

Notes to the Financial Statements (continued)

(Prepared under PRC Accounting Rules and Regulations)

20. Long-term loans and current portion of long-term loans (continued)

Long-term loans are analysed as follows:

Repayment terms and final maturity	Interest type	Interest rate at 31 December 2006	Original currency '000	2006 Exchange rate	The Group		The Company	
					2006 RMB'000	2005 RMB'000	2006 RMB'000	2005 RMB'000
Arranged by Central Treasury of the Company								
U.S. Dollar denominated:								
Due in 2007	Floating	5.70%	49,052	7.8087	383,034	397,112	383,034	397,112
Payable semi-annually through 2008(Note(a))	Fixed	1.80%	3,036	7.8087	23,710	41,123	23,710	41,123
Renminbi denominated:								
Due in 2006	Fixed	5.18%-5.56%			-	1,340,000	-	1,340,000
Due in 2008	Fixed	5.18%-5.67%			400,000	700,000	400,000	700,000
Due in 2009	Fixed	5.18%-5.67%			450,000	-	450,000	-
Other loans due in 2015	-	Interest free			-	15,000	-	15,000
Arranged by subsidiaries								
U.S. Dollar denominated:								
Payable annually through 2011	-	Interest free	1,800	7.8087	14,055	17,431	-	-

Notes to the Financial Statements (continued)

(Prepared under PRC Accounting Rules and Regulations)

20. 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 31 December 2006	Original currency '000	2006 Exchange rate	The Group		The Company	
					2006	2005	2006	2005
					RMB'000	RMB'000	RMB'000	RMB'000
Renminbi denominated:								
Due in 2007	Fixed	5.85%			8,500	116,500	-	-
Due in 2008	Fixed	5.67%			110,000	110,000	-	-
Payable annually through 2010	-	Interest free			82,000	102,500	-	-
Payable annually through 2011	-	Interest free			9,000	10,800	-	-
Total long-term loans outstanding					1,480,299	2,850,466	1,256,744	2,493,235
Less: Amounts due within one year					(416,645)	(1,373,205)	(383,034)	(1,340,000)
Amounts due after one year					1,063,654	1,477,261	873,710	1,153,235

Note(a): Guaranteed by China Petrochemical Corporation

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

Except for the balances disclosed in Note 33(g), there is no amount due to shareholders who held 5% or more shareholding included in the above balance.

21. Other long-term liabilities

The balance of other long-term liabilities mainly represents the long-term payable for specific projects contributed from government grants and deferred income.

22. Share capital

	The Group and the Company	
	2006 RMB'000	2005 RMB'000
Registered capital:		
4,870,000,000 A shares of RMB 1 each	4,870,000	4,870,000
2,330,000,000 H shares 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 of RMB 1 each		
of which:		
Domestic legal persons 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 of RMB 1 each		
2,330,000,000 H shares 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 respectively.

23. Capital reserves

	The Group and the Company	
	2006 RMB'000	2005 RMB'000
Balance at 1 January and 31 December	2,945,607	2,856,278

	Note	The Group and the Company	
		2006 RMB'000	2005 RMB'000
Share premium		2,420,841	2,420,841
Safety fund	(a)	4,180	4,180
Government grants	(b)	386,370	386,370
Reserve for equity investment	(c)	102,663	44,887
Surplus of related party transactions	(d)	31,553	-
Total		2,945,607	2,856,278

(a) The safety fund represents gifts or grants received from China Petrochemical Corporation for enhancement of production safety.

(b) Government grants represent grants received for the purchase of equipment used for technology improvements.

(c) Reserve for equity investment represents shortfall of the initial investment cost over the share of shareholders' funds of the investees.

(d) Surplus of related party transactions represents the excess of the net disposal proceeds over the carrying amount of the fixed assets when the Group sells fixed assets to its related parties.

