

Notes to the Financial Statements (continued)

(Prepared under PRC Accounting Rules and Regulations)

9. Long-term equity investments

	The Group						
	Interests in	Equity	Interests in	Other	Total before	Provision	Total
	associates	investment	non-consolidated	unlisted	provision	for impairment	
	(Note(a))	differences	subsidiaries	investments		losses	(Note(f))
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	Balance at 1 January 2006	2,390,803	(261,700)	326,515	395,076	2,850,694	(56,228)
Additions for the year	137,768	-	52,045	385	190,198	-	190,198
Share of profits less losses from investments accounted for under the equity method	564,930	-	-	-	564,930	-	564,930
Dividend receivable / received	(4,911)	-	-	-	(4,911)	-	(4,911)
Disposals for the year	-	1,700	(103,696)	(128,378)	(230,374)	17,390	(212,984)
Amortisation for the year	-	10,000	-	-	10,000	-	10,000
Balance at 31 December 2006	3,088,590	(250,000)	274,864	267,083	3,380,537	(38,838)	3,341,699

	The Company				
	Interests in	Equity	Interests in	Other	Total
	associates	investment	consolidated	unlisted	
	(Note(a))	differences	subsidiaries	investments	(Note(e))
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
	Balance at 1 January 2006	2,255,052	(261,700)	2,462,897	107,657
Additions for the year	127,991	-	50,211	-	178,202
Share of profits less losses from investments accounted for under the equity method	542,847	-	196,653	-	739,500
Dividend receivable / received	(2,411)	-	(165,853)	-	(168,264)
Disposals for the year	-	1,700	-	(8,147)	(6,447)
Amortisation for the year	-	10,000	-	-	10,000
Balance at 31 December 2006	2,923,479	(250,000)	2,543,908	99,510	5,316,897

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 31 December 2006 are as follows:

Company	Registered capital '000	Percentage of equity		Principal activities
		held by the Company %	held by subsidiaries %	
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 Secco Petrochemical Company Limited	US\$901,441	20	-	Manufacturing and distribution of chemical products
Shanghai Chemical Industry Park Development Company Limited	RMB2,372,439	38.26	-	Planning, development and operation of the Chemical Industry Park in Shanghai, PRC
BOC-SPC Gases Co., Ltd.	US\$32,000	50	-	Production and sales of industrial gases
Shanghai Yamatake Automation Company Limited	US\$3,000	-	40	Service and maintenance of building automation systems and products

- (b) Equity investment difference

Investments	Initial investment RMB'000	Amortisation period	1 January 2006 RMB'000	Disposal during the year RMB'000	31 December 2006 RMB'000	Reason
Shanghai Chemical Industry Park Development Co., Ltd	(300,000)	30 years	(260,000)	10,000	(250,000)	Investment in associate
Shanghai Jindong Petrochemical Industrial Company Limited	(8,492)	10 years	(1,700)	1,700	-	Investment in subsidiary
Total	(308,492)		(261,700)	11,700	(250,000)	

The "equity investment difference" is amortised on a straight-line basis over 10 and 30 years. The remaining period of amortisation of Shanghai Chemical Industry Park Development Co., Ltd. is 25 years.

- (c) Interests in non-consolidated subsidiaries represent the Company's interests in these subsidiaries which do not principally affect the results or assets of the Group and, therefore, are not consolidated.

9. Long-term equity investments (continued)

- (d) The particulars of subsidiaries which principally affected the results or assets of the Group, at 31 December 2006 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
China Jinshan Associated Trading Corporation	RMB 25,000	67.33	-	Import and export of petrochemical products and equipment
Shanghai Jinhua Industrial Company Limited (Note 1)	RMB 25,500	-	81.79	Trading in petrochemical products
Shanghai Jindong Petrochemical Industrial Company Limited (Note 2)	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
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 545,776	-	100	Production of Petrochemical products

None of the above subsidiaries have issued any debt securities.

Note 1 : On 23 January 2006, the Group transferred 81.79% shareholdings in Shanghai Jinhua Industrial Company Limited to Sinopec. The assets and liabilities of Shanghai Jinhua Industrial Company Limited have no material effect on the financial position of the Group.

