

9 Directors' and supervisors' emoluments (continued)

(i) Directors' and supervisors' emoluments: (continued)

For the years ended 31 December 2006 and 2005, no emolument was paid to the directors or supervisors as an inducement to join or upon joining the Company or as compensation for loss of office.

(ii) Individuals with highest emoluments

Of the five individuals with the highest emoluments, five (2005: five) are directors and supervisors whose emoluments are disclosed in Note 9 (i).

10. Taxation**(a) Taxation in the consolidated income statement represents:**

	2006 RMB'000	2005 RMB'000
Provision for income tax for the year	71,183	340,532
Over-provision in respect of prior years	(6,911)	-
Deferred taxation	(11,034)	25,768
	53,238	366,300

A reconciliation of income tax calculated at the applicable tax rate with income tax expense is as follows:

	2006 RMB'000	2005 RMB'000
Profit from ordinary activities before taxation	964,200	2,287,594
Expected tax at applicable tax rate of 15%	144,630	343,139
Non-deductible expenses	7,361	7,679
Non-taxable earnings	(5,414)	(4,438)
Over-provision in respect of prior years	(6,911)	-
Tax effect of share of (profits) / losses recognised under the equity method	(86,503)	9,145
Tax effect of unused tax losses not recognised for deferred tax	9,688	7,090
Differential tax rate on subsidiaries' income	(9,613)	3,685
Income tax expense	53,238	366,300

The charge for income tax is calculated at the rate of 15% (2005: 15%) on the estimated assessable income of the year determined in accordance with relevant income tax rules and regulations. The Group did not carry out business overseas and therefore does not incur overseas income tax. Up to the date of approval of these financial statements, the Company has not received notice from the Ministry of Finance that the 15% tax rate will be revoked in 2006 or in the future. It is possible that the Company's tax rate will increase in the future. A non-adjusting post balance sheet event in respect of the potential change in the Company's applicable tax rate is disclosed in Note 37.

Notes to the Financial Statements (continued)

(Prepared under International Financial Reporting Standards)

10. Taxation (continued)

(b) Deferred taxation:

(i) Deferred tax assets and deferred tax liabilities are attributable to the items detailed in the tables below:

	The Group					
	Assets		Liabilities		Net balance	
	2006	2005	2006	2005	2006	2005
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<i>Current</i>						
Provisions	12,141	11,396	-	-	12,141	11,396
<i>Non-current</i>						
Provision for impairment losses	16,342	8,842	-	-	16,342	8,842
Land use rights	18,880	19,403	-	-	18,880	19,403
Capitalisation of borrowing costs	-	-	(20,799)	(16,492)	(20,799)	(16,492)
Others	7,619	-	(3,873)	-	3,746	-
Deferred tax assets/(liabilities)	54,982	39,641	(24,672)	(16,492)	30,310	23,149

	The Company					
	Assets		Liabilities		Net balance	
	2006	2005	2006	2005	2006	2005
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
<i>Current</i>						
Provisions	12,141	11,396	-	-	12,141	11,396
<i>Non-current</i>						
Provision for impairment losses	16,342	8,842	-	-	16,342	8,842
Land use rights	18,880	19,403	-	-	18,880	19,403
Capitalisation of borrowing costs	-	-	(20,799)	(16,492)	(20,799)	(16,492)
Others	-	-	(2,188)	-	(2,188)	-
Deferred tax assets/(liabilities)	47,363	39,641	(22,987)	(16,492)	24,376	23,149

There is no other significant deferred tax asset or liability that has not been provided for in the financial statements.

Notes to the Financial Statements (continued)

(Prepared under International Financial Reporting Standards)

10. Taxation (continued)

(b) Deferred taxation: (continued)

(ii) Movements in deferred tax assets and liabilities are as follows:

	The Group			
	Balance at 1 January 2006 RMB'000	Recognised in income statement RMB'000	Recognised in reserve RMB'000	Balance at 31 December 2006 RMB'000
<i>Current</i>				
Provisions	11,396	745	-	12,141
<i>Non-current</i>				
Provision for impairment losses	8,842	7,500	-	16,342
Land use rights	19,403	(523)	-	18,880
Capitalisation of borrowing costs	(16,492)	(4,307)	-	(20,799)
Others	-	7,619	(3,873)	3,746
Net deferred tax assets	23,149	11,034	(3,873)	30,310