24. Surplus reserves

	The Group and the Company					Total
	Note	Statutory	Statutory	General	Discretionary	
		surplus reserve	public welfare fund	surplus reserve	surplus reserve	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	
Balance at 1 January 2005		1,457,791	1,375,702	82,089	1,280,514	4,196,096
Transferred from the income statement		170,463	170,463	-	-	340,926
Balance at 31 December 2005		1,628,254	1,546,165	82,089	1,280,514	4,537,022
Statutory public welfare fund transfer to statutory surplus reserve	(a)	1,546,165	(1,546,165)	-	-	-
Balance at 31 December 2005(restated)		3,174,419	-	82,089	1,280,514	4,537,022
Transferred from the income statement	(b)	73,685	-	-	-	73,685
Balance at 31 December 2006		3,248,104	-	82,089	1,280,514	4,610,707

(a) Pursuant to the resolution of the Shareholders' meeting on 15 June 2006, the Company's Articles of Association was revised that the Company is no longer to set aside statutory public welfare fund from the net profit available for appropriation. Pursuant to the notice "Cai Qi [2006] No. 67" issued by the Ministry of Finance, the balance of the statutory public welfare fund of RMB1,546,165,000 as at 31 December 2005 was transferred to the statutory surplus reserve.

(b) Pursuant to resolution of the Board, the Company transfer 10% of net profit to the statutory surplus reserve for the year ended 31 December 2006.

25. Income from principal operations/cost of sales

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 38. The Group's most products are sold in domestic market.

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

For the year 2006, total sales and proportion to top five customers are as follows:

	2006	2005
Amount (RMB'000)	19,368,397	19,267,661
Percentage of total sales	38.37%	41.98%

Notes to the Financial Statements (continued)

(Prepared under PRC Accounting Rules and Regulations)

26. Sales taxes and surcharges

	The Group		The Company	
	2006 RMB'000	2005 RMB'000	2006 RMB'000	2005 RMB'000
Consumption tax	526,428	585,916	526,428	585,916
City construction tax	107,601	128,689	102,602	122,903
Education surcharge and others	47,333	51,084	43,972	50,574
	681,362	765,689	673,002	759,393

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 year.

27. Financial expenses

	The Group		The Company	
	2006 RMB'000	2005 RMB'000	2006 RMB'000	2005 RMB'000
Interest expenses	367,716	309,357	322,267	265,599
Less: borrowing costs	(27,426)	-	(27,426)	-
Interest capitalised as construction in progress expenses, net	340,290	309,357	294,841	265,599
Less: interest income	(56,827)	(39,631)	(49,153)	(32,209)
foreign exchange gain, net	(100,296)	(59,826)	(94,944)	(52,509)
Other financial expenses	19,126	2,681	14,643	1,058
Total	202,293	212,581	165,387	181,939

Notes to the Financial Statements (continued)

(Prepared under PRC Accounting Rules and Regulations)

28. Investment income / (losses)

	The Group		The Company	
	2006 RMB'000	2005 RMB'000	2006 RMB'000	2005 RMB'000
Cost method	42,685	77,287	5,119	18,907
Share of profit of subsidiaries	-	-	196,653	204,178
Share of profits / (losses) of associates	564,930	(151,574)	542,847	(152,144)
Investment differences	10,000	10,849	10,000	10,849
Net gain on transfer of investment	56,194	24,063	40,720	24,063
Total	673,809	(39,375)	795,339	105,853

29. Subsidy income

The Group received a cash government grant from the Ministry of Finance of the PRC of RMB 282,141,800 (2005: RMB 632,820,000) as a compensation of loss incurred in petroleum product segment during the year ended 31 December 2006. The Group has received the subsidy income on 30 December 2006.

30. Non-operating income

	The Group		The Company	
	2006 RMB'000	2005 RMB'000	2006 RMB'000	2005 RMB'000
Net gain on disposal of fixed assets	30,840	42,233	2,966	38,851
Penalties income	190	410	104	338
Amortisation of deferred income	23,033	11,518	-	-
Others	15,895	6,998	5,253	1,619
Total	69,958	61,159	8,323	40,808

31. Non-operating expenses

	The Group		The Company	
	2006 RMB'000	2005 RMB'000	2006 RMB'000	2005 RMB'000
Employee reduction expenses	83,603	109,410	33,383	45,790
Net loss on disposal of fixed assets	63,817	26,935	57,855	21,842
Service fee	20,174	47,320	20,174	47,320
Donations	380	8,079	380	8,079
Impairment loss of fixed assets	50,000	-	50,000	-
Other expenses	53,062	48,814	40,253	44,551
Total	271,036	240,558	202,045	167,582

In accordance with the Group's voluntary employee reduction plan, the Group recorded employee reduction expenses of RMB 83,603,000 (2005:RMB 109,410,000) during the year ended 31 December 2006, in respect of the voluntary resignation of approximately 1,280 employees (2005: 1,645 employees).

