,842,808	31.38
	Other fellow subsidiaries	4,330,298	8.58
Purchases	Sinopec Transport and Storage Comopany	24,992,620	50.80
	China International United Petroleum & Chemicals Co., Ltd.	6,230,910	12.66
Installation fees	Sinopec and its subsidiaries	194,958	49.37
Transportation costs	Sinopec Transport and Storage Company	316,326	69.75
	Others	28,602	6.31

This includes: an amount of RMB20,173,106,000 for the connected transactions in respect of the sale of products or the provision of labor services to the controlling shareholder and its subsidiaries by the listed company during the Reporting Period.

(b) Major connected transactions relating to transfer of assets and equity interests

The Company has transferred to Sinopec Corp. a 81.97% equity interest owned by the Company's wholly owned subsidiary Shanghai Petrochemical Investment Development Company Limited in Shanghai Jin Hua Industrial Company Limited for a consideration of RMB61,600,400. The relevant transfer agreement was entered on 8 February 2006. The transaction generated a gain of RMB24,307,946. The pricing principle was determined on the basis of a valuation report prepared by a qualified asset valuer independent of the Company and Sinopec Corp. and upon arm's length negotiations between the parties. On the asset disposal date, the book value of the assets was RMB37,292,454, while the appraised value of the assets was RMB53,600,422 as at 31 March 2005. Details of the transaction were published in China Securities Journal, Shanghai Securities News, South China Morning Post and Hong Kong Commercial Daily on 25 January 2006.

The Company and its subsidiaries have respectively entered into equity transfer agreements with Sinopec Finance Co., Ltd to transfer their respective equity interests in China Everbright Bank or Bank of Shanghai to Sinopec Finance Co., Ltd. The considerations for the China Everbright Bank transfer and Bank of Shanghai transfer were RMB66,993,800 and RMB14,729,600, respectively. The relevant transfer agreements were entered into on 7 December 2006. As at the asset appraisal date, the book value of the equity interests held by the repective parties in China Everbright Bank and Bank of Shanghai totaled RMB55,449,641. The transaction generated a gain of RMB26,228,500. The transaction was completed by way of a bidding process on the China Beijing Equity Exchange. The relevant announcement relating to the connected transaction was published in China Securities Journal, Shanghai Securities News, South China Morning Post and Hong Kong Commercial Daily on 8 December 2006.

(c) Connected creditor's rights and liabilities

Connected party	Connected relationship	Funds provided to connected parties		Funds provided by connected parties to listed company	
		Net transaction RMB'000	Balance RMB'000	Net transaction RMB'000	Balance RMB'000
Sinopec Corp.	Controlling shareholder	82,000	-	5,276	-
Holdings company and other subsidiaries of Sinopec Corp.	Under the same controlling shareholder	79,034	85,729*	5,921	35,343
Total		161,034	85,729	11,197	35,343

* Cause of connected creditor's rights and liabilities: As at the end of the period, the balance of funds provided by the Group to connected parties mainly consisted of: the RMB80,000,000 trust loan provided to the Group's associate Shanghai Jinpu Plastics Packaging Material Company Limited, as well as the outstanding receivables arising from the Group's product sales to associates.

(d) Independent non-executive directors of the Company have reviewed the Group's connected transactions and confirmed that:

- such transactions were on-going business of the Company;
- such transactions were conducted according to normal commercial terms; and
- such transactions were conducted according to the relevant agreement terms and were fair and reasonable and to the benefits of the shareholders of the Company as a whole.

4. Trust

The Group did not enter into any trust arrangements during 2006.

5. Sub-contracting

The Group did not enter into any sub-contracting arrangements during 2006.

6. Leasing

The Group did not enter into any leasing arrangements during 2006.

7. Guarantees

The Company's External guarantees(excluding guarantees to subsidiaries with controlling interests)

Guaranteed entities	Date (Agreement signing date)	Guarantee amount (RMB '000)	Type of guarantee	Guarantee period	Guarantee expired	Guarantee for a connected party
Shanghai Jinsen Hydrocarbon Resins Company Limited	23 March 2004	40,000	Bank loan	23 March 2004 - 23 March 2007	No	Yes
Others	11 June 2004 to 21 December 2004	9,750	Bank loan	11 June 2004 - 21 December 2009	No	Yes
						RMB'000
Changes in the amount of guarantees during the Reporting Period (not including those provided for subsidiaries)						(18,550)
Amount of guarantees at the end of the Reporting Period (not including those provided for subsidiaries)						49,750
Guarantees to subsidiaries						
Changes in the amount of guarantees to subsidiaries provided by the Company during the Reporting Period						(130,342)
Amount of guarantees to subsidiaries at the end of the Reporting Period						353,500
Total guarantee amount (including guarantees to subsidiaries)						
Total guarantee amount						403,250
Total guarantee amount as a percentage of net asset value of the Company						2%
of which:						
Amount of guarantee provided for shareholders, the de facto controller or the other connected parties						-
Amount of debt guarantee provided for the companies with liabilities to assets ratio of over 70% directly or indirectly						361,750
Total amount of guarantee is over 50% of the net asset						-
Total guarantee amount of the above three items						361,750

8. Trust financial management

The Company did not enter into any trust financial management during 2006.