	The Company			
	Balance at 1 January 2006 RMB'000	Recognised in income statement RMB'000	Recognised in reserve RMB'000	Balance at 31 December 2006 RMB'000
<i>Current</i>				
Provisions	11,396	745	-	12,141
<i>Non-current</i>				
Provision for impairment losses	8,842	7,500	-	16,342
Land use rights	19,403	(523)	-	18,880
Capitalisation of borrowing costs	(16,492)	(4,307)	-	(20,799)
Others	-	-	(2,188)	(2,188)
Net deferred tax assets	23,149	3,415	(2,188)	24,376

11. Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to equity shareholders of the Company of RMB 844,407,000 (2005: RMB 1,850,449,000) and 7,200,000,000 (2005: 7,200,000,000) shares in issue during the year.

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

12. Dividends

(a) Dividends attributable to the year

	The Group and the Company	
	2006	2005
	RMB'000	RMB'000
Final dividend proposed after the balance sheet date of RMB 0.04 per share (2005: RMB 0.10 per share)	288,000	720,000

Pursuant to a resolution passed at the directors' meeting on 29 March 2007, a final dividend of RMB 0.04 per share totalling RMB 288,000,000 (2005: RMB 0.10 per share totalling RMB 720,000,000) was proposed for shareholders' approval at the Annual General Meeting. The final dividend proposed after the balance sheet date has not been recognised as a liability at the balance sheet date.

(b) Dividends attributable to the previous financial year, approved and paid during the year

	The Group and the Company	
	2006	2005
	RMB'000	RMB'000
Final dividend in respect of the previous financial year, approved and paid during the year, of RMB 0.10 per share (2005: RMB 0.20 per share)	720,000	1,440,000

13. Property, plant and equipment

(a) The Group

	Buildings	Plant and other fixed assets	Total
	RMB'000	RMB'000	RMB'000
Cost or valuation:			
At 1 January 2005	5,324,173	25,863,939	31,188,112
Additions	-	164,816	164,816
Transferred from construction in progress (Note 15)	215,194	808,233	1,023,427
Disposals	(37,480)	(134,456)	(171,936)
At 31 December 2005	5,501,887	26,702,532	32,204,419
At 1 January 2006	5,501,887	26,702,532	32,204,419
Additions	41,376	147,671	189,047
Transferred from construction in progress (Note 15)	128,200	502,704	630,904
Disposals	(47,923)	(812,917)	(860,840)
At 31 December 2006	5,623,540	26,539,990	32,163,530
Accumulated depreciation and impairment losses:			
At 1 January 2005	2,804,251	13,177,536	15,981,787
Charge for the year	174,911	1,517,302	1,692,213
Written back on disposals	(25,653)	(95,095)	(120,748)
At 31 December 2005	2,953,509	14,599,743	17,553,252
At 1 January 2006	2,953,509	14,599,743	17,553,252
Charge for the year	164,172	1,646,818	1,810,990
Impairment loss	-	50,000	50,000
Written back on disposals	(35,814)	(574,760)	(610,574)
At 31 December 2006	3,081,867	15,721,801	18,803,668
Net book value:			
At 31 December 2006	2,541,673	10,818,189	13,359,862
At 31 December 2005	2,548,378	12,102,789	14,651,167

13. Property, plant and equipment (continued)

(b) The Company

	Buildings	Plant and other fixed assets	Total
	RMB'000	RMB'000	RMB'000
Cost or valuation:			
At 1 January 2005	4,204,623	23,125,610	27,330,233
Additions	-	146,789	146,789
Transferred from construction in progress (Note 15)	191,524	784,183	975,707
Disposals	(15,174)	(87,084)	(102,258)
At 31 December 2005	4,380,973	23,969,498	28,350,471
At 1 January 2006	4,380,973	23,969,498	28,350,471
Additions	23,338	16,738	40,076
Transferred from construction in progress (Note 15)	125,445	442,419	567,864
Disposals	(67,827)	(574,085)	(641,912)
At 31 December 2006	4,461,929	23,854,570	28,316,499
Accumulated depreciation and impairment losses:			
At 1 January 2005	2,466,544	11,727,711	14,194,255
Charge for the year	137,953	1,341,205	1,479,158
Written back on disposals	(13,415)	(64,708)	(78,123)
At 31 December 2005	2,591,082	13,004,208	15,595,290
At 1 January 2006	2,591,082	13,004,208	15,595,290
Charge for the year	124,404	1,374,520	1,498,924
Impairment loss	-	50,000	50,000
Written back on disposals	(51,382)	(354,930)	(406,312)
At 31 December 2006	2,664,104	14,073,798	16,737,902
Net book value:			
At 31 December 2006	1,797,825	9,780,772	11,578,597
At 31 December 2005	1,789,891	10,965,290	12,755,181

13. Property, plant and equipment (continued)

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

Buildings in Hong Kong with a net book value of RMB 34,129,000 (2005: RMB 35,314,000) were held under medium-term leases.