Note 2: On 31 December 2006, Shanghai Jindong Petrochemical Industrial Company Limited ("Jindong Company") has completed liquidation. Its liquidation loss has been recognised in the Group's consolidated income statement for the year ended 31 December 2006 and included in the Group's consolidated balance sheet as at 31 December 2006. The assets and liabilities of Jindong Company have no material effect on the financial position of the Group.

Notes to the Financial Statements (continued)

(Prepared under PRC Accounting Rules and Regulations)

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 year ended 31 December 2006 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 is analysed as follows:

	The Group	
	2006 RMB'000	2005 RMB'000
Balance at 1 January	56,228	61,750
Transfer out due to sales	(17,390)	(5,522)
Balance at 31 December	38,838	56,228

(g) Major investment changes

At 31 December 2006, 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 2006	Addition for the year	Share of profits/(losses) accounted for under the equity method	Amortisation of equity investment differences	Dividends received/receivable	Balance at 31 December 2006	
								RMB'000	RMB'000
Shanghai Chemical Industry Park Development Company Limited	Unspecified expiration date	38%	658,477	-	(4,622)	10,000	(2,411)	661,444	
Shanghai Secco Petrochemical Company Limited	50 years	20%	1,336,574	-	545,194	-	-	1,881,768	
Shanghai Jinpu Plastics Packaging Material Company Limited	30 years	50%	89,132	-	3,762	-	(2,500)	90,394	
Shanghai Jinsen Petrochemical Company Limited	40 years	40%	46,620	-	5,057	-	-	51,677	
BOC-SPC Gases Co., Ltd.	30 years	50%	-	127,992	2,275	-	-	130,267	

9. Long-term equity investments (continued)

(g) Major investment changes (continued)

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

(h) At 31 December 2006, the Company's proportion of the total investments to the net assets was 27.59% (2005: 23.81%).

At 31 December 2006, the Group's proportion of the total investments to the net assets was 17.34% (2005: 14.58%).

10. Fixed assets

(a) The Group

	Land and buildings RMB'000	Plant, machinery, equipment and other fixed assets RMB'000	Total RMB'000
Cost or valuation:			
At 1 January 2006	6,882,092	26,995,483	33,877,575
Additions	41,376	147,671	189,047
Transferred from construction in progress (Note 11)	128,200	469,521	597,721
Disposals	(112,656)	(812,928)	(925,584)
At 31 December 2006	6,939,012	26,799,747	33,738,759
Accumulated depreciation:			
At 1 January 2006	3,136,927	14,619,829	17,756,756
Charge for the year	209,748	1,665,382	1,875,130
Written back on disposals	(40,104)	(574,762)	(614,866)
At 31 December 2006	3,306,571	15,710,449	19,017,020
Less : Provision for impairment losses:			
At 1 January 2006	-	58,945	58,945
Charge for the year	-	50,000	50,000
At 31 December 2006	-	108,945	108,945
Net book value:			
At 31 December 2006	3,632,441	10,980,353	14,612,794
At 31 December 2005	3,745,165	12,316,709	16,061,874

10. Fixed assets (continued)

(b) The Company

	Land and buildings RMB'000	Plant, machinery, equipment and other fixed assets RMB'000	Total RMB'000
Cost or valuation:			
At 1 January 2006	5,659,954	24,305,735	29,965,689
Additions	23,338	16,738	40,076
Transferred from construction in progress (Note 11)	125,445	409,236	534,681
Disposals	(64,445)	(617,381)	(681,826)
At 31 December 2006	5,744,292	24,114,328	29,858,620
Accumulated depreciation:			
At 1 January 2006	2,712,745	13,063,017	15,775,762
Charge for the year	169,775	1,393,084	1,562,859
Written back on disposals	(16,460)	(393,656)	(410,116)
At 31 December 2006	2,866,060	14,062,445	16,928,505
Less : Provision for impairment losses:			
At 1 January 2006	-	58,945	58,945
Charge for the year	-	50,000	50,000
At 31 December 2006	-	108,945	108,945
Net book value:			
At 31 December 2006	2,878,232	9,942,938	12,821,170
At 31 December 2005	2,947,209	11,183,773	14,130,982