9. Other material contracts

There were no other material contracts during 2006.

10. Performance of undertakings

- (a) Neither the Company nor any shareholder holding more than 5% of the total shares has made any undertakings during the Reporting Period.
- (b) Schedules of share reform for companies which have not performed share reform

The Company's share segregation reform proposal has not been approved by circulating A shares shareholders as a result of the disapproval of circulating A shares shareholders toward the reform proposal. At present, holders of non-circulating shares of the Company are studying the relevant issues regarding the share reform of the Company. No specific proposals have been presented for the time being.

11. Appointment and dismissal of accounting firm

During the Reporting Period, the Company did not appoint new accounting firms. KPMG Huazhen and KPMG continued to be the Company's domestic and international auditors, respectively.

12. Disciplinary actions upon the Company and its directors, supervisors, senior management, shareholders and de facto controller

During the Reporting Period, the Company and its directors, supervisors, senior management, shareholders and de facto controller had not been investigated, administratively punished or publicly criticized by the China Securities Regulatory Commission or publicly reprimanded by the stock exchanges.

13. Tax rate

The charge for PRC income tax is currently calculated at the rate of 15% (2005:15%). The Company has not received any notice from the Ministry of Finance to the effect that the 15% tax rate will be changed in 2007.

14. Deposits

The Company did not have any entrusted deposits during the Reporting Period. As at 31 December 2006, the Group did not have any time deposits which could not be collected upon maturity.

15. The Execution of the 2005 Profit Appropriation Plan

The Profit Appropriation Plan for 2005 was approved at the Company's 2005 annual general meeting. A dividend of RMB1.00 (tax included) per 10 shares was distributed to shareholders, based on the total share capital of 7,200,000,000 shares as at the end of 2005. The relevant announcement was published on China Securities Journal, Shanghai Securities News, South China Morning Post and Hong Kong Commercial Daily on 16 June 2006. On 10 July 2006, 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 13 July 2006 and the ex-dividend date was 14 July 2006. The dividend payment date for social public shares of A shares and H shares was 20 July 2006. Such profit appropriation plan was implemented as scheduled.

16. Reserve

Details of changes in reserves are set out in note 27 to the financial statements prepared under IFRS.

17. Financial summary

A summary of the results, total assets, liabilities and shareholders' equity of the Group as at 31 December 2006 are set out on page 4 of this annual report.

18. Bank loans and other borrowings

Details of bank loans and other borrowings of the Company and the Group as at 31 December 2006 are set out in note 32 to the financial statements prepared under IFRS.

19. Interest capitalized

Details of interest capitalized during the year are set out in note 7 to the financial statements prepared under IFRS.

20. Property, plant and equipment

Changes in property, plant and equipment during the year are set out in note 13 to the financial statements prepared under IFRS.

21. Purchase, sale and redemption of shares

During the year, no shares of the Company were purchased, sold or redeemed by the Company or its subsidiaries.

22. Pre-emptive rights

According to the Articles of Associations of the Company and the laws of the PRC, there is no pre-emptive right which requires the Company to offer new shares to existing shareholders of the Company in proportion to their shareholdings.

23. Controlling shareholder

Sinopec Corp. is the controlling shareholder of the Company, holding a 55.56% equity interest or 4,000 million shares.

Sinopec Corp. is the PRC's and Asia's largest company in terms of production, distribution and marketing of gasoline, diesel, jet coal and most of other petroleum products. Sinopec Corp is also the largest producer and distributor of petrochemical products in China and the second largest explorer, developer and producer of crude oil and natural gas in China.

24. Other important events

There were no other important events during the Reporting Period.

25. Internal Control

The Company set up an internal control task force with the President and the Chief Financial Officer as its chief and deputy chief, respectively. As the leading organ of the Company's overall internal control system, the task force is mainly responsible for approving annual amendments to the "Internal Control Manual" and making relevant updates accordingly; reviewing the annual assessment report on internal control; handling and rectifying issues identified during an internal control review; and referring major issues to the Board for consideration and approval.

The 2006 edition of the "Internal Control Manual" was adopted on 1 May upon consideration and approval by the Board. During the year, self-checking and professional checks were conducted over the implementation of all procedures and the effectiveness of control with reference to the "Guideline for Internal Control Checking and Assessment", with investigations, analyses and fixations conducted for problems identified in business procedure implementation. The Company also engaged KPMG to assess the Company's internal control environment.

26. Implementation and impact of the Company's equity incentive scheme

Nil