- (d) The Company was established in the PRC on 29 June 1993 as a joint stock limited company as part of the restructuring of Shanghai Petrochemical Complex ("SPC"). On the same date, the principal business undertakings of SPC together with the relevant assets and liabilities were taken over by the Company. As required by the relevant PRC rules and regulations, a valuation of the assets and liabilities to be injected into the Company was carried out as at 1 January 1993 by the State-owned Assets Administration Bureau and the injected assets and liabilities were reflected in the financial statements on this basis.

In accordance with IAS 16, subsequent to this revaluation, which was based on depreciated replacement costs, property, plant and equipment are carried at revalued amount, being the fair value at the date of the revaluation less any subsequent accumulated depreciation and impairment losses. Revaluation is performed periodically to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the balance sheet date. Based on a revaluation performed as of 5 February 2005, which was based on depreciated replacement costs, the carrying value of property, plant and equipment did not differ materially from their fair value.

14. Investment property

	The Group RMB'000	The Company RMB'000
Cost:		
At 1 January 2005	512,343	603,138
Additions	16,122	12,196
At 31 December 2005 and 31 December 2006	528,465	615,334
Accumulated depreciation:		
At 1 January 2005	1,036	1,219
Charge for the year	12,847	14,947
At 31 December 2005	13,883	16,166
At 1 January 2006	13,883	16,166
Charge for the year	12,678	14,921
At 31 December 2006	26,561	31,087
Net book value:		
At 31 December 2006	501,904	584,247
At 31 December 2005	514,582	599,168

14. Investment property (continued)

Investment property represents certain floors of an office building rented out under the terms of operating leases.

The fair value of the investment property of the Group and the Company as at 31 December 2006 were estimated by the directors to be approximately RMB 622,098,000 and RMB 728,806,000, respectively, by reference to market conditions (2005: the Group and the Company: RMB 596,598,000 and RMB 695,900,000 respectively). The investment property has not been valued by an external independent valuer.

Rental income of RMB 42,643,000 was received by the Group during the year ended 31 December 2006 (2005: RMB 18,681,000).

15. Construction in progress

	The Group		The Company	
	2006 RMB'000	2005 RMB'000	2006 RMB'000	2005 RMB'000
At 1 January	787,376	807,477	743,452	752,116
Additions	1,851,975	1,003,326	1,829,118	967,043
Transferred to property, plant and equipment (Note 13)	(630,904)	(1,023,427)	(567,864)	(975,707)
At 31 December	2,008,447	787,376	2004,706	743,452

Construction in progress comprises costs incurred on property, plant and equipment not yet commissioned.

16. Investments in subsidiaries (The Company)

	2006 RMB'000	2005 RMB'000
Unlisted shares, at cost	2,163,390	2,113,180
Amounts due (to)/from subsidiaries	(29,277)	196,006
	2,134,113	2,309,186

These amounts represent the investments by the Company in its consolidated subsidiaries. At 31 December 2006, the following list contains the particulars of subsidiaries, all of which are limited companies established and operated in the PRC, which principally affected the results and assets of the Group.

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 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 compound products

Notes to the Financial Statements (continued)

(Prepared under International Financial Reporting Standards)

16. Investments in subsidiaries (The Company) (continued)

Company	Registered capital '000	Percentage of equity		Principal activities
		held by the Company %	held by subsidiaries %	
Shanghai Golden Phillips Petrochemical Company Limited	US\$ 50,000	-	60	Production of polypropylene 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 subsidiaries have issued any debt securities.

17. Interest in associates and jointly controlled entities

	The Group		The Company	
	2006 RMB'000	2005 RMB'000	2006 RMB'000	2005 RMB'000
Interest in associates				
- Unlisted shares, at cost	-	-	2,146,488	2,136,488
- Share of net assets	2,708,323	2,130,803	-	-
Interest in jointly controlled entities				
- Unlisted shares, at cost	-	-	127,992	-
- Share of net assets	79,472	-	-	-
	2,787,795	2,130,803	2,274,480	2,136,488

17. Interest in associates and jointly controlled entities (continued)

The particulars of these associates and jointly controlled entities, 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 Chemical Industry Park Development Company Limited	RMB 2,372,439	38.26	-	Planning, development and operation of the Chemical Industry Park in Shanghai, PRC
Shanghai Secco Petrochemical Company Limited	US\$ 901,441	20	-	Manufacturing and distribution of chemical products
Shanghai Jinpu Plastics Packaging Material Company Limited	US\$ 20,204	-	50	Production of polypropylene film
Shanghai Jinsen Hydrocarbon Resins Company Limited	US\$ 23,395	-	40	Production of resins products
Shanghai Yamatake Automation Company Limited	US\$ 3,000	-	40	Service and maintenance of building automation systems and products
BOC-SPC Gases Co., Ltd.	US\$ 32,000	50	-	Production and sales of industrial gases

Summary financial information on associates, not adjusted for the percentage ownership held by the Group:

	2006 RMB'000	2005 RMB'000
Total assets	29,206,140	25,919,334
Total liabilities	(16,392,029)	(16,304,925)
Revenues	22,477,236	13,189,878
Profits /(losses) for the year	2,747,085	(293,741)

Notes to the Financial Statements (continued)

(Prepared under International Financial Reporting Standards)

18. Investments

	The Group		The Company	
	2006 RMB'000	2005 RMB'000	2006 RMB'000	2005 RMB'000
Investments in non-consolidated investees (unlisted)	274,864	326,515	-	-
Other unlisted investments	292,905	395,076	114,095	107,658
	567,769	721,591	114,095	107,658
Less: Provision for impairment losses	(38,838)	(56,228)	-	-
	528,931	665,363	114,095	107,658

Investments in non-consolidated investees represent the Company's interests in these investees which do not principally affect the results, assets or liabilities of the Group and, therefore, are not consolidated.

19. Goodwill

	The Group and the Company
	RMB'000
Cost:	
At 1 January 2005, 31 December 2005 and December 2006	22,415
Accumulated impairment losses:	
At 1 January 2005, 31 December 2005 and 31 December 2006	-
At 31 December 2006 and 31 December 2005	22,415

19. Goodwill (continued)

On 16 August 1996, the Company acquired the entire equity interest in Shanghai Jinyang Acrylic Fibre Plant ("Jinyang") for a consideration of RMB38,800,000 satisfied in cash. Goodwill of RMB134,482,000 on acquisition has been recognised in the financial statements and was included in interests in subsidiaries.

Prior to 1 January 2005, positive goodwill not already recognised directly in reserves was amortised on a straight-line basis over ten years. With effect from 1 January 2005, the Company no longer amortises goodwill. In accordance with transitional provisions set out in IFRS 3, the accumulated amortisation of goodwill as at 1 January 2005 has been eliminated against the cost of goodwill as at that date. Such goodwill is tested annually for impairment.

20. Inventories

(a) Inventories in the balance sheet comprise:

	The Group		The Company	
	2006 RMB'000	2005 RMB'000	2006 RMB'000	2005 RMB'000
Raw materials	873,130	1,050,904	703,528	829,000
Work in progress	1,661,487	1,592,298	1,571,581	1,505,739
Finished goods	1,014,225	895,951	794,466	719,040
Spare parts and consumables	614,414	575,825	514,856	483,892
	4,163,256	4,114,978	3,584,431	3,537,671

At 31 December 2006, the Group and the Company had inventories carried at net realisable value with carrying amount of RMB 208,157,000 and RMB 208,129,000, respectively (2005: RMB 187,129,000 and RMB 187,040,000, respectively).

(b) The analysis of the amount of inventories recognised as an expense is as follows:

The cost of inventories recognised as an expense in the consolidated income statement amounted to RMB 49,182,232,000 for the year ended 31 December 2006 (2005: RMB 42,887,742,000).

Notes to the Financial Statements (continued)

(Prepared under International Financial Reporting Standards)

21. Trade accounts receivable

	The Group		The Company	
	2006	2005	2006	2005
	RMB'000	RMB'000	RMB'000	RMB'000
Trade debtors	389,601	278,011	58,558	96,850
Less: Impairment losses for bad and doubtful debts	(30,911)	(25,845)	(19,266)	(20,691)
	358,690	252,166	39,292	76,159
Bills receivable	1,212,110	731,204	920,733	466,183
Amounts due from related parties	695,286	561,552	608,475	549,111
	2,266,086	1,544,922	1,568,500	1,091,453

The aging analysis of trade accounts receivable (net of impairment losses for bad and doubtful debts) is as follows:

	The Group		The Company	
	2006	2005	2006	2005
	RMB'000	RMB'000	RMB'000	RMB'000
Invoice date:				
Within one year	2,255,783	1,517,158	1,559,724	1,074,565
Between one and two years	10,303	27,764	8,776	16,888
	2,266,086	1,544,922	1,568,500	1,091,453

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

22. Cash and cash equivalents

	The Group		The Company	
	2006	2005	2006	2005
	RMB'000	RMB'000	RMB'000	RMB'000
Deposits at a related party	79,913	181,266	79,001	180,040
Cash at bank and in hand	814,737	1,165,971	472,692	641,524
Cash and cash equivalents in the balance sheet	894,650	1,347,237	551,693	821,564

Notes to the Financial Statements (continued)

(Prepared under International Financial Reporting Standards)

23. Loans and borrowings

Loans and borrowings are repayable as follows:

	The Group		The Company	
	2006 RMB'000	2005 RMB'000	2006 RMB'000	2005 RMB'000
Long term bank loans				
- After five years	-	19,706	-	15,000
- Between two and five years	504,834	826,738	450,000	741,123
- Between one and two years	558,820	530,817	423,710	397,112
	1,063,654	1,377,261	873,710	1,153,235
Loans from a fellow subsidiary	-	100,000	-	-
	1,063,654	1,477,261	873,710	1,153,235
Loans due within one year				
- Current portion of long term bank loans	416,645	1,373,205	383,034	1,340,000
- Short term bank loans	1,853,692	2,523,537	1,618,692	2,295,195
- Corporate bonds	2,000,000	-	2,000,000	-
	4,270,337	3,896,742	4,001,726	3,635,195
Loans from a fellow subsidiary	-	30,000	-	-
	4,270,337	3,926,742	4,001,726	3,635,195
	5,333,991	5,404,003	4,875,436	4,788,430

Notes to the Financial Statements (continued)

(Prepared under International Financial Reporting Standards)

23. Loans and borrowings (continued)

At 31 December 2006 and 2005, no loans and borrowings were secured by the way of pledge of property, plant and equipment.

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.

Included in loans and borrowings are the following amounts denominated in currencies other than the functional currency of the entity to which they relate:

	The Group		The Company	
	2006 '000	2005 '000	2006 '000	2005 '000
United States Dollars	USD 261,901	USD 340,154	USD 260,101	USD 337,394

24. Trade accounts payable

	The Group		The Company	
	2006 RMB'000	2005 RMB'000	2006 RMB'000	2005 RMB'000
Trade creditors	1,385,577	963,230	735,602	535,739
Bills payable	7,026	68,302	1,141	12,428
Amounts due to related parties	599,773	467,909	471,765	401,104
	1,992,376	1,499,441	1,208,508	949,271

The maturity analysis of trade accounts payable is as follows:

	The Group		The Company	
	2006 RMB'000	2005 RMB'000	2006 RMB'000	2005 RMB'000
Due within 1 month or on demand	1,677,458	1,269,809	1,025,303	806,230
Due after 1 month and within 3 months	314,918	229,632	183,205	143,041
	1,992,376	1,499,441	1,208,508	949,271

25. Amounts due from/ to related parties

Amounts due from/ to related parties are unsecured, interest free and have no fixed repayment terms.

26. Share capital

	The Group and the Company	
	2006	2005
	RMB'000	RMB'000
Registered, issued and paid up capital:		
4,870,000,000 A shares of RMB 1.00 each	4,870,000	4,870,000
2,330,000,000 H shares of RMB 1.00 each	2,330,000	2,330,000
	7,200,000	7,200,000

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

Notes to the Financial Statements (continued)

(Prepared under International Financial Reporting Standards)

27. Reserves

Movements on reserves comprise:

	The Group		The Company	
	2006 RMB'000	2005 RMB'000 (restated) note(c)	2006 RMB'000	2005 RMB'000 (restated) note(c)
Share premium				
At 1 January and 31 December(note(a))	2,420,841	2,420,841	2,420,841	2,420,841
Statutory surplus reserve				
At 1 January	3,174,419	1,457,791	3,174,419	1,457,791
Appropriation	73,685	170,463	73,685	170,463
Statutory public welfare fund transfer to statutory surplus reserve (note (c))	-	1,546,165	-	1,546,165
At 31 December(note(b))	3,248,104	3,174,419	3,248,104	3,174,419
Statutory public welfare fund				
At 1 January	-	1,375,702	-	1,375,702
Appropriation	-	170,463	-	170,463
Statutory public welfare fund transfer to statutory surplus reserve (note (c))	-	(1,546,165)	-	(1,546,165)
At 31 December(note(c))	-	-	-	-
General surplus reserve				
At 1 January and 31 December(note(d))	82,089	82,089	82,089	82,089
Capital reserve				
At 1 January and 31 December(note(e))	4,180	4,180	4,180	4,180
Discretionary surplus reserve				
At 1 January and 31 December(note(f))	1,280,514	1,280,514	1,280,514	1,280,514
Excess over share capital				
At 1 January and 31 December(note(g))	(148,604)	(148,604)	(148,604)	(148,604)
Fair value reserve				
At 31 December (note(h))	21,949	-	12,397	-
Retained profits				
At 31 December (note(i))	4,867,270	4,816,548	4,175,816	4,653,155
	11,776,343	11,629,987	11,075,337	11,466,594

27. Reserves (continued)

Notes:

- (a) The application of the share premium account is governed by Sections 178 and 179 of the PRC Company Law.
- (b) According to the Company's Articles of Association, the Company is required to transfer 10% of its profit after taxation, as determined under PRC Accounting Rules and Regulations, to a statutory surplus reserve until the reserve balance reaches 50% of the registered capital. The transfer to this reserve is made before distribution of a dividend to shareholders.

The statutory surplus reserve can be used to make good previous years' losses, if any, and may be converted into share capital by the issue of new shares to shareholders in proportion to their existing shareholdings or by increasing the par value of the shares currently held by them, provided that the balance after such issue is not less than 25% of the registered capital.

- (c) Pursuant to the notice "Cai Qi [2006] No. 67" issued by the Ministry of the Finance of the PRC and a resolution of the Shareholders' meeting on 15 June 2006, the Company is no longer required to make profit appropriation to the statutory public welfare fund commencing from 1 January 2006. The balance of this fund as at 31 December 2005 was transferred to the statutory surplus reserve.
- (d) When the statutory public welfare fund is utilised, an amount equal to the lower of cost of the assets and the balance of the statutory public welfare fund is transferred from the statutory public welfare fund to the general surplus reserve. This reserve is non-distributable other than in liquidation. When the relevant assets are disposed of or written off, the original transfers from the statutory public welfare fund are reversed. In 2006, the Company did not utilise the statutory public welfare fund (2005: RMB Nil). As at 31 December 2006, the net book value of assets acquired utilising the statutory public welfare fund was RMB 30,568,000 (2005: RMB 33,925,000).
- (e) This reserve represents gifts or grants received from China Petrochemical Corporation, the ultimate parent company and which are required to be included in this reserve fund by PRC regulations.
- (f) The transfer to this reserve from the retained profits is subject to the approval by shareholders at general meetings. Its usage is similar to that of statutory surplus reserve.
- (g) Effective 1 January 2002, land use rights which are included in lease prepayments are carried at historical cost base. Accordingly, the surplus on the revaluation of land use rights net of deferred tax asset are reversed to shareholders' equity. Under PRC Accounting Rules and Regulations, land use rights are carried at revalued amounts.
- (h) The fair value reserve comprises the change in the fair value of available-for-sale securities, net of deferred tax, at the balance sheet date, which is based on reliably measured fair values at year end, whereas no such information was available in prior years.
- (i) According to the Company's Articles of Association, the reserve available for distribution is the lower of the amount determined under PRC Accounting Rules and Regulations and the amount determined under IFRSs. As of 31 December 2006, the reserve available for distribution was RMB 4,516,774,000 (2005: RMB 4,573,608,000). Final dividend of RMB 288,000,000 (2005: RMB 720,000,000) in respect of the financial year 2006 was declared after the balance sheet date.