

**(English Translation of Financial Report Originally Issued In
Chinese)**

**CHINA PETROCHEMICAL DEVELOPMENT
CORPORATION**

FINANCIAL STATEMENTS

AND

INDEPENDENT ACCOUNTANTS' REPORT

DECEMBER 31, 2007 AND 2006

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(English Translation of Financial Report Originally Issued In Chinese)

CHINA PETROCHEMICAL DEVELOPMENT CORPORATION

DECEMBER 31, 2007 AND 2006

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INDEPENDENT ACCOUNTANTS' REPORT

The Board of Directors and Stockholders
China Petrochemical Development Corporation

We have audited the accompanying balance sheets of China Petrochemical Development Corporation as of December 31, 2007 and 2006, and the related statements of income, changes in stockholders' equity, and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

Included in the balance of long-term investments as of December 31, 2007 and 2006, were long-term investments from certain equity investees of \$4,535,702 thousand and \$3,630,711 thousand, respectively, which represented 9.96% and 8.03% of the Company's total assets as of December 31, 2007 and 2006, respectively, that were audited by other auditors, whose reports have been furnished to us. Income from these equity investees amounted to \$1,547,916 thousand and \$528,148 thousand, which represented 48.96% and 28.07% of the Company's income before income tax for the years ended December 31, 2007 and 2006, respectively. Our opinion, in so far as it relates to the equity investees' earnings and adjustments for profits or losses on intercompany transactions, was based solely on the reports of the other auditors.

We conducted our audits in accordance with the "Rules Governing Certification of Financial Statements by Certified Public Accountants" in the Republic of China and generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the reports of the other auditors provide a reasonable basis for our opinion.

In our opinion, based on our audits and the reports of the other auditors, the financial statements referred to above present fairly the financial position of China Petrochemical Development Corporation as of December 31, 2007 and 2006, and the results of its operations and cash flows for the years then ended, in conformity with the "Regulations Governing the Preparation of Financial Statements by Security Issuers", "Business Entity Accounting Act", "Regulation on Handling Business Entity Accounting" and generally accepted accounting principles of the Republic of China.

Note to Readers:

The financial statements of the Company have been prepared in the local currency and in Chinese. These financial statements have been translated into English. The translated information is consistent with the Chinese language financial statements from which it is derived.

As described in Note 4(h), the Ministry of Economic Affairs, which supervises the state-run corporations, failed to investigate the soil and water pollution on such land. The Environment Protection Administration, Executive Yuan publicly announced that a portion of the land at the Anshun plant was polluted and designated it as under pollution control. The Company still has a dissenting view on the government perception about the condition of pollution on its land located at Anshun. Aside from cooperating with the government in its control and management procedure, the Company is seeking a way to define its responsibilities. Before establishing the actual condition of pollution, scope of pollutants, and remediation plan, the Company is unable to evaluate the possible cost that it may incur. Furthermore, the Environmental Protection Administration has notified the Company that a portion of the land at the Chian Jen Training Center has been polluted by mercury, and another portion that is rented out was polluted by the lessee. The land was designated as under pollution control by the Kaohsiung Municipal Government Environmental Protection Bureau. The Company continues with its remediation work and apply for improving the situation of this pollution problem to the Kaohsiung Municipal Government Environment Protection Bureau. The Company is unable to evaluate the possible outcome of this case before the Kaohsiung Municipal Government Environmental Protection Bureau draws a conclusion.

KPMG Certified Public Accountants
CPA: Charles Chen
CPA: Charlotte Lin
Securities and Futures Commission
Ministry of Finance, R.O.C. regulation
(88) Tai-Tsai-Jung (6) No. 18311
March 27, 2008

Note to Readers:

The financial statements of the Company have been prepared in the local currency and in Chinese. These financial statements have been translated into English. The translated information is consistent with the Chinese language financial statements from which it is derived.

(English Translation of the Report Originally Issued in Chinese)
CHINA PETROCHEMICAL DEVELOPMENT CORPORATION
BALANCE SHEETS
DECEMBER 31, 2007 AND 2006
(Expressed in thousands of New Taiwan dollars)

	December 31, 2007		December 31, 2006	
	Amount	%	Amount	%
ASSETS				
Current Assets				
Cash and cash equivalents (Notes 2 and 4.a)	\$ 1,608,354	4	\$ 2,079,164	5
Notes and accounts receivable, net (Notes 2, 4.c and 5)	3,198,400	7	2,765,353	6
Inventories, net (Notes 2 and 4.d)	2,694,933	6	2,127,904	4
Office supplies	231,235	1	228,235	1
Payment in advance (Notes 2 and 7)	145,766	-	845,635	2
Pledged time deposit (Note 6)	162,723	-	164,488	-
Other current assets (Notes 4.o and 5)	180,288	-	339,601	1
	8,221,699	18	8,550,380	19
Fund and Investments				
Long-term equity investments—equity method (Notes 2, 4.e and 6)	6,294,127	14	4,864,345	11
Financial assets reported at fair value through profit or loss— non-current (Notes 2, 4.b and 6)	569,812	1	451,248	1
Available-for-sale financial assets—non-current (Notes 2, 4.b and 6)	1,443,546	3	1,441,413	3
Financial assets carried at cost—non-current (Notes 2, 4.b and 6)	606,600	1	1,054,737	2
Other financing assets—non-current (Notes 2 and 6)	944,268	2	987,458	2
	9,858,353	21	8,799,201	19
Fixed Assets (Notes 2, 4.f and 6)				
Land	5,288,932	12	5,309,843	12
Land improvements	202,752	-	193,513	-
Buildings	1,431,535	3	1,363,729	3
Machinery and equipment	30,445,879	67	29,726,222	66
Transportation equipment	57,283	-	43,868	-
Other equipment	106,825	-	95,179	-
Cost and incremental value from revaluation	37,533,206	82	36,732,354	81
Less: Accumulated depreciation	(18,795,077)	(41)	(17,050,310)	(38)
Less: Accumulated impairment—fixed assets	(5,450)	-	(4,731)	-
Construction in progress and prepayment for land	635,000	1	235,088	1
	19,367,679	42	19,912,401	44
Other Assets				
Assets for lease (Notes 2, 4.g and 6)	3,708,152	9	3,717,415	8
Idle assets (Notes 2, 4.h and 6)	4,243,147	10	4,228,641	10
Other (Notes 2 and 4.i)	118,065	-	19,922	-
	8,069,364	19	7,965,978	18
TOTAL ASSETS	\$ 45,517,095	100	\$ 45,227,960	100

The accompanying notes are an integral part of the financial statements.
(With KPMG audit report dated March 27, 2008)

(English Translation of the Report Originally Issued in Chinese)

CHINA PETROCHEMICAL DEVELOPMENT CORPORATION

BALANCE SHEETS

DECEMBER 31, 2007 AND 2006

(Expressed in thousands of New Taiwan dollars)

	December 31, 2007		December 31, 2006	
	Amount	%	Amount	%
LIABILITIES AND STOCKHOLDERS' EQUITY				
Current Liabilities				
Notes and accounts payable (Note 5)	\$ 1,667,126	4	1,274,756	3
Accrued expenses and other payables	2,083,725	4	1,113,081	2
Long-term liabilities due within one year (Notes 4.j and 4.m)	-	-	765,000	2
Other current liabilities	21,133	-	67,901	-
	<u>3,771,984</u>	<u>8</u>	<u>3,220,738</u>	<u>7</u>
Long-term Liabilities				
Bonds payable (Notes 2 and 4.k)	-	-	3,133,682	7
Long-term loans (Note 4.j)	10,073,680	22	10,992,153	24
Long-term bills payable, net of discount (Note 4.l)	3,493,849	8	2,783,033	6
	<u>13,567,529</u>	<u>30</u>	<u>16,908,868</u>	<u>37</u>
Other Liabilities				
Reserve for land value incremental tax (Notes 4.m)	3,879,514	9	3,879,988	9
Accrued pension liabilities (Notes 2 and 4.n)	546,810	1	553,552	1
Other	199,202	-	251,303	1
	<u>4,625,526</u>	<u>10</u>	<u>4,684,843</u>	<u>11</u>
Total Liabilities	<u>21,965,039</u>	<u>48</u>	<u>24,814,449</u>	<u>55</u>
Stockholders' Equity				
Capital stock, common, \$10 par value, authorized 2,600,000,000 shares; 1,689,999,459 shares issued and outstanding	16,899,995	37	16,899,995	37
Capital surplus (Note 4.p)				
Long-term investments	320,143	1	55,744	-
Retained earnings (Note 4.r)				
Legal reserve	297,803	1	119,971	-
Special reserve	-	-	1,079,738	2
Unappropriated earnings	2,867,651	6	1,778,323	5
Other adjustment to stockholder's equity:				
Unrealized loss on long-term investments (Note 2)	(988,991)	(2)	(1,009,036)	(2)
Cumulative translation adjustment (Note 2)	(13,231)	-	(5,038)	-
Unrealized incremental value from asset revaluation (Note 4.q)	4,168,686	9	1,493,814	3
Total Stockholders' Equity	<u>23,552,056</u>	<u>52</u>	<u>20,413,511</u>	<u>45</u>
Significant Commitments and Contingencies (Notes 2 and 7)				
TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY	<u>\$ 45,517,095</u>	<u>100</u>	<u>\$ 45,227,960</u>	<u>100</u>

The accompanying notes are an integral part of the financial statements.

(With KPMG audit report dated March 27, 2008)

(English Translation of the Report Originally Issued in Chinese)
CHINA PETROCHEMICAL DEVELOPMENT CORPORATION
STATEMENTS OF INCOME
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006
(Expressed in thousands of New Taiwan dollars)

	2007		2006	
	Amount	%	Amount	%
Operating revenue (Note 5)	\$ 36,049,347	100	\$ 32,371,683	100
Cost of goods sold (Note 5)	(32,237,916)	(89)	(29,641,240)	(92)
Unrealized profit on intercompany transactions (Note 2)	(5,479)	-	(3,714)	-
Realized profit on intercompany transactions (Note 2)	3,714	-	12,447	-
Gross profit	<u>3,809,666</u>	<u>11</u>	<u>2,739,176</u>	<u>8</u>
Operating expenses				
Marketing	(558,434)	(2)	(564,618)	(2)
Administration	(227,856)	(1)	(241,895)	(1)
Research and development	(110,738)	-	(109,907)	-
	<u>(897,028)</u>	<u>(3)</u>	<u>(916,420)</u>	<u>(3)</u>
Income from operations	<u>2,912,638</u>	<u>8</u>	<u>1,822,756</u>	<u>5</u>
Non-operating income				
Income from equity method investments (Notes 2 and 4.e)	2,141,441	6	792,576	2
Gain on disposal of fixed assets (Notes 2 and 5)	1,984	-	188,876	1
Gain on disposal of investment	141,946	-	-	-
Foreign exchange gain (Note 2)	-	-	82,011	-
Rental income (Note 5)	33,706	-	35,243	-
Revaluation gain on financial assets	118,564	-	70,064	-
Other (Note 5)	204,339	1	204,837	1
	<u>2,641,980</u>	<u>7</u>	<u>1,373,607</u>	<u>4</u>
Non-operating expenses				
Interest expense	(621,169)	(2)	(887,486)	(3)
Loss on disposal of investment	-	-	(14,283)	-
Foreign exchange loss	(30,289)	-	-	-
Financial expenses	(74,617)	-	(82,591)	-
Loss from temporary suspension of production (Note 4.t)	(963,138)	(3)	(182,078)	(1)
Impairment loss	(368,719)	(1)	(77,668)	-
Other	(334,925)	(1)	(71,009)	-
	<u>(2,392,857)</u>	<u>(7)</u>	<u>(1,315,115)</u>	<u>(4)</u>
Income before income tax	<u>3,161,761</u>	<u>8</u>	<u>1,881,248</u>	<u>5</u>
Income tax expense (Notes 2 and 4.o)	<u>(294,110)</u>	<u>(1)</u>	<u>(147,338)</u>	<u>-</u>
Income before cumulative effect of change in accounting principle	<u>\$ 2,867,651</u>	<u>7</u>	<u>\$ 1,733,910</u>	<u>5</u>
Cumulative effect of change in accounting principle (Note 3)	<u>-</u>	<u>-</u>	<u>44,413</u>	<u>-</u>
Net income	<u><u>\$ 2,867,651</u></u>	<u><u>7</u></u>	<u><u>\$ 1,778,323</u></u>	<u><u>5</u></u>
	Before Tax	After Tax	Before Tax	After Tax
Income before cumulative effect of change in accounting principle	\$ 1.87	1.70	\$ 1.11	1.02
Cumulative effect of change in accounting principle	-	-	0.03	0.03
Basic earnings per share (Note 4.s)	<u><u>\$ 1.87</u></u>	<u><u>1.70</u></u>	<u><u>\$ 1.14</u></u>	<u><u>1.05</u></u>