32. Dividends

- (a) Dividends of ordinary shares declared during the year
- Pursuant 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 in respect of the year ended 31 December 2005 was declared and paid.(2005: RMB 0.20 per share totalling RMB 1,440,000,000).
- (b) Dividends of ordinary shares proposed after the balance sheet date
- Pursuant to a resolution passed at the Board of Directors' meeting on 29 March 2007, a final dividend in respect of the year ended 31 December 2006 of RMB 0.04 per share totalling RMB 288,000,000 was proposed for shareholders' approval at the Annual General Meeting. (2005: RMB 0.10 per share totalling 720,000,000). Dividends declared after the balance sheet date was not recognised as liabilities on that day.

33. 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 86.7 billion(2005: RMB 86.7 billion)

As at 31 December 2006, Sinopec Corp held 4 billion shares of the Company.

- (b) Company not having the direct ability to exercise significant influence over the Group.

	<u>Relationship with the Company</u>
China Petrochemical Corporation	The ultimate parent company
Sinopec Finance Company Limited	Subsidiary of the ultimate parent company
Sinopec Storage and Transportation Branch	Subsidiary of the ultimate parent company
Sinopec Zhenhai Refining & Chemical Company Limited	Subsidiary of the immediate parent company
Sinopec Huadong Sales Company	Branch of the immediate parent company
Sinopec Pipeline storage & Transport Company	Branch of the immediate parent company
China International United Petroleum and Chemical Company Limited	Subsidiary of the immediate parent company
China Petrochemical International Company Limited	Subsidiary of the immediate parent company
Sinopec Chemical Sales Company Limited	Subsidiary of the immediate parent company
Shanghai Secco Petrochemical Company Limited	Associated Company
BOC-SPC Gases Co., Ltd.	Associated Company
Shanghai Jinpu Plastics Packaging Material Company Limited	Associated Company
Shanghai Jinsen Hydrocarbon Resins Company Limited	Associated Company

33. Related parties and related party transactions (continued)

- (c) Most of the transactions undertaken by the Group during the year ended 31 December 2006 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 year, the value of crude oil purchased in accordance with Sinopec Corp's allocation was as follow:

	2006 RMB'000	2005 RMB'000
Purchases of crude oil	31,223,530	27,180,740

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

	2006 RMB'000	2005 RMB'000
Sales of goods and service fee income	20,173,106	20,068,746
Purchases other than crude oil	2,579,394	2,318,351
Insurance premiums paid	98,643	95,521
New withdrawal from deposits in a related party	(101,353)	(70,389)
Interest received and receivable	229	1,035
New loans obtained from a related party	478,000	130,000
Loans repaid to a related party	608,000	130,000
Interest paid and payable	7,529	6,649
Transportation fees	344,928	415,497
Construction and installation fees	194,958	183,191
Proceeds from contribution and sale of property, plant & equipment	105,093	62,742
Gains from disposal of investments	24,308	24,063
Sales commissions	182,840	70,752
Net decrease of guarantees	(18,550)	(33,586)
Amounts provided to related parties	98,000	-
Amounts received from related parties	18,000	-

The Directors of the Company are of the opinion that the above transactions were carried out in the normal course of business and on normal commercial term.

Notes to the Financial Statements (continued)

(Prepared under PRC Accounting Rules and Regulations)

33. Related parties and related party transactions (continued)

(e) At 31 December, the Group's balances with related parties are as follows:

	Immediate Parent Company		Other related parties	
	2006 RMB'000	2005 RMB'000	2006 RMB'000	2005 RMB'000
Bills receivable	280	-	60,843	8,590
Trade debtors	-	37,168	266,200	254,721
Other receivables	121	96,412	85,608	150,351
Advance payments	36,620	203	245,615	14,107
Bills payable	35,700	-	-	-
Trade creditors	273,012	125,631	225,330	276,329
Other payables	2,212	12,388	33,131	22,310
Receipts in advance	16,152	735	14,237	30,516
Balance of guarantee	-	-	49,750	68,300

(f) Deposits in related parties

	The Group		The Company	
	2006 RMB'000	2005 RMB'000	2006 RMB'000	2005 RMB'000
Cash at bank and in hand	79,913	181,266	79,001	180,040

(g) Loans with related parties

	The Group		The Company	
	2006 RMB'000	2005 RMB'000	2006 RMB'000	2005 RMB'000
Short-term loans	-	30,000	-	-
Long-term loans	-	100,000	-	-

34. 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% of the salaries, bonuses and certain allowances of its staff 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. For the year ended 31 December 2006, the Group's contribution to this plan amounted to RMB 61,692,000 (2005: RMB 65,685,000).