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

- (c) Due to change in market demand, the product specifications and economic efficiency of the production facilities of 1&2# polypropylene fibre and compound fibre cannot meet the market needs. On 31 December 2006, the Company has made a provision for impairment losses of RMB 50,000,000 for this production facility. In addition, the Company made a provision for impairment losses of RMB58,945,000 for HMLS filaments facility and dupont for the year ended 2004. The management of the Group reviewed the fixed assets as at 31 December 2006 and no significant impairment loss needed to be made.
- (d) At 31 December 2006, the cost of the Group's fully depreciated fixed assets was RMB 7,475,195,900 (2005: RMB 6,586,187,754).
- (e) At 31 December 2006 and 2005, no property, plant and equipment were pledged by the Group.

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(Prepared under PRC Accounting Rules and Regulations)

11. Construction in progress

	The Group		The Company	
	2006 RMB'000	2005 RMB'000	2006 RMB'000	2005 RMB'000
Balance at 1 January	754,192	763,450	710,268	708,089
Additions	1,816,422	1,006,490	1,793,565	966,281
Capitalised interest	27,426	-	27,426	-
Transferred to fixed assets (Note 10)	(597,721)	(1,015,748)	(534,681)	(964,102)
Balance at 31 December	1,972,893	754,192	1,969,152	710,268

At 31 December 2006, major projects of the Group are as follows:

Project	Budgeted amounts RMB'000	At 1 January		Transfer to fixed assets RMB'000	At 31 December 2006 RMB'000	Stage of completion	Interest capitalised during the year RMB'000
		2006 RMB'000	Addition RMB'000				
380,000-tonnes Ethylene glycol project	1,249,000	181,166	754,993	-	936,159	75%	18,196
Enhanced project on diesel productions facilities	528,000	107,552	333,183	-	440,735	83%	9,230
6# power plant expansion project	672,692	-	60,304	-	60,304	9%	-
Smoke deviation sulphur project	119,970	-	49,474	-	49,474	41%	-

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

The borrowing costs during 2006 have been capitalised at a rate of 5.47% per annum (2005: Nil) by the Group.

12. Intangible assets

	The Group and the Company	
	2006 RMB'000	2005 RMB'000
Cost:		
At 1 January	134,482	134,482
Less:		
Accumulated amortisation		
At 1 January	125,515	112,067
Addition	8,967	13,448
At 31 December	134,482	125,515
Net book value:		
At 31 December	-	8,967

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 accounts. Such equity investment difference is amortised over 10 years which was the then 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 is no investment in subsidiary after the deregistration of Jinyang, the unamortised amount of the equity investment difference was transferred to intangible assets and will be amortised over its remaining useful life.

13. Long-term deferred expenses

Long-term deferred expenses mainly represent the catalysts expenditure with beneficial periods of over 1 year.

Notes to the Financial Statements (continued)

(Prepared under PRC Accounting Rules and Regulations)

14. Taxation

(a) Taxation in the income statement represents:

	The Group		The Company	
	2006	2005	2006	2005
	RMB'000	RMB'000	RMB'000	RMB'000
Provision for PRC income tax for the year	55,419	340,532	4,497	291,210
Deferred taxation	(8,245)	21,204	(8,245)	19,916
Over accrual income tax from prior year	(6,911)	-	(6,911)	-
	40,263	361,736	(10,659)	311,126

Pursuant to the document "Cai Shui Zi (1994) No.17" issued by the MOF and the State Administration of Taxation of the PRC on 18 April 1994, the income tax rate of the Company is 15%. Up to the date of approval of these financial statements, the Company has not received notice from Ministry of Finance that the 15% tax rate will be revoked in 2006. Therefore, the Company continues to use the 15% tax rate in 2006. It is possible that the Company's tax rate will increase in the future. Other details are disclosed in Note 37.

The Group did not carry out business overseas, and therefore does not incur overseas income tax.

(b) Taxes payable in the balance sheet represents:

	The Group		The Company	
	2006	2005	2006	2005
	RMB'000	RMB'000	RMB'000	RMB'000
Income tax	34,386	(18,786)	19,754	(45,374)
VAT	160,315	125,720	180,270	111,595
Consumption tax	41,658	52,188	41,658	52,188
Business tax	3,350	2,525	1,814	645
Other taxes	20,680	21,673	18,941	19,122
	260,389	183,320	262,437	138,176

Notes to the Financial Statements (continued)

(Prepared under PRC Accounting Rules and Regulations)

14. Taxation (continued)

(c) Deferred tax assets

	The Group		The Company	
	2006	2005	2006	2005
	RMB'000	RMB'000	RMB'000	RMB'000
At 1 January	20,238	41,442	20,238	40,154
Provision/(reversal) of inventory provisions and bad debts	745	(21,204)	745	(19,916)
Provision for impairment losses of fixed assets	7,500	-	7,500	-
At 31 December	28,483	20,238	28,483	20,238

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

15. Short-term loans

Short-term loans of the Group and the Company include:

	The Group		The Company	
	2006	2005	2006	2005
	RMB'000	RMB'000	RMB'000	RMB'000
Short-term bank loans	1,853,692	2,523,537	1,618,692	2,295,195
Short-term loans with related party (Note 33(g))	-	30,000	-	-
	1,853,692	2,553,537	1,618,692	2,295,195

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 was 5.87% (2005: 4.53%) at 31 December 2006.

As at 31 December 2006 and 31 December 2005, the Group and the Company had no significant overdue short-term loan.

Except for the balances disclosed in note 33(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 significant trade creditors and other payables aged over 3 years.

There is no significant 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.

Except for the balances disclosed in Note 33(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.

Aging analysis of trade creditors is as follows:

	The Group			
	2006		2005	
	Amount RMB'000	Proportion %	Amount RMB'000	Proportion %
Within three months	1,354,878	89.69	905,469	91.63
Between three and six months	115,649	7.65	47,726	4.83
Over six months	40,161	2.66	35,001	3.54
	1,510,688	100.00	988,196	100.00

	The Company			
	2006		2005	
	Amount RMB'000	Proportion %	Amount RMB'000	Proportion %
Within three months	828,871	94.19	550,655	92.27
Between three and six months	16,359	1.86	14,519	2.43
Over six months	34,742	3.95	31,608	5.30
	879,972	100.00	596,782	100.00

17. Dividend payable

Pursuant to the shareholders' approval at the Annual General Meeting on 15 June 2006, a final dividend of RMB 0.10 per share totalling RMB 720,000,000 (2004: RMB 0.20 per share totalling RMB 1,440,000,000) in respect of the year ended 31 December 2005 was approved. During the year ended 31 December 2006, dividend of RMB 720,000,000 was paid to shareholders in respect of the year ended 31 December 2005.

18. Accrued expenses

At 31 December 2006, the Group's and the Company's accrued expenses primarily represented accrued interest expenses of bank loans and short-term debentures payable.

19. Short-term debentures payable

	The Group and the Company	
	2006 RMB'000	2005 RMB'000
Short-term debentures payable		
At 31 December	2,000,000	-

The Company issued 365-day unsecured corporate bonds of face value at RMB 2 billion to corporate investors in the PRC inter-bank debenture market on 11 December 2006. The bonds were issued at 100% of face value, with an effective yield 3.83% per annum, and will mature on 12 December 2007.

20. Long-term loans and current portion of long-term loans

	The Group		The Company	
	2006 RMB'000	2005 RMB'000	2006 RMB'000	2005 RMB'000
Between one and two years	558,820	630,817	423,710	397,112
Between two and three years	475,111	776,328	450,000	741,123
Between three and five years	29,723	50,410	-	-
After five years	-	19,706	-	15,000
	1,063,654	1,477,261	873,710	1,153,235
Current portion of long-term loans	416,645	1,373,205	383,034	1,340,000
	1,480,299	2,850,466	1,256,744	2,493,235