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CHINA PETROCHEMICAL DEVELOPMENT CORPORATION
STATEMENTS OF EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006
(Expressed in thousands of New Taiwan dollars)

	Common stock	Capital surplus	Legal reserve	Special reserve	Undistributed retained earnings	Unrealized incremental value from asset revaluation	Cumulative translation adjustment	Unrealized gain (loss) on financial instruments	Total
Balance - January 1, 2006	\$ 16,899,995	55,744	-	-	1,199,709	1,631,086	(4,285)	(1,632,927)	18,149,322
Reversal of unrealized loss on financial assets - first adoption of SFAS No.34								11,056	11,056
Distributed:									
Legal reserve			119,971		(119,971)				-
Special reserve				1,079,738	(1,079,738)				-
Translation adjustment on foreign currency equity investment							(753)		(753)
Decreases in unrealized incremental value from asset revaluation from selling of fixed assets						(113,581)			(113,581)
Reversal of unrealized loss on financial assets								489,467	489,467
Reversal of unrealized loss on financial assets long-term equity investments-equity method								123,368	123,368
Net income for the year ended December 31, 2006					1,778,323				1,778,323
Decreases in capital surplus from impairment loss						(23,691)			(23,691)
Balance - December 31, 2006	\$ 16,899,995	55,744	119,971	1,079,738	1,778,323	1,493,814	(5,038)	(1,009,036)	20,413,511
Balance - January 1, 2007	\$ 16,899,995	55,744	119,971	1,079,738	1,778,323	1,493,814	(5,038)	(1,009,036)	20,413,511
Distributed:									
Legal reserve			177,832		(177,832)				-
Reversal of special reserve				(1,079,738)	1,079,738				-
Retained earnings transfer to unrealized incremental value from asset revaluation					(2,680,229)	2,680,229			-
Effects of change in percentage of ownership in long-term equity investments-equity method		264,399							264,399
Translation adjustment on foreign currency equity investment							(8,193)		(8,193)
Reversal of unrealized loss on financial assets								18,031	18,031
Reversal of unrealized loss on financial assets long-term equity investments-equity method								2,014	2,014
Decreases in capital surplus from impairment loss						(5,357)			(5,357)
Net income for the year ended December 31, 2007					2,867,651				2,867,651
Balance - December 31, 2007	\$ 16,899,995	320,143	297,803	-	2,867,651	4,168,686	(13,231)	(988,991)	23,552,056

The accompanying notes are an integral part of the financial statements.
(With KPMG audit report dated March 27, 2008)

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CHINA PETROCHEMICAL DEVELOPMENT CORPORATION
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006
(Expressed in thousands of New Taiwan dollars)

	<u>2007</u>	<u>2006</u>
Cash flows from operating activities:		
Net income	\$ 2,867,651	\$ 1,778,323
Adjustments to reconcile net income to net cash provided by operating activities:		
(Income) loss from equity method investments, net of cash dividends received	(1,374,268)	(238,823)
Depreciation	1,533,410	1,513,208
Amortization	7,773	12,241
Loss on disposal of fixed assets	27	48,583
Gain on sale of fixed assets	(1,984)	(188,876)
Loss on disposal of investment	(141,946)	14,283
Reversal of allowance for loss on idle assets	(7,533)	-
Asset impairment loss	368,719	77,668
Financial assets impairment loss carried at cost	57,691	-
Exchange rate translation adjustments	-	(50,265)
Change in assets and liabilities		
Decrease (increase) in notes and accounts receivable	(498,761)	143,381
Increase in inventories	(571,010)	(66,151)
Increase in office supplies	(3,000)	(7,139)
Decrease (increase) in payment in advance	699,869	(771,502)
(Increase) decrease in other current assets	(74,417)	(27,197)
Decrease in deferred income tax assets	211,303	147,338
Increase in notes and accounts payable	392,370	263,857
Increase in accrued expenses and other payables	970,644	333,755
Decrease in other current liabilities	(24,341)	(4,925)
Decrease in accrued pension liabilities	(6,742)	(3,287)
Net cash provided by operating activities	<u>4,405,455</u>	<u>2,974,472</u>
Cash flows from investing activities:		
Decrease in pledged time deposits, net	1,765	1,070
Proceeds from sale of fixed assets	2,241	736,329
Decrease in available-for-sale financial assets–non–current	15,897	17,468
Decrease in advance real estate receipts	-	(441,997)
Decrease in long-term equity investments	12,318	77,600
Financial assets disinvestment	22,446	-
Increase in financial assets reported at fair value through profit or loss-non-current	(118,564)	(114,477)
Disposal long-term investment	349,112	-
Increase in fixed assets	(989,554)	(626,442)
Decrease (increase) in other financial assets–non–current	43,190	(24,719)
Decrease (increase) in other assets	(105,916)	891
Net cash used in investing activities	<u>(767,065)</u>	<u>(374,277)</u>

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STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2007 AND 2006
(Expressed in thousands of New Taiwan dollars)

	<u>2007</u>	<u>2006</u>
Cash flows from financing activities:		
Decrease in short-term loans	-	(149,952)
Increase (decrease) in long-term bills payable	710,816	(135,467)
Decrease in secured bonds payable	(3,133,682)	(155,956)
Decrease in long-term loans	(1,683,473)	(795,223)
Decrease in other liabilities	(2,861)	(9,454)
Net cash used in financing activities	<u>(4,109,200)</u>	<u>(1,246,052)</u>
Net (decrease) increase in cash and cash equivalents	\$ (470,810)	\$ 1,354,143
Cash and cash equivalents, beginning of the year	<u>2,079,164</u>	<u>725,021</u>
Cash and cash equivalents, end of the year	<u>\$ 1,608,354</u>	<u>\$ 2,079,164</u>
Supplemental disclosures of cash flow information:		
Interest paid during the year	<u>\$ 611,776</u>	<u>\$ 884,794</u>
Investing and financing activities not affecting cash flows:		
Reclassification of long-term loans due within one year	<u>\$ -</u>	<u>\$ 765,000</u>
Transfer of inventory to fixed assets	<u>\$ 3,981</u>	<u>\$ 21,375</u>
Income (loss) from equity method investment, net of cash dividends received		
Income from equity method investment	\$ 2,141,441	\$ 792,576
Add: Dividend revenue from equity method investment during the year	(767,173)	(553,753)
	<u>\$ 1,374,268</u>	<u>\$ 238,823</u>

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CHINA PETROCHEMICAL DEVELOPMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006

(Amounts expressed in thousands of New Taiwan dollars, unless otherwise stated)

1. HISTORICAL HIGHLIGHTS AND SCOPE OF BUSINESS

China Petrochemical Development Corporation (CPDC) was founded on April 24, 1969, as a state-owned enterprise and is engaged in the production and sale of intermediate petrochemical products. Its primary products are acrylonitrile, caprolactam, acetic acid and nylon.

On June 20, 1994, pursuant to the ratification under the “Public Enterprise Privatization Ordinance” by the Executive Yuan and Legislative Yuan, Chinese Petroleum Corporation, which owned 76.32% of CPDC, reduced its ownership to 32.9% and designated its divested shares for the purpose of privatization of CPDC. Currently, the authorized scope of CPDC’s business includes the following:

- a. Production of caprolactam, acrylonitrile, acetic acid and other petrochemical products and by-products.
- b. Storage, transportation, purchase and sale of these products, related chemicals and their raw materials.
- c. Business related to the purchase and sale, import and export, and buying and selling of general commodities.
- d. Supply of technological services related to petrochemical products and by-products, processes and equipment operation.
- e. Research and development related to chemicals.
- f. Buying and selling, warehousing, transport and exhibiting of merchandise.
- g. Operating restaurants and hotels.
- h. Computer systems design, sale, information registration and processing.
- i. Appointment and management of contractors to build commercial buildings for leasing and selling of public housing developments, building factories on general industrial land, leasing and selling of warehouses, and accepting assignment from competent industry authorities to engage in development, leasing, selling and management of industrial zones.
- j. Operating amusement parks and golf practice courses (under 5 holes).
- k. Investment in and construction of parking lots in urban planning regions.
- l. Operating gasoline stations, sale of diesel fuel and automotive liquid petroleum gas, and lubricating maintenance for vehicles and motorcycles.
- m. Construction and operation of power plants.
- n. Environmental protection-related businesses (disposal of general wastes, industrial wastes and hazardous wastes and related engineering businesses).
- o. Import and export of animal feeds and additives to feeds.
- p. Except for those businesses that require special government permission, the Company will also engage in other businesses not forbidden or restricted by laws.

As of December 31, 2007, the Company had total manpower of 947 employees.

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CHINA PETROCHEMICAL DEVELOPMENT CORPORATION
NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007 AND 2006

(Amounts expressed in thousands of New Taiwan dollars, unless otherwise stated)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Company prepared its financial statements in accordance with the “Regulations Governing the preparation of Financial Statements by Security Issuers”, the “Business Entity Accounting Act”, the “Regulation on Handling Business Entity Accounting” and generally accepted accounting principles in the Republic of China. The major accounting policies adopted in preparing these financial statements are as follows:

a. Foreign Currency Transaction and Financial Report Translation

The Company’s functional currency is the New Taiwan dollar. Non-financial derivatives are recorded at spot rates on the transaction date and adjusted by the spot rates on the balance sheet date, with exchange gain and loss included in current earnings. The balance sheet accounts of any Company’s offshore subsidiaries which are denominated in currencies other than the New Taiwan dollar are translated at exchange rates prevailing at the end of the year. Shareholders’ equity is translated at historical rates except for the beginning balance of retained earnings. Revenue and expense accounts are translated using the weighted-average exchange rates during the year. Gains and losses resulting from such translations are recorded as a cumulative translation adjustment, a separate component of stockholders’ equity.

b. Basis for Classifying Assets and Liabilities as Current and Non-current

Unrestricted cash, cash equivalent, assets held for trading, or other assets that the Company will convert to cash or use within a relatively short period of time - one year or one operating cycle, whichever is longer, are classified as current asset, otherwise they are classified as non-current asset. Debts due within one year or one operating cycle, whichever is longer, are classified as current liabilities, otherwise they are classified as non-current liabilities.

c. Asset Impairment

Effective January 1, 2005, the Company adopted the Statement of Financial Accounting Standards No. 35 (SFAS 35) “Accounting for Asset Impairment”. In accordance with SFAS 35, the Company assesses at each balance sheet date whether there is any indication that an asset (individual asset or cash-generating unit) other than goodwill may have been impaired. If any such indication exists, the Company estimates the recoverable amount of the asset. The Company recognizes impairment loss for an asset whose carrying value is higher than the recoverable amount.