35. Capital commitments

Capital commitments outstanding at 31 December are as follows:

	The Group and the Company	
	2006	2005
	RMB'000	RMB'000
Contracted but not provided for	398,335	222,711
Authorised by the Board but not contracted for	2,061,660	1,501,490
Total	2,459,995	1,724,201

Capital commitments relate primarily to construction of building, plant, machinery and purchase of equipment.

At 31 December 2006, the Group and the Company did not have material operating lease commitment.

36. Contingent liabilities

At 31 December, contingent liabilities are as follows:

	The Group		The Company	
	2006 RMB'000	2005 RMB'000	2006 RMB'000	2005 RMB'000
Guarantees issued to banks in favour of:				
- subsidiaries	-	-	353,500	483,842
- associates	40,000	40,000	40,000	40,000
- other unlisted investment companies	9,750	28,300	-	-
	49,750	68,300	393,500	523,842

The Group monitors the conditions that are subject to the guarantees to identify whether it is probable that a loss has occurred, and recognise any such losses under guarantees when those losses are estimable. At 31 December 2006 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 the guarantees arrangement.

37. Post balance sheet events

With effect from 1 January 2007, the Group adopted the Accounting Standards for Business Enterprises issued by the MOF on 15 February 2006 ("New accounting Standards"). The existing Accounting Standards for Business Enterprises and the Accounting Regulations for Business Enterprises ("Existing Accounting Standards") will no longer be applied. Under the New Accounting Standards, current accounting policies and accounting estimates determined base on the Existing Accounting Standards may need to be revised. As a result, there may have an impact on the Group's financial position and the results of operations.

Pursuant to the PRC enterprise income tax passed by the Fifth Plenary Session of Tenth National People's Congress on 16 March 2007, the new enterprise income tax rates for domestic and foreign enterprises are unified at 25% and will be effective from 1 January 2008. The impact of such change of enterprise income tax rate on the Group's consolidated financial statements will depend on detailed pronouncements that are subsequently issued. Since implementation and transitional guidance applicable to the Group has not yet been announced, the Group cannot reasonably estimate the financial impact of the new law to the Group at this stage.

38. 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 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.

38. Segment reporting (continued)

Income from principal operations

	2006 RMB'000	2005 RMB'000
Manufactured Products		
Synthetic Fibres		
External sales	4,727,261	4,781,787
Intersegment sales	71	79
Sub-total	4,727,332	4,781,866
Resins and Plastics		
External sales	15,800,015	14,010,287
Intersegment sales	63,767	53,020
Sub-total	15,863,782	14,063,307
Intermediate Petrochemicals		
External sales	6,800,577	6,586,556
Intersegment sales	14,536,675	13,848,105
Sub-total	21,337,252	20,434,661
Petroleum Products		
External sales	19,977,755	18,616,544
Intersegment sales	1,187,744	1,064,616
Sub-total	21,165,499	19,681,160
All others		
External sales	3,173,828	1,902,633
Intersegment sales	3,582,206	3,687,428
Sub-total	6,756,034	5,590,061
Eliminations of intersegment sales	(19,370,463)	(18,653,248)
Total	50,479,436	45,897,807

38. Segment reporting (continued)

Cost of sales

	2006 RMB'000	2005 RMB'000
Synthetic Fibres	4,371,918	4,352,965
Resins and Plastics	13,741,514	11,631,710
Intermediate Petrochemicals	5,597,796	5,024,854
Petroleum Products	21,288,191	18,955,210
All others	2,923,012	1,640,374
Total	47,922,431	41,605,113

Profit of principal operations

	2006 RMB'000	2005 RMB'000
Synthetic Fibres	339,749	411,028
Resins and Plastics	2,011,789	2,326,618
Intermediate Petrochemicals	1,177,926	1,531,098
Petroleum Products	(1,900,525)	(1,000,255)
All others	246,704	258,516
Total	1,875,643	3,527,005

39. 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 non-recurring items is set out as below:

	2006 RMB'000	2005 RMB'000
Items under non-recurring items		
Non-operating expenses (excluding provision for impairment loss on fixed assets)	221,036	240,558
Gain on disposal of long-term equity investments	(56,194)	(24,063)
Non-operating income	(69,958)	(61,159)
Subsidy income	(282,142)	(632,820)
Less: Tax effect for the above items	28,089	71,623
Total	(159,169)	(405,861)