The Company reverses an impairment loss recognized in prior periods for assets other than goodwill if there is any indication that the impairment loss recognized no longer exists or has decreased. The carrying value after the reversal should not exceed the recoverable amount or the depreciated or amortized balance of the assets assuming no impairment loss was recognized in prior periods.

The Company assesses the cash-generating unit to which goodwill is allocated on an annual basis and recognizes an impairment loss on the excess of carrying value over the recoverable amount.

d. Cash Equivalents

Government bonds under repurchase agreements and notes acquired with maturities of less than three months from the date of purchase are classified as cash equivalents.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

e. Financial Instruments

Effective January 1, 2006, the Company adopted the newly released Statements of Financial Accounting Standards No. 34, "Accounting for Financial Instruments" (SFAS No. 34). In accordance with SFAS 34, the Company classified the financial assets as financial assets / liabilities at fair value through profit or loss, available-for-sale financial assets, held-to-maturity financial assets, financial assets carried at cost, and bond investment.

The Company uses trading-date accounting for financial instrument transactions. The financial instruments are initially recognized at fair value plus transaction costs, except for the financial instruments held for trading.

After initial recognition, the financial instruments that the Company held or issued are classified depending on the Company's intention as shown below:

(i) Financial assets (liabilities) reported at fair value through profit or loss

These financial assets (liabilities) are classified as held for trading and initially designated at fair value through profit or loss.

Financial assets held for trading are those that the Company principally holds for the purpose of short-term profit-taking. The financial derivatives, except for those that meet the criteria for hedge accounting, are reported as financial assets (liabilities) at fair value through profit or loss.

If the hybrid instruments include the main contract and embedded derivatives and the market value of embedded derivatives is not available on the balance sheet date, these hybrid instruments are designated as financial assets (liabilities) and are valued at fair value through profit or loss.

(ii) Available-for-sale financial assets

Available-for-sale financial assets are initially recognized at fair value and any subsequent changes in fair value is recognized as an adjustment to stockholders' equity. If there is an objective evidence that financial assets have been impaired, impairment loss is recognized thereon. If, in a subsequent period, the amount of the impairment loss decreases, the previously recognized impairment loss is not reversed. However, if the decrease is clearly attributable to an event which occurred after the impairment loss was recognized, the previously recognized impairment loss is reversed to the extent of the decrease.

(iii) Held-to-maturity financial assets

Debt securities for which the Company has a positive intention and ability to hold to maturity are categorized as held-to-maturity financial assets and are carried at amortized cost under the effective interest method. Those financial assets are initially recognized at fair value plus transaction costs that are directly attributable to the acquisition. Earnings or losses are recognized at the time of derecognition, impairment or amortization. A regular way purchase or sale of financial assets is accounted for using settlement-date accounting.

(iv) Financial assets carried at cost

Investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are carried at original cost. If there is objective evidence that a financial asset is impaired, a loss is recognized. The subsequent recovery in fair value is not recognized.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(V) Bond investment

The cost of issuing convertible bonds is amortized over the life of the bond. If there is objective evidence that an impairment loss is incurred on the balance sheet date, an impairment loss is recognized. If the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the impairment loss is reversed. This reversal should not result in the carrying amount of the financial asset exceeding the amortized cost that would have been determined had no impairment loss been recognized.

Investments the Company held before December 31, 2005, which are classified to short-term investment or long-term investment are classified according to the Company's intention of holding. Investments are carried at cost and valued by under the lower-of-cost-or-market method. Market values of listed securities are determined based on the average market price on the last month of the accounting year. The market value of open-end mutual funds is based on the net asset value of the mutual funds on the balance sheet date. Valuation loss on long-term investment is recorded under stockholders' equity and valuation loss on short-term investment is recorded to current gain or loss.

e. Derivative financial instruments and hedges

The Company uses derivative financial instruments to hedge its exposure to foreign exchange and interest rate risks arising from operational, financing and investment activities. In accordance with the policy, the Company holds or issues derivative financial instruments for hedge purposes. However, derivatives that do not qualify for hedge accounting are accounted for as trading instruments.

When a hedge transaction meets all the conditions for hedge accounting, the change in fair value of the hedging financial instrument as well as the hedged item is recognized using the net amount. The respective accounting treatments are as follows:

(i) Fair value hedges

The hedging instrument is stated at fair value. Any gains or losses on the hedging instrument as well as the change in carrying amount resulting from the fluctuation of exchange rate are recognized in the income statement. The hedged item also is stated at fair value in respect of the risk being hedged, with any gains or losses being recognized in the income statement.

(ii) Cash flow hedges

The effective portion of changes in the fair value of derivatives that are designated as cash flow hedges are recognized in equity. When the transaction being hedged subsequently results in the recognition of an asset or a liability, the gains and losses previously deferred in equity are transferred from equity and recognized in the income statement in the same periods when the asset or liability affects profit or loss.

(iii) Net investment hedges

Gains or losses on instruments used to hedge a net investment in a foreign operation that is determined to be an effective hedge are recognized directly in equity, and are transferred from equity and included in the income statement when the foreign operation is disposed of.

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f. Allowance for Bad Debts

Allowance for bad debts is provided based on management's estimate of the collectibility of overdue notes and accounts receivable, as follows:

Overdue	0- 90 days	0 %
Overdue	91-120 days	2 %
Overdue	121-180 days	10 %
Overdue	181-365 days	50 %
Overdue	365 days	100 %

g. Inventories

Inventories are stated at the lower of moving-weighted-average cost or market value. The market value of raw materials is determined using the replacement cost method, while that of work-in-progress and finished goods is determined using the net realizable value method. An allowance for decline in market value is provided for the excess of cost over market value. An allowance is also provided for obsolete and slow-moving inventory items.

h. Investments Accounted for Using Equity Method

Long-term equity investments are carried at acquisition cost. When the Company has significant influence over the operating, financial and dividend policies of investees, those investments are accounted for under the equity method. The Company prepares both semi-annual and year-end consolidated financial statements, which include the accounts of those investees accounted for under the equity method and in which the Company has controlling interest over their operations.

Effective January 1, 2006, pursuant to the revised Statement of Financial Accounting Standards No. 5, "Long-term Investments in Equity Securities" (SFAS No. 5), investment premiums, representing goodwill, are no longer being amortized, while investment discounts are continuously amortized over the remaining amortization periods prescribed by this Standard. When impairment occurs, the carrying amount of the investment is reduced, with the related impairment loss charged to current income.

Upon sale of long-term investments, the weighted-average method is adopted in calculating the cost and disposal gain or loss. The capital surplus and cumulative translation adjustments arising from long-term equity investments are adjusted against current year's gain or loss based on the percentage of sale.

Unrealized profits/losses on inter-company transactions are eliminated and deferred. Gains and losses arising from inter-company depreciable asset transactions are recognized ratably over the economic lives of those depreciable assets, while those from other assets are recognized immediately.

When the Company's share of an investee company's losses equals to or exceeds the carrying amount of an investment in which the Company has control over its operations, the Company shall continue to recognize all investment losses.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

i. Fixed Assets, Assets for Lease, Idle Assets and Depreciation

Fixed assets are stated at cost plus incremental value from revaluation. Land revaluation is based upon the Government Announced Price. The liability from land value increment tax is also accrued and deferred until it is paid upon disposal of the revalued land. Depreciable fixed assets are stated at cost plus incremental value from revaluation less depreciation. The revaluation of depreciable assets is carried out in accordance with the Enterprise Asset Revaluation Rules as announced by the government. Fixed assets are depreciated using the straight-line method over the government prescribed service lives, which closely approximate the estimated useful lives of the assets, as follows:

Land improvements	10 years
Buildings	5 – 60 years
Machinery and equipment	4 – 17 years
Transportation equipment	3 – 5 years
Other equipment	2 – 13 years

Interest cost incurred during the period before the fixed assets are ready for their intended use is capitalized as incurred. Major additions, improvements and renewals are capitalized. Gain or loss on disposal of fixed assets is recognized currently. Fixed assets for lease are classified as to other asset-assets for lease, which rent revenue is charged to non-operating income.

Equipment not use in operation is reclassified to idle assets but continued to be depreciated over its remaining useful life.

j. Deferred Assets and Amortization

Deferred assets consist of capitalized costs on issuance of convertible bonds, handling charges of associated bank credit facilities, capitalized costs on use of Taiwan Power Company's electric circuit and purchase of computer software, which are amortized over their estimated redemption period and usage period, respectively, using the straight-line method.

k. Convertible Bonds Payable

According to Statements of Financial Accounting Standards No. 36 "Disclosure and Presentation of Financial Instruments", convertible bonds issued before January 1, 2005, is adopted by the original Statements of Financial Accounting Standards No. 21.

Convertible bonds payable are stated at their face value. Bond issuance costs are recorded as deferred assets and amortized over the term of the bond using the straight-line method. The interest-premium which represents the difference between the nominal interest rate and the effective interest rate from the date of issuance to the last date when the bond holder can exercise the put option, is recognized as a liability periodically by using a reasonable and systematic method. When the holder exercises the conversion option, the unamortized discount or premium, issue cost, interest payable, prepaid interest from the holder, recognized interest-premium and par value of the convertible bonds are written off. When bonds are converted into common stock, convertible bonds are recorded at book value on the date of conversion, and no gain or loss is recorded upon conversion (under the book-value approach). If the par value of the common stock is greater than the book value of the bonds, the difference is recorded as a reduction of retained earnings. The difference between payment and carrying amount of convertible bonds at early extinguishment date is recognized as an extraordinary loss or gain in the current period, if it is material. Convertible bonds are classified as current or long-term liabilities on balance sheet according to the maturity date and the bonds with callable rights are classified according to the exercise date.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

1. Employee pension and termination pay plan

After its privatization, the Company established a retirement and severance plan for its permanent employees. Contributions to the plan are based on the Company's pension and severance fund contribution ratio as approved in December 1994 (and revised in November 1995), and are deposited in a designated account with the Central Trust of China.

Under the R.O.C. Labor Standards Law, employees are entitled to pension payments if they have earned at least 15 years of employment and are over 55 years old. Otherwise, pension benefit entitlement starts after 25 years of employment. Pension payments are made in accordance with the R.O.C. Labor Standards Law, which are based upon two basic points for each service year, up to 15 years and one basic point per year thereafter up to a maximum of 45 basic points. Pension payment is calculated based on the employee's service years and the average monthly salary for the last six months prior to the retirement date. The number of service years starts from the date of employment regardless of the privatization. In the case of employees who received pension benefit payments when the Company went private, their service years are calculated from the effective date of privatization.

The Labor Pension Act of R.O.C. ("the Act"), which adopts a defined contribution pension plan, takes effect from July 1, 2005. In accordance with this Act, employees of the Company (who were hired prior to July 1, 2005) may elect to be subject to either the Act, and maintain their seniority before the enforcement of the Act, or the pension mechanism of the Labor Standards Law. Employees who are hired by the Company after July 1, 2005, shall comply with the provisions of this Act. For employees subject to this Act, the Company contributes monthly to the employees' individual pension accounts an amount equal to not less than 6% of the employees' monthly wages and deposits it in a personal retirement benefit account. However, the retirement plan currently maintained by the Company is yet to be amended in compliance with this Act.

Accrued pension cost is recognized as a liability in the Company's balance sheet if the net periodic pension cost exceeds the amounts funded to date. Alternatively, prepaid pension cost is recognized as an asset if the net periodic pension cost is less than the amount funded to date.

An additional minimum liability is recorded if an unfunded accumulated benefit obligation exists and (a) an asset has been recognized as prepaid pension cost, (b) the liability already recognized as unfunded accrued pension cost is less than the unfunded accumulated benefit obligation, or (c) no accrued pension cost or pension cost has been recognized.

If an additional minimum liability is recognized, an equal amount is recognized as an intangible asset, provided that the asset recognized does not exceed the amount of unrecognized prior service cost plus any unrecognized transition liability or asset. If the additional liability exceeds the unrecognized prior service cost, the excess (which would represent a net loss not yet recognized as net periodic pension cost) is reported as a separate component (that is, a reduction) of equity.

In addition, if the accrued pension liabilities fall below the minimum pension liabilities, an additional accrual is recorded. If the additional minimum pension liability is less than the unrecognized past service cost and unrecognized temporary assets or net benefit obligation, a deferred pension cost is recorded. If the difference exceeds the net benefit obligation, the excess is charged to net loss on unrecognized pension cost and reflected under the stockholders' equity section of the balance sheet. Effective January 1, 1996, the net pension costs are amortized as pension expense in accordance with the requirements of Statement of Financial Accounting Standards No. 18. The Company makes a monthly contribution equal to 2% of salaries to a pension fund which is administered by the Employees' Retirement Fund Supervisory Committee and is deposited under the Committee's name with the Central Trust of China.

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2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

l. Employee pension and termination pay plan

Pursuant to the Act, the Company contributes an amount equal to 6% of gross salary of each employee to the Council of Labor Affairs. These contributions are recognized as pension expense for the current period when actual contributions are made.

m. Revenue recognition

The Company recognizes revenue when products are shipped and the customer takes ownership and assumes the risk of loss, collection of the relevant receivable is probable, persuasive evidence of an arrangement exists and the sales price is fixed or determinable. Cost is recorded at the same time. Expenses are recorded on accrual basis.

n. Income tax

Effective 1995, the Company adopted the new R.O.C. Statement of Financial Accounting Standards No. 22, "Accounting for Income Tax", under which deferred income tax assets and liabilities are recorded for temporary differences between the financial statement and tax bases of assets and liabilities. In addition, future tax benefits such as loss carry forward and tax credits are recognized, to the extent that realization of such benefits are more likely than not. A valuation allowance is recorded against deferred tax assets when, based on all available evidence, it is determined that it is more likely than not that some portion or all of such assets will not be realized. Depending on the nature and timing of reversal, the related assets or liabilities are classified as current or non-current. Normal adjustments for over or under estimation of prior year's income tax are recorded in the current year.

The 10% surtax on undistributed earnings is expensed in the year when the shareholders approved not to distribute the earnings, which is the year subsequent to the year when the earnings are incurred.

o. Earnings per share

Corporations with simple capital structures disclose simple earnings per share on the face of the income statements. Those with complex capital structures disclose primary earnings per share and fully diluted earnings per share on the face of the income statement. A simple capital structure means that a corporation has common stock only, or has common stock and non-convertible preferred stock, or has convertible securities, options, or warrants, but the conversions of these securities, options or warrants do not decrease the earnings per share by 3% of simple earnings per share even if all of them had been converted into common stock. A capital structure other than those described above is a complex capital structure. For corporations with simple capital structures, earnings per share is calculated by dividing net income (or loss) with the weighted-average number of common shares outstanding. A primary earning per share is the amount of earnings attributable to each share of common stock under the assumption that all dilutive common stock equivalents and contingent shares have been converted or issued. Fully-diluted earnings per share is the amount of earnings attributable to each share of common stock under the assumption that all dilutive securities have been converted or exercised and that all contingent shares have been issued.

Earnings per share are presented for all periods covered by comparative income statements. If a complex capital structure exists in any of the periods covered by comparative income statements, both primary earnings per share and fully diluted earnings per share are presented for all periods.

p. Commitments and contingencies

For material commitments and contingencies, the loss is recognized in the current year if it is probable that a loss will occur and the amount of loss can be reasonably estimated. Otherwise, it is only disclosed in the notes to the financial statements.

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3 REASONS AND EFFECT OF CHANGES IN ACCOUNTING

Effective January 1, 2007, the Company adopted the Republic of China Statement of Financial Accounting Standards (SFAS) No. 37 "Intangible Assets", under which, the Company re-evaluated the economic useful life and the method of amortizing its intangible assets. The results thereof did not affect the Company's financial statements as of January 1, 2007.

4 DETAILS OF MAJOR ACCOUNTS

a. Cash and cash equivalents

	<u>December 31, 2007</u>	<u>December 31, 2006</u>
Cash on hand	\$ 560	\$ 560
Cash in bank		
Checking deposits	157,638	356,720
Demand deposits	16,900	227,705
Time deposit	683,256	1,494,179
Sub-total	<u>857,794</u>	<u>2,078,604</u>
Cash equivalents	<u>750,000</u>	<u>-</u>
Total	<u>\$ 1,608,354</u>	<u>\$ 2,079,164</u>

b. Financial Instruments

	<u>December 31, 2007</u>	<u>December 31, 2006</u>
Financial assets reported at fair value through profit or loss-noncurrent		
Listed securities-Yuanta Financial Holdings Company	\$ 336,771	\$ 336,771
Add: Adjustment on valuation of financial assets reported as at fair value through profit or loss-non current	233,041	114,477
Total	<u>\$ 569,812</u>	<u>\$ 451,248</u>
Available for sale financial assets-non-current listed companies:		
BES Engineering Co., Ltd.	\$ 1,580,885	\$ 1,596,783
China Development Financial Holding Corp.	814,911	814,911
Less: Adjustment on valuation of available for sale financial assets	<u>(952,250)</u>	<u>(970,281)</u>
Total	<u>\$ 1,443,546</u>	<u>\$ 1,441,413</u>

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4 DETAILS OF MAJOR ACCOUNTS(CONT'D)

b. Financial Instruments(cont'd)

	<u>December 31, 2007</u>	<u>December 31, 2006</u>
Financial assets carried at cost-non-current		
Equity securities-common stock:		
Chienkung Investment Co., Ltd.	\$ 34,444	\$ 89,775
Hardy Chemical Co., Ltd.	4,400	4,400
Overseas Investment Development Co., Ltd.	26,000	26,000
Core Pacific Venture Capital Corp.	19,191	42,503
Core Pacific City Co., Ltd.	522,565	890,565
Neuro Logic Inc.	-	1,494
Total	<u>\$ 606,600</u>	<u>\$ 1,054,737</u>

- In accordance with the Accounting Research and Development Foundation Letter Ruling (94) No.166, because of YUANTA CORPORATION SECURITIES were pledged as collateral for bank loans, those should reclassify to Financial assets designed as at fair value through profit or loss and separate from financial asset for trading.
- On April 2, 2007, Yuanta Core Pacific Securities merged with Fuhwa Financial Holding Company Limited (state-run), under which, 1 share of Yuanta Core Pacific Securities was swapped for 1.615 shares of Fuhwa Financial Holding Company Limited. On August 1, 2007, Fuhwa Financial Holding Company Limited changed its name to Yuanta Financial Holding Company.
- On June 21, 2007, Chien Kung Investment Co., Ltd. decided to decrease its capital by \$327,888 by covering up its losses of \$253,368 and refunding the balance to its shareholders. Therefore, the Company recognized losses of \$42,756 and received a cash refund of \$12,575 on July 15, 2007 based on its original share holding percentage. As of December 31, 2007, receivables from Chien Kung Investment Co., Ltd. were already received.
- On June 8, 2007, Core Pacific Venture Capital Corp. decided to decrease its capital by \$189,410 by covering up its losses of \$121,350 and refunding the balance to its shareholders. Therefore, the Company recognized losses of \$14,935 and received a cash refund of \$8,377 on July 1, 2007 based on its original share holding percentage. As of December 31, 2007, receivables from Core Pacific Venture Capital Corp. were already received.
- In 2007 and 2006, because the estimated recovery value of the investments under cost method in Core Pacific City Co., Ltd. declined below the carrying value and the probability of loss recovery is deemed minimal in consideration of the results of operations of these investees, impairment loss of \$368,000 and \$77,668, respectively, was recognized thereon.

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4 DETAILS OF MAJOR ACCOUNTS(CONT'D)

b. Financial Instruments(cont'd)

6. BIO Investments LLC decided to decrease its capital on February 28, 2005; therefore, the Company received a capital refund based on its original share holding percentage. Liquidation is still in process on December 31, 2007.
7. Under SFAS No.34, all financial assets of January 1, 2006 were marked-to-market. Market-to-market difference determined as of January 1, 2006, of which \$44,413 thousand was accounted for as cumulative effect of change in accounting principle and \$11,056 thousand was accounted for as an adjustments to stockholders' equity. Market-to-market differences of \$70,064 determined as of December 31, 2006 were charged to and recognized as revaluation gain on financial assets for the year ended December 31, 2006.
8. In 2007, Neuro Logic Inc. decided to liquidate and received from Neuro Logic Inc. assets allocation of \$2,678. The liquidation process was not yet completed as of December 31, 2007.

c. Notes and accounts receivable

	December 31,2007	December 31,2006
Notes receivable	\$ 887,250	\$ 478,039
Accounts receivable	2,432,569	2,032,690
Accounts receivable-related parties	244,765	626,773
Sub-total	3,564,584	3,137,502
Less: Allowance for bad debts	(366,184)	(372,149)
Net value	\$ 3,198,400	\$ 2,765,353

d. Inventories

	December 31,2007	December 31,2006
Raw materials	\$ 1,056,208	\$ 888,532
Fuel	46,413	65,393
Work-in-process	812,525	640,974
Finished goods	779,787	533,005
Total	\$ 2,694,933	\$ 2,127,904
Market value	\$ 2,791,580	\$ 2,180,398

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4. DETAILS OF MAJOR ACCOUNTS (CONT'D)

e. Long-term investments

	December 31, 2007		December 31, 2006	
	Ownership %	Book Value	Ownership %	Book Value
<u>Equity Method</u>				
Taiwan Prosperity Chemical Co. Ltd. (with original investment cost of \$986,988 and \$1,000,000 on December 31, 2007 and 2006, respectively)	36.37	\$ 2,628,620	40.00	\$ 1,834,533
Chenghuei Industry Co., Ltd. (with original investment cost \$312,500 on December 31, 2006)	-	-	41.67	162,983
Taiwan Chlorine Industries Co., Ltd. (with original investment cost of \$400)	40.00	349,122	40.00	306,710
Kaohsiung Monomer Co., Ltd. (with original investment cost of \$3,840)	40.00	705,086	40.00	617,653
Chung-Kung Safe-Guarding & Security Co., Ltd. (with original investment cost of \$14,400)	24.00	16,609	24.00	16,996
Chung Hua Hsing Trading Co., Ltd. (with original investment cost of \$145,000)	100.00	228,941	100.00	232,507
Chung Shih Hsing Development Corp. (with original investment cost of \$100,000)	100.00	78,241	100.00	77,440
Shih Fu Investment Co., Ltd. (with original investment cost of \$440,125)	100.00	7,139	100.00	(23,856)
Shih Hua Investment Co., Ltd. (with original investment cost of \$437,946)	100.00	4,369	100.00	(25,081)
CPDC Information Consultants Corporation (with original investment cost of \$20,000 on December 31, 2006)	-	-	100.00	18,213
Hua Tung Power Co., Ltd. (with original investment cost of \$244,000)	40.00	40,362	40.00	40,506
China Petrochemical Devt. Co. (Singapore) Pte. Ltd. (with original investment cost of \$136,607)	100.00	55,206	100.00	55,889
CPDC Investment (BVI) Co Ltd. (with original investment cost of \$904,946)	100.00	1,163,356	100.00	697,777
Praxair Chemax Semiconductor Material Co., Ltd. (with original investment cost of \$49,980)	49.00	337,633	49.00	243,046
CPDC Engineering Co., Ltd. (with original investment cost of \$100,000)	100.00	94,724	100.00	81,850
Tsou Seen Chemical Industries Corporation (with original investment cost of \$550,000)	100.00	579,082	100.00	478,242
Rich Equities Ltd. (with original investment cost of \$5,996)	100.00	5,637	-	-
		\$ 6,294,127		\$ 4,815,408

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4. DETAILS OF MAJOR ACCOUNTS (CONT'D)

e. Long-term investments (cont'd)

- (1) The details of the Company's investment income (loss) from long-term equity investments based on investees' audited or non-audited financial statements were as follows:

	<u>2007</u>	<u>2006</u>
Kaohsiung Monomer Co. Ltd.	\$ 417,633	\$ 366,935
Chung Shih Hsing Development Co.	(616)	25
Chung Hua Hsing Trading Co., Ltd.	51,586	61,375
Shih Fu Investment Co., Ltd.	31,332	(71,592)
Shih Hua Investment Co., Ltd.	29,763	(71,553)
CPDC Informational Consultants Co.	101	3
China Petrochemical Devt. Co. (Singapore) Pte. Ltd.	(3,796)	(4,093)
CPDC Investment (BVI) Co., Ltd.	266,475	30,787
CPDC Engineering Co., Ltd.	12,874	12,349
Tsou Seen Chemical Industries Corporation	100,840	32,382
Taiwan Prosperity Chemical Co. Ltd.	924,120	223,541
Taiwan Chlorine Industries Co. Ltd.	221,860	179,448
Chenghuei Industry Co., Ltd.	(45,986)	(55,245)
Chung Kung Safe-guarding & Security Co., Ltd.	1,502	1,959
Hua Tung Power Co., Ltd.	(144)	(278)
Praxair Chemax Semiconductor Material Co., Ltd.	134,103	86,533
Rich Equities Ltd.	(206)	-
	<u>\$ 2,141,441</u>	<u>\$ 792,576</u>

- (2) The aggregate cash dividends from equity investees amounted to \$767,173 and \$553,753 for the years ended December 31, 2007 and 2006, respectively. Dividends received were recorded as a reduction of the carrying value of the related equity investments.
- (3) Kaohsiung Monomer Co. Ltd. decided to decrease its capital by \$194,000 on May 2, 2006; therefore, the Company received a capital refund of \$77,600 based on its original share holding percentage. In addition, Kaohsiung Monomer Co. Ltd. decided to capitalize \$194,000 of its legal reserve on May 2, 2006, and to allocate the stock based on its original share holding percentage.
- (4) In 2007, the Company recognized an investment income from Shih Fu, Investment Co., Ltd. of \$31,332 using the equity method based on investee's audited financial statement. In 2006, the Company recognized an investment loss of \$71,592. As the Company has controlling interest over the said investee's operation, the Company continuously recognized all investment loss under other liabilities.
- (5) In 2007, the Company recognized an investment income from Shin Hwa investment Co., Ltd of \$29,763 using the equity method based on investee's audited financial statements. In 2006, the Company recognized an investment loss of \$71,553. As the Company has controlling interest over the said investee's operation, the Company continuously recognized all investment loss under other liabilities.

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4. DETAILS OF MAJOR ACCOUNTS (CONT'D)

e. Long-term investments (cont'd)

- (6) The Company sold one share at book value of NT\$15 per share of Taiwan Prosperity Chemical Co. Ltd to each of Tsou Seen Chemical Industries Corporation and Chung Hua Hsing Trading Co., Ltd., with no disposal gain or loss thereon.
- (7) In 2007, the Company sold its ownership of 200,000 shares and 1, 200,000 shares for NT\$22 and \$40 per share, respectively, in Taiwan Prosperity Chemical Co. Ltd and recognized a gain on disposal thereof of \$23,858.
- (8) On March 21, 2007, the Company established Rich Equities Ltd. for the purpose of investment. The Company recognized an investment loss of \$206 using the equity method based on investee's audited financial statements for the period from March 21, 2007 to December 31, 2007.
- (9) On November 30, 2006, CPDC Informational Consultants Co. started the legal registration process of its dissolution and it was completed on September 3, 2007. As of December 31, 2007, the Company received its assets allocation.
- (10) On December 24, 2007, the Company sold its equity investment in Chenghuei Industry Co., Ltd. for NT\$9.5 per share and recognized a gain on disposal thereof of \$118,088.
- (11) The Company is normally required to prepare consolidated financial statements. However, the following investees were accounted for under the equity method and not consolidated because they are considered insignificant:

	Ownership %	Revenue	% of consolidated revenue	Total assets	% of total consolidated assets	Reasons of non-consolidation
December 31, 2007						
Chung Shih Hsing Development Co., Ltd	100%	\$ -	-	\$ 78,341	0.17%	Total assets and operating revenue are minor to the Company
CPDC (Singapore) Pte. Ltd.	100%	-	-	57,234	0.13%	"
Rich Equities Ltd.	100%	-	-	5,724	0.01%	"
December 31, 2006						
Chung Shih Hsing Development Co., Ltd	100%	\$ -	-	\$ 77,440	0.17%	Total assets and operating revenue are minor to the Company
CPDC Information Consultant Corporation	100%	-	-	18,295	0.04%	"
CPDC (Singapore) Pte. Ltd.	100%	-	-	57,050	0.13%	"

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4. DETAILS OF MAJOR ACCOUNTS (CONT'D)

f. Fixed assets

	Cost and incremental value from revaluation	Accumulated depreciation	Net
<u>December 31, 2007</u>			
Land	\$ 5,288,932	\$ -	\$ 5,288,932
Land improvements	202,752	149,365	53,387
Buildings	1,431,535	489,559	941,976
Machinery	30,445,879	18,045,205	12,400,674
Transportation equipment	57,283	36,046	21,237
Other equipment	106,825	74,902	31,923
Construction in progress and prepayment	635,000	-	635,000
Total	<u>\$ 38,168,206</u>	<u>\$ 18,795,077</u>	<u>\$ 19,373,129</u>
Less: Accumulated impairment-fixed assets			(5,450)
Net value			<u>\$ 19,367,679</u>
<u>December 31, 2006</u>			
Land	\$ 5,309,843	\$ -	\$ 5,309,843
Land improvements	193,513	135,673	57,840
Buildings	1,363,729	410,516	953,213
Machinery	29,726,222	16,417,703	13,308,519
Transportation equipment	43,868	25,558	18,310
Other equipment	95,179	60,860	34,319
Construction in progress and prepayment	235,088	-	235,088
Total	<u>\$ 36,967,442</u>	<u>\$ 17,050,310</u>	<u>\$ 19,917,132</u>
Less: Accumulated impairment-fixed assets			(4,731)
Net value			<u>\$ 19,912,401</u>

On June 26, 1993, the National Audit Office of the Republic of China approved the revaluation of certain fixed assets owned by the Company based on the Government Announced Prices in July 1992. Accordingly, the carrying value of land was increased and the corresponding increases were charged against the related accounts as follows:

(1) Land	\$ 10,482,983
(2) Long-term liabilities – Deferred land value incremental tax	(5,666,845)
(3) Capital surplus – Reserve for incremental value from revaluation	(4,816,138)

In addition, in accordance with the related regulations, the Company revalued its depreciable fixed assets (including buildings, machinery and transportation equipment) on June 30, 1974 and 1975. The incremental value from this asset revaluation was charged to capital surplus account.

The Company uses a portion of the land and buildings which are useable at Methyl Methacrylate plant. As the carrying value of portion of those useable operating properties cannot be separately established, those operating properties have not been classified as idle assets.

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4. DETAILS OF MAJOR ACCOUNTS (CONT'D)

f. Fixed assets (cont'd)

The land located at Yi Xin Yi road in Kaohsiung city was originally used as the Company's Kaohsiung plant, whose production was intermittently suspended because of the economic factors. When the plant production was finally discontinued at the end of 2003, the pollution inspection and remediation work immediately proceeded as it was designated as under pollution control by the Kaohsiung Municipal Government Environmental Protection Bureau in accordance with the "Soil and Groundwater Pollution Remediation Law". The Company apply for improving the situation of this pollution problem to the Kaohsiung Municipal Government Environment Protection Bureau and got approved in April, 2007. The Company continues with its remediation work and has accrued and inputted relevant remediation project expenses of approximately \$54,876 as of December 31, 2007.

g. Assets for lease

	Cost and incremental value from revaluation	Accumulated depreciation	Net
<u>December 31, 2007</u>			
Land	\$ 5,259,603	\$ -	\$ 5,259,603
Buildings	54,348	12,515	41,833
Transportation equipment	36,705	33,368	3,337
Total	<u>\$ 5,350,656</u>	<u>\$ 45,883</u>	\$ 5,304,773
Less: Accumulated impairment -assets for lease			<u>(1,596,621)</u>
Net value			<u>\$ 3,708,152</u>
<u>December 31, 2006</u>			
Land	\$ 5,266,021	\$ -	\$ 5,266,021
Buildings	54,348	11,521	42,827
Transportation equipment	36,705	33,368	3,337
Total	<u>\$ 5,357,074</u>	<u>\$ 44,889</u>	\$ 5,312,185
Less: Accumulated impairment -assets for lease			<u>(1,594,770)</u>
Net value			<u>\$ 3,717,415</u>

In 2005, the Company leased portion of its land at Lin Yuan Industrial Park to Taiwan Prosperity Chemical Co., Ltd. The rental is subject to adjustment based on the ROC Consumer Price Index. The monthly rental (including tax) amounted to \$2,690. The Company sold this land to Taiwan Prosperity Chemical Co., Ltd on December 12, 2005 and transferred the ownership completely on January 25, 2006. The original lease contract was terminated simultaneously. The rental until January 25, 2006 amounted to \$2,285, please see note 5 for details.

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4. DETAILS OF MAJOR ACCOUNTS (CONT'D)

g Assets for lease (cont'd)

The Company leases portion of its land at Tasheh to the Kaohsiung Monomer Co., Ltd. under an agreement with lease term covering a period from July 1, 1994 to June 30, 2014. The rental is subject to adjustment based on the ROC Consumer Price Index. The annual rental income in 2007 and 2006 amounted to \$2,798 and \$2,648.5, respectively. The Company also leases its land and building at the Methyl Methacrylate Plant to the Kaohsiung Monomer Co., Ltd. The lease term is 30 years from May 1, 1976 to April 30, 2006. The annual rental for this land is \$517. Under the agreement, the lease period will be automatically extended to 2036, with no rental to be charged on the land. The rental for the building is subject to adjustment based on the ROC Consumer Price Index. The annual rental for this building in 2007 and 2006 amounted to \$1,691.9 and \$1,688.6, respectively.

The Company leases portion of its land at Tai Nan and Jia Yi to some farmers and fishermen under various lease agreements. The termination of these agreements which may result in the recovery or sale of the land should conform to the provisions of the agreements and the related land regulations. Also, the Company is expecting possible compensation to the farmers, but the possibility of occurrence and the related amounts shall be evaluated.

The Company leases portion of office at Tung Hsing Road to BES Engineering Co., Ltd. under an agreement with a lease term of one year. This agreement is renewable to allow for the extension of the lease period. The monthly lease rental (excluding tax) from October 1, 2005 to September 30, 2007, amounted to \$500.3. The monthly lease rental (excluding tax) from October 1, 2007 amounted to \$529.7.

h. Idle Assets

	Cost and incremental value from revaluation	Accumulated depreciation	Net
<u>December 31, 2007</u>			
Land	\$ 4,956,895	\$ -	\$ 4,956,895
Land improvements	38,761	35,246	3,515
Buildings	117,798	79,781	38,017
Machinery	1,557,081	1,370,166	186,915
Transportation equipment	1,292	1,077	215
Other equipment	4,782	4,087	695
	<u>\$ 6,676,609</u>	<u>\$ 1,490,357</u>	\$ 5,186,252
Less: Allowance for loss on idle assets			(202,590)
Allowance for impairment loss- idle assets			<u>(740,515)</u>
Net value			<u>\$ 4,243,147</u>

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4. DETAILS OF MAJOR ACCOUNTS (CONT'D)

h. Idle Assets (cont'd)

	<u>Cost and incremental value from revaluation</u>	<u>Accumulated depreciation</u>	<u>Net</u>
<u>December 31, 2006</u>			
Land	\$ 4,898,342	\$ -	\$ 4,898,342
Land improvements	48,217	43,759	4,458
Buildings	216,973	148,019	68,954
Machinery	2,060,394	1,727,147	333,247
Transportation equipment	12,859	10,819	2,040
Other equipment	26,102	23,100	3,002
	<u>\$ 7,262,887</u>	<u>\$ 1,952,844</u>	<u>\$ 5,310,043</u>
Less: Allowance for loss on idle assets			(344,393)
Allowance for impairment loss- idle assets			(737,009)
Net value			<u>\$ 4,228,641</u>

The Anshun plant:

1. A portion of the land where the Anshun plant was located was originally owned by the former state-run company, Taiwan Alkali Company (TAIC).
2. From 1964 to 1979, the Anshun plant started to produce pentachlorophenol, a type of chemical used as herbicide and disinfectant.
3. In early of 1982, the plant discontinued its operation and in 1983, TAIC was merged with the state-run China Petrochemical Development Corp., a government owned entity, which inherited all the land used by TAIC, and the Company was privatized in 1994.
4. However, the Ministry of Economic Affairs, which supervises the state-run corporations, failed to investigate the soil and water pollution on such land. The Environment Protection Administration, Executive Yuan publicly announced about this polluted land and designated it as under pollution control.
5. In 2002, the Tainan city government declared the area as chemical-contaminated zone, a designation upheld in 2004 by the Environmental Protection Administration. Following the said merger, the Company never developed the site for its development operation and neither initiated any other pollution control actions. The Cabinet-level Environmental Protection Administration cited Article 75 of the Republic of China's Corporation Law in notifying that the Company should shoulder the responsibility for the treatment projects and remediation plan. As the Company never used the land since it took over, the Company still has a dissenting view on the government perception about the condition of pollution.
 - (1) The Board of Trade refused to accept the claim compensation of \$10,077 from the Company.
 - (2) The Company filed a petition with the District Court on January 20, 2006. The case was dismissed on May 29, 2006 by the District Court. The Company filed a petition with the High Court on July 20, 2006. The case was dismissed on November 30, 2006 by the High Court. The Company filed a petition with the Supreme Court and was dismissed on July 30, 2007.
 - (3) As the Company thought that judgment of the Supreme Court was clearly erroneous in the application of law and does not conform to the interpretation of Grand Justices Council Adjudication and the Supreme Court's precedent, it has filed an appeal for retrial of its case with the Supreme Court on August 31, 2007.

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4. DETAILS OF MAJOR ACCOUNTS (CONT'D)

h. Idle Assets (cont'd)

6. In September, 2003, the residents of An-Nan area, Tainan organized a compensation community to accuse the Company for allegedly disobeying penal code No. 190-1. This case is still being investigated by the Prosecutorial Agency, in Tainan, which ruled non prosecution on October 28, 2005.
7. Following the said merger, the Tainan Municipal Government required the Company to pay remediation fee basis for Soil and Groundwater Remediation Act on May 10, 2004. The Tainan Municipal Government punished the Company that fail to make such payment by the deadline be ordered to pay double the fee on August 31, 2004. The administrative penalties are amount to \$1,956. The Company still has a dissenting view on the government perception about the condition of pollution.
 - (1) The Company filed the administrative action at the Kaohsiung High Court on December 14, 2004. The Kaohsiung High Court repealed its verdict on September 15, 2005.
 - (2) The Company filed the administrative action at the Kaohsiung Supreme Court on October 21, 2005 and was dismissed on November 8, 2007.
 - (3) The Company still disputed and filed an action for retrial with the Supreme Court on December 20, 2007.
 - (4) The Company pay the administrative penalties amounted to \$1,956 in 2007.
8. The Tainan Municipal Government requested the Company to provide land for classifying road pollutions and setting up the piling site at Anshun plant on August 6, 2004. The Tainan Municipal Government punished the Company that fail to provide land on September 24, 2004. The penalties are amount to \$200. The Company shouldn't shoulder the responsibility to provide the land and filed the administrative action at the Kaohsiung High Administrative Court. The Kaohsiung High Administrative Court repealed its verdict on October 31, 2004. The Company still filed the appeal and the Supreme Court was dismissed on October 4, 2007. The Company pays the administrative penalties and delinquency charges amounted to \$250 in 2007.
9. On January 21, 2008, the Tainan City Government demanded the Company to pay \$92,000 to the Tainan City Government and Environmental Protection Administration of the Executive Yuan. This monetary penalty was assessed to recoup the costs incurred to investigate and to take necessary corrective measures for land pollution allegedly caused by the Company. The Company has declared to the Tainan City Government that it did not cause the pollution of which it is accused. On February 27, 2008, the Tainan City Government agreed to reduce the fine to \$89,000. The Company is requested to pay \$89,000 before March 31, 2008. If this amount is not paid in time, the case would have been transferred to the courts and the Company could have been assessed a 100% penalty (double the fine amount) for late payment. The Company is contemplating of hiring law experts to analyze related laws for purposes of pursuing administrative remedial action. Based on the accounting principle of conservatism, however, the Company recorded this fine as a non-operating cost in 2007.
10. The Tainan Municipal Government required the Company apply for improving the situation of this pollution problem on January 3, 2008. Because the extent of pollution, scope of pollutants, and remediation plan are still not confirmed, the Company is unable to evaluate the possible costs that it may incur thereon. The Company continues with its remediation work and has accrued and inputted relevant remediation project expenses of approximately \$197,125 as of December 31, 2007.
11. The Company recognized impairment loss amounted to \$1,308,485 by the Statement of Financial Accounting Standards No. 35 "Accounting for Asset Impairment" as of December 31, 2007.

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4. DETAILS OF MAJOR ACCOUNTS (CONT'D)

h. Idle Assets (cont'd)

Chian Jen Training Center:

1. A portion of the land located at Chian Jen Training Center was originally used as a chemical factory of Asahi Denka Co., Ltd. (ADK), which was governed by Japan when Taiwan was still colonized by Japan.
2. After Taiwan was restored by Japan, the Taiwan government established and took over the state-owned Taiwan Alkali Industrial Corp (TAIC) to operate. In order to cooperate with the Taiwan government in its strategy to expand the business, China Tian Jin Chemical Corp. transferred chemical equipment to TAIC by the end of 1948.
3. On April, 1983, the Ministry of Economic Affairs required the subsidiaries of Chinese Petroleum Corp. and the Company (state-run) to merge with TAIC. After it took over the land, the Company changed its factory name to "CPDC Chian Jen plant" and kept operating until 1988, in cooperation with the government in its environment policy. Following the termination of its production, the Company continued with the process of conducting contamination examination and inspection.
4. Because the Environmental Protection Administration has indicated that there are still some areas on the land, which are polluted by mercury up to now, the Company is controlling, remediating the pollution problem. The Company applied for the pollution remediation situation to the Kaohsiung Municipal Government Environmental Protection Bureau and the Company is unable to evaluate the possible outcome of this case before the Kaohsiung Municipal Government Environmental Protection Bureau draws a conclusion. As of December 31, 2007, the relevant remediation project inputted and accrued expenses amounted to \$841,910.
5. A portion of the land located at Chian Jen Training Center, which was originally owned by TAIC was leased to Taiwan Vcm Corp. (TVC Kaohsiung plant) from 1970. In 1991, the land was returned to the Company when the plant and equipment were removed. The Environmental Protection Administration recently notified that the groundwater on the land was polluted by chemicals and announced as "Pollution Control Area" in 2006. According to "Soil and Groundwater Pollution Remediation Law", Kaohsiung Municipal Government Environmental Protection Bureau indicated that Taiwan Vcm Corp. polluted the land and required to apply for the pollution remediation situation to the Kaohsiung Municipal Government Environmental Protection Bureau.
6. Because a portion of the land was designated as under pollution control by the Kaohsiung Municipal Government Environmental Protection Bureau in 2006, the Company could not use such land until the remediation work is completed. The Company leases a portion of the land and buildings to others which are useable at Chian Jen Training Center. As the carrying value of portion of those useable operating properties cannot be separately established, those operating properties have not been classified as leased assets.

In 2007 and 2006, the Company had written off the idle production equipment of its Kaohsiung plant against allowance for loss on idle assets of \$134,270 and \$19,012, respectively. In 2007, the Company transferred a part of equipment from Kaohsiung plant to Shiau-Gang plant, and recovered the allowance for loss on idle assets of \$7,533.

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i. Other Assets

	<u>December 31, 2007</u>	<u>December 31, 2006</u>
Deferred expenses for handling charges of associated bank credit facilities	\$ 92,360	\$ -
Deferred expenses for capitalized costs on use of Taiwan Power Company's electric circuit	22,539	-
Deferred charges-other	3,166	5,852
Deferred expenses for issuance of convertible bonds	-	14,070
	<u>\$ 118,065</u>	<u>\$ 19,922</u>

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4. DETAILS OF MAJOR ACCOUNTS (CONT'D)

j. Long-term loans

Financial Institution	Term	Annual Interest Rate	Repayment Terms	December 31, 2007	December 31, 2006
Mega International Commercial Bank (Tou-Fen Co-Gen Unit)	6/27/96 - 12/31/07	4.2019%	Payable in accordance with the financial contract. 1% of the principal is payable on June 30, 2003. 1% of the principal is payable on December 31, 2003. 1.25% of the principal is payable on June 30, 2004. 1.25% of the principal is payable on December 31, 2004. 3.25% of the principal is payable on June 30, 2005. 3.25% of the principal is payable on December 31, 2005. 4% of the principal is payable on June 30, 2006. 4% of the principal is payable on December 31, 2006. 5.75% of the principal is payable on June 30, 2007. 5.75% of the principal is payable on November 30, 2007. 69.5% of the principal is payable on December 31, 2007.	\$ -	\$ 577,278
Mega International Commercial Bank (Hsiaokang-Co-Gen Unit)	9/29/97-10/14/08	4-2019%- 6.4710%	"	-	420,144
Taiwan Cooperative Bank (Hsiaokang-Co-Gen Unit)	11/13/97 - 12/31/07	4.2019% -6.4710%	"	-	432,290
China Trust Commercial Bank (collateralized loans)	2/27/03-12/31/07	4.2019%	"	-	100,000
Mega International Commercial Bank (Near SeaLand in Kaohsiung)	1/21/98 - 1/20/08	4.2019%	"	-	253,800
Bank of Taiwan(Near SeaLand in Kaoshiung)	3/29/98-2/9/10	4.2019%	"	-	791,353
Taiwan Cooperative Bank (loan for Tung Hsin Road Office)	8/19/98-3/31/08	4.2019%	Payable in accordance with the financial contract, however, the remaining 69.5% of the payable amount will be refunded once on March 31, 2008.	-	287,639
China Development Industrial Bank (Toufen-Nylon Chip Unit)	08/19/98-12/31/07	4.2019%	Payable in accordance with the financial contract.	-	404,357
China Development Industrial Bank (collateralized loans)	9/30/00-12/31/07	4.2019%	"	-	162,000
Loan by 18 banks including Bank of Taiwan (CPL III)	12/10/98 - 1/14/08	4.2019% -6.4905%	Payable in accordance with the financial contract. However, the remaining 69.5% of the payable amount will be refunded on January 14, 2008.	-	5,110,776
Loan by 14 banks including ICBC (collateralized loans)	9/7/02 - 12/31/07	2.1987% -4.2019%	Payable in accordance with the financial contract.	-	3,217,516
Loan by 26 banks including Mega International Commercial Bank					
Item A	01/31/07-01/30/12	3.4070% -3.9337%	Payable in accordance with the financial contract.	873,680	-
Item B	01/31/07-01/30/12	3.4070% -3.9337%	Payable in accordance with the financial contract. Redeemable in each term at the rate of 9% of the principal except for the remaining payable amount, which is refundable in term 10	6,200,000	-
Item C	01/31/07-01/30/12	3.9355% -4.5222%	According to financial contract, loans are payable when the Company could not issue convertible bonds.	3,000,000	-
Total				10,073,680	11,757,153
Less: Due within one year				-	(765,000)
				\$ 10,073,680	\$ 10,992,153

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4. DETAILS OF MAJOR ACCOUNTS (CONT'D)

j. Long-term loans (cont'd)

1. Proceeds from these loans were used to purchase production equipment, land and office building and land located in Kaohsiung Lin Hai Industrial Park and to construct a CPL III factory. The Company's land, buildings, construction in progress and long-term equity investment were pledged as collateral for these loans (please see note 6 for details). The Company's credit facilities with the banks were fully utilized.
2. The main bank creditors of the Company notified the other bank creditors to extend the payment terms to enable the Company to redeem 30.5% of the redeemable amounts on installments from June 30, 2003 to November 30, 2007 and to redeem once the remaining balance of 69.5% of the redeemable amounts on December 31, 2007 or to negotiate later. In January, 2007, the Company portion of redeemed the remaining balance of the loans.
3. The Company signed 5-year bank credit facilities totaling \$20,700 million with Mega International Bank and other 26 financial institutions for the purpose of redeeming debts, redeeming convertible bonds payable, enhancing working capital and issuing convertible bonds payable. As of December 31, 2007, the unused credit line amounted to \$2,508,871. The Company provides land, buildings, construction in progress and long-term equity investment as collateral for these credit facilities. These new credit facilities contain financial covenants which require the CPDC and its consolidated entities to maintain certain financial ratio, including current ratio, debt ratio and interest coverage ratio on June 30 and December 31 of each year.
4. Pursuant to the bank credit facilities totaling \$20,700 million with Mega International Bank and other financial institutions, the loans included as part of the new bank credit facilities are repayable in 10 equal semi-annual installments. The loans are payable in each term at the rate of 9% of the principal except for the remaining balance which is payable in term 10, and the bank credit facilities are non-revolving. As of December 31, 2007, the Company has redeemed the principal in accordance with the agreement and has redeemed in advance part of loans which should be redeemed on July 31, 2008.

k. Secured bonds payable

	December 31, 2006			
	Amount	Term	Interest	Repayment terms
Convertible bonds payable	\$ 4,153,125	5/8/1998~5/8/2008	From and including May 8, 2003, the interest rate changed to SIBOR's US dollar fix rate + 0.75% per annum.	Please see note.
Less: Converted to common stock	(1,289,891)			
Early extinguishment	(330,065)			
Add: Interest compensation	1,368,961			
Exchange rate translation adjustment	<u>137,858</u>			
Redemable amount	\$ 4,039,988			
Less: Redeemed on installment	(734,641)			
Add: Exchange rate translation adjustments	<u>(171,665)</u>			
	\$ 3,133,682			
Less: Due within one year	<u>-</u>			
	<u>\$ 3,133,682</u>			

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4. DETAILS OF MAJOR ACCOUNTS (CONT'D)

k. Secured bonds payable (cont'd)

Note: Except for other redemption terms, pursuant to a resolution of bondholders passed on September 2, 2003, the Company is required to redeem the bonds in eleven installments on the dates and at the amounts set out below:

<u>Scheduled Redemption Date</u>	<u>Amount (expressed as a percentage of the Redemption amount) = Installment Amount</u>
November 8, 2003	1%
December 31, 2003	1%
June 30, 2004	1.25%
December 31, 2004	1.25%
June 30, 2005	3.25%
December 31, 2005	3.25%
June 30, 2006	4%
December 31, 2006	4%
June 30, 2007	5.75%
November 30, 2007	5.75%
December 31, 2007	69.5% (or in accordance with another repayment plan)

As of December 31, 2006, accumulated redemption amounted to approximately 19%.

The Company was approved by the SFC to issue US\$ 125,000 worth of Convertible Bonds due in 2008. The proceeds from the issuance of these bonds are intended to finance the construction of a CPL factory. Bonds were issued for an issue price equal to 100% of the bonds' face value from May 8, 1998. The Bonds bear interest from May 8, 1998 at the rate of 1% per annum payable annually in arrears every May 8 of each year commencing from May 8, 1999.

The Bonds are convertible into the Company's common stock at par value of \$10 per share, which initially will be represented by share Entitlement Certificates, on or after June 22, 1998 and up to the close of business, at the place where the Bond is deposited for conversion, on May 1, 2008, subject to certain exceptions, unless previously redeemed or purchased and cancelled, at an initial conversion price, subject to adjustment in certain events, of NT\$36.59 per share, determined on the basis of a fixed rate of exchange of US\$ 1.00 = NT\$ 32.98.

In addition to the adjustment to the Conversion price as a result of certain dilutive events as more particularly described herein, the Conversion Price is adjusted downwards if the Average Closing Price for a 30 consecutive Trading Day period prior to each of May 8, 1999, May 8, 2000 and May 8, 2001 as converted into US dollars at the Spot Rate on such date(s) is less than the then prevailing Conversion Price as converted into US dollars at a fixed exchange rate provided that any one or more adjustments to the Conversion Price has not resulted in a Conversion Price lower than 80% of the original Conversion Price.

The Bonds are redeemable at their principal amount in US dollars on May 8, 2008 unless earlier redeemed, converted or purchased and cancelled.

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4. DETAILS OF MAJOR ACCOUNTS (CONT'D)

k. Secured bonds payable (cont'd)

The Company may redeem the Bonds, in whole or in part, in US\$ 1,000,000 principal amount or integral multiples thereof, on or after May 8, 2000 and prior to May 8, 2008, at their Early Redemption Amount, if both (i) the Closing Price of the Shares on the Taiwan Stock Exchange (TSE) for a period of 30 consecutive Trading Days, the last of which occurs not more than five days prior to the date upon which notice of such redemption is published, is at least 140% of the Conversion price in effect on each such Trading Day and (ii) the Closing Price of the Shares translated into US dollars at the Prevailing Rate for a period of 30 consecutive Trading Days the last of which occurs not more than five days prior to the date upon which notice of such redemption is published, is at least 140% of the Conversion price then in effect translated into US dollars at the rate of NT\$ 32.98 = US\$1.00.

The Company will, at the option of the holder of any Bond, redeem such Bond on May 8, 2003 at 143.12% of its principal amount. However, pursuant to an extraordinary resolution of bondholders passed on May 6, 2003, the Company extended the redemption date to November 8, 2003. During their meeting on September 2, 2003, the bondholders also passed an extraordinary resolution on the following important conditions:

- (1) Unless previously redeemed, converted or purchased and cancelled as herein provided, the Company will redeem each bond at a price of 143.12% of its principal amount in US dollars. From November 8, 2003, to November 30, 2007, the Company will redeem 30.5% of the redemption amount in ten installments. On December 31, 2003, the Company will redeem the 69.5% of the redemption at once or in accordance with another repayment plan to be further approved by another extraordinary resolution.
- (2) From and including May 8, 2003, the bonds will bear interest at the rate of SIBOR's US Dollar Fixing Rate + 0.75% per annum. The principal amount of the bond shall be replaced with the outstanding redeemable-amount of the bond.
- (3) A new provision is inserted to allow bondholders to exercise their conversion right for seven consecutive trading days expiring prior to November 8, 2003 (special Reset Conversion Period) and the conversion price is reduced from NT\$22 to NT6.2 (special Reset Conversion Price). The exchange rate is adjusted from NT\$32.98 to NT\$34.5. Upon expiry of the Special Reset Conversion Period, the conversion price and exchange rate will be adjusted to the original ones. However, the principal which is not converted by the bondholder to common stock is replaced with the outstanding redeemable amount of the bond.
- (4) The Company entered into a land and building security agreement with Chinatrust Commercial Bank Co., Ltd. (Chinatrust). Under this agreement, Chinatrust was appointed as a security agent to hold the mortgage and benefits associated therewith on behalf of certain bank creditors and the bondholders collectively and respectively. (Please see note 5 for details.)

Effective January 1, 2006, the Company adopted the Republic of China Statement of Financial Accounting Standards (SFAS) No. 34 "Accounting for Financial Instruments". Under SFAS No.34, the bonds (including Interest compensation payable) are recorded as financial liabilities- bonds payable and evaluated at amortized cost. The Company recognized \$19,333 as interest expense in 2007.

According to SFAS No.36 "Disclosure and Presentation of Financial Instruments", complex financial instruments which composed with equity and issued before January 1, 2006, the Company don't have to separate equity and calculate cumulative effect of change in accounting principle.

The Company obtained a 5-year loan from Mega international commercial bank on December 29, 2006 and redeemed original loans on January 31, 2007. Please see Note 4(j) for details.

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4. DETAILS OF MAJOR ACCOUNTS (CONT'D)

l. Long-term bills payable

<u>December 31, 2007</u>	<u>Period</u>	<u>Annual Interest Rate</u>	<u>Amount</u>
Mega Bills Finance Corp.	07.30.2007-01.25.2008	2.978%	\$ 1,500,000
Intenrational Bills Finance Group	07.30.2007-01.25.2008	2.778%	720,000
China Bills Finance Group	07.30.2007-01.25.2008	2.200%	530,000
Taiwan Bills Finance Group	07.30.2007-01.25.2008	2.378%	250,000
Union Bills Finance Group	07.30.2007-01.25.2008	2.128%	250,000
HUA NAN Bills Finance Group	07.30.2007-01.25.2008	2.378%	250,000
Sub-total			<u>3,500,000</u>
Less: Discount			<u>(6,151)</u>
Net			<u>\$ 3,493,849</u>

<u>December 31, 2006</u>	<u>Period</u>	<u>Annual Interest Rate</u>	<u>Amount</u>
Mega Bills Finance Corp.	11.08.2006-01.26.2007	3.60%	\$ 749,000
"	12.12.2006-01.26.2007	3.60%	870,000
Intenrational Bills Finance Group	11.08.2006-01.26.2007	3.60%	309,900
"	12.12.2006-01.26.2007	3.60%	405,700
China Bills Finance Group	11.08.2006-01.26.2007	1.65%	155,900
"	12.12.2006-01.26.2007	1.67%	298,700
Sub-total			<u>2,789,200</u>
Less: Discount			<u>(6,167)</u>
Net			<u>\$ 2,783,033</u>

The Company had revolving commercial promissory note agreements with bills finance companies amounting to \$3,500,000 as of December 31, 2007 and 2006. Under these agreements, the Company can issue bills with a term of one year or less. The Company pledged its land, building and long-term equity investments against these agreements (Please see Note 6 for further details).

m. Reserve for Land Revaluation Increment Tax

Article 33 of the Land Taxation Law was amended and promulgated on January 31, 2005, but the provision thereof decreasing the land value increment tax rate was implemented effective February 1, 2005. Accordingly, the Company recalculated the estimated accrued land value increment tax payable, which amounted to \$3,994,413. Such recalculation disclosed an overstatement in the recorded balance of accrued land value increment tax payable by \$2,760,175, which was adjusted against unrealized incremental value from assets revaluation in 2005.

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4. DETAILS OF MAJOR ACCOUNTS (CONT'D)

n. Pension

In accordance with the SFC regulation Tai-Tsai-Jung (6) No.00142 dated January 20, 1995, effective December 31, 1995, the Company adopted the ROC SFAS No. 18, "Accounting for Pensions" which requires accounting for pension cost based on actuarial valuation. Accordingly, pension obligations were accounted for based on actuarial valuation as of December 31, 2007 and 2006. Actuarial assumptions and components of actuarially calculated pension cost were as follows

(1) Components of net periodic pension cost:

	<u>2007</u>	<u>2006</u>
Service cost	\$ 74,363	\$ 73,663
Interest cost	23,205	28,461
Projected return on plan assets	(4,646)	(2,675)
Amortization of transition net benefit obligation	11,466	7,117
Net pension cost	<u>\$ 104,388</u>	<u>\$ 106,566</u>

(2) Actuarial assumptions used in calculating net pension cost

	<u>2007</u>	<u>2006</u>
Discounting rate	2.75%	2.50%
Average long-term salary increase rate	2.30%	3.00%
Expected rate of return on plan assets	2.75%	2.50%

(3) The funding status of the plan was as follows:

	<u>December 31, 2007</u>	<u>December 31, 2006</u>
Benefit obligation		
Vested benefit obligation	\$ (665,217)	\$ (612,167)
Nonvested benefit obligation	<u>(138,700)</u>	<u>(136,644)</u>
Accumulated benefit obligation	(803,917)	(748,811)
Additional benefits based on future salaries	<u>(133,721)</u>	<u>(187,989)</u>
Projected benefit obligation	(937,638)	(936,800)
Fair value of assets	<u>268,660</u>	<u>197,662</u>
Funding status	(668,978)	(739,138)
Unrecognized pension loss (gain)	109,774	169,061
Unamortized net transition obligation	12,394	16,525
Accrued pension liabilities	<u>\$ (546,810)</u>	<u>\$ (553,552)</u>

As of December 31, 2007 and 2006, the employees vested benefits amounted to \$794,223 and \$741,484, respectively.

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4. DETAILS OF MAJOR ACCOUNTS (CONT'D)

n. Pension(cont'd)

(4) The movements in the plan assets were as follows:

	<u>December 31, 2007</u>	<u>December 31, 2006</u>
Beginning balance	\$ 197,662	\$ 110,216
Add: Contributions	109,451	109,861
Interest income	4,646	2,675
Less: Benefit payments	(43,099)	(25,090)
Ending balance	<u>\$ 268,660</u>	<u>\$ 197,662</u>

(5) Pension expenses

	<u>2007</u>	<u>2006</u>
Defined benefit pension plan	\$ 104,388	\$ 106,566
Defined contribution pension plan	6,449	5,202
	<u>\$ 110,837</u>	<u>\$ 111,768</u>

o. Income Tax

1. In accordance with the R.O.C Financial Accounting Standards No. 22, the income tax expense in 2007 and 2006 were as follows:

	<u>2007</u>	<u>2006</u>
Current income tax expense	\$ 111,924	\$ -
Deferred income tax assets - current	311,092	(127,059)
Deferred income tax assets - noncurrent	(99,789)	381,727
Valuation allowance	(29,117)	(107,330)
Income tax expense	<u>\$ 294,110</u>	<u>\$ 147,338</u>

2. The R.O.C. government enacted the Alternative Minimum Tax Act ("AMT Act"), which became effective on January 1, 2006. The Company has considered the impact of the AMT Act in the determination of its tax liabilities. The income tax calculated on financial pretax was reconciled with income tax expense as reported in the accompanying financial statements in 2007 and 2006, as follows:

	<u>2007</u>	<u>2006</u>
Income tax calculated on pretax accounting income		
at statutory rate of 25%	\$ 790,440	\$ 481,416
Gain from equity investment	(535,360)	(198,144)
Loss from financial instruments impairment	92,180	19,417
Other	(24,033)	(48,021)
Valuation allowance	(29,117)	(107,330)
Income tax expense as reported		
in the financial statements	<u>\$ 294,110</u>	<u>\$ 147,338</u>

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4. DETAILS OF MAJOR ACCOUNTS (CONT'D)

o. Income Tax (cont'd)

	2007	2006
3. Gross deferred income tax assets	\$ 464,545	\$ 698,275
Gross deferred income tax liability	\$ -	\$ (22,427)
Valuation allowance	\$ 464,545	\$ 493,662

	December 31, 2007		December 31, 2006	
	Amount	Tax effect	Amount	Tax effect
4. Temporary differences between financial and tax reporting which resulted in deferred income tax assets or liabilities as follows:				
• Available loss carryforward benefit	\$ -	\$ -	\$ 1,209,082	\$ 302,271
• Unused tax credits	-	-	-	106,017
• Unrealized exchange loss (gain)	685	171	(89,707)	(22,427)
• Accrued pension costs	588,521	147,130	538,323	134,582
• Bad debt allowance exceeding the tax limit	335,532	83,883	341,497	85,374
• Unrealized loss on idle assets market value decline	195,276	48,819	275,956	68,989
• Unrealized loss on temporary suspens of production	732,535	183,134	-	-
• Others	5,631	1,408	4,168	1,042
		<u>\$ 464,545</u>		<u>\$ 675,848</u>

	December 31, 2007		December 31, 2006	
	Amount	Amount	Amount	Amount
5. (1) Deferred income tax assets - current	\$ 85,424	\$ 418,943		
Valuation allowance	(85,424)	(214,330)		
Net deferred income tax assets - current	-	204,613		
Net deferred income tax liabilities - current	-	(22,427)		
Total net deferred income tax assets and liabilities	<u>\$ -</u>	<u>\$ 182,186</u>		
(2) Deferred income tax assets - noncurrent				
Valuation allowance	\$ 379,121	\$ 279,332		
Net deferred income tax assets - noncurrent	<u>(379,121)</u>	<u>(279,332)</u>		
	<u>\$ -</u>	<u>\$ -</u>		

6. The income tax returns of the Company have been assessed by the Tax Authority through 2005.

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4. DETAILS OF MAJOR ACCOUNTS (CONT'D)

o. Income Tax (cont'd)

7. Current tax regulations allow the Company's local shareholders to deduct the income taxes paid by the Company from their respective individual income tax liabilities. Accordingly, the Company has recorded and maintained the imputed tax credit account for local shareholders. In addition, current tax regulations require the Company to pay 10% surtax on undistributed earnings generated from earnings commencing from the year 1998.

The imputed tax credit account amounted to \$1,083,372 and \$439,193 as of December 31, 2007 and 2006, respectively.

In 2007 and 2006, the estimated amount of tax deduction for local shareholders was 33% and 0% of distributed earnings, respectively.

8. The components of undistributed earnings on balance sheet were as follows:

	December 31, 2007	December 31, 2006
Undistributed earnings arising from earnings generated from January 1, 1998 when corporate and personal income taxes were integrated.	\$ 2,867,651	\$ 1,778,323
	\$ 2,867,651	\$ 1,778,323

p. Capital surplus

- (1) In accordance with the Company Law of the Republic of China, capital surplus is used exclusively to cover losses if the legal reserve is not sufficient to cover such losses, or to increase capital.
- (2) Under the Enterprise Assets Revaluation Rules, if the capital surplus generated from revaluation of assets is used to cover its accumulated losses, the Company can not declare dividends on its subsequent earnings until the entire capital surplus is restored to its original level. As of December 31, 2007, capital surplus generated from the revaluation of assets of \$1,393,030 was used to cover accumulated losses. According to amended Business Entity Accounting Act which was announced on May, 24, 2006, the incremental value from assets revaluation originally accounted for under capital surplus was reclassified to other adjustment to stockholder's equity.
- (3) The capital surplus from long-term equity investments (accounted for under the equity method) is not used to increase capital. The capitalization of capital surplus generated from premium on issuance of capital stock and from revaluation of assets is limited to certain amounts and percentages prescribed under the regulation of the Securities and Futures Commission.

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4. DETAILS OF MAJOR ACCOUNTS (CONT'D)

q. Unrealized Incremental value from assets revaluation

- (1) Article 33 of Land Taxation Law was amended and promulgated on January 31, 2005, under which, the land value increment tax rate was decreased effective February 1, 2005. The Company recalculated the estimated accrued land value increment tax payable and the results thereof disclosed an overstatement in the recorded balance of accrued land value increment tax payable which was adjusted against capital surplus from assets revaluation. (Please see Note 4(m) for details).
- (2) Business Entity Accounting Act was amended and promulgated on May 24, 2006, under which, the incremental value from the revaluation of fixed assets, deferred assets, and intangible assets should be recorded under other adjustment to stockholders' equity. In addition, according to article 9 of Regulations Governing the Preparation of Financial Statements by Security Issuers, unrealized incremental value from assets revaluation is under equity-other item. Therefore, the incremental value from assets revaluation originally accounted for under capital surplus was reclassified to other adjustment to stockholder's equity.
- (3) In accordance with Statement of Financial Accounting Standards, the impairment loss from fixed assets revaluation is adjusted against unrealized incremental value from assets revaluation. As of December 31, 2007, the unrealized incremental value from fixed assets revaluation amounted to \$1,158,138.
- (4) In 2006, the unrealized incremental value from assets revaluation of \$113,580 was reversed due to the sale of the land. Please see Note 5 for details.

r. Retained earnings

(1) Legal reserve

The Company's Articles of Incorporation requires that 10% of the annual income after tax less losses of prior years shall be appropriated as legal reserve. The legal reserve is provided until the accumulated reserve balance equals the total issued capital stock. The legal reserve is used to cover accumulated losses. If the balance of the reserve exceeds 50% of issued capital, half of such legal reserve balance is made available for capitalization.

(2) Special reserve

In accordance with the SFC regulation Jai-Tsai-Jung (1) No. 100116 dated January 3, 2000, in order to maintain a healthy and stable Company financial structure, aside from legal reserve, an amount equal to the negative items of the stockholders' equity is appropriated as special reserve and as a deductible item of retained earnings in accordance with the Securities and Exchange Law No. 41, before a listed or OTC company can distribute its retained earnings.

(3) Undistributed retained earnings

Based on the Company's Articles of Incorporation, the net income, after paying for corporate income tax, and appropriating for legal reserve, capital surplus and special reserve, if any, is further appropriated as follows:

- a. 95% as stockholders' dividend, of which the stock dividends shall be 50% to 100% and the remainder shall be cash dividends. If the ratio of total liabilities to total assets is above 50%, the stock dividends will be distributed first.
- b. 2% as directors' and supervisors' compensation; and
- c. 3% as employee bonus.

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4. DETAILS OF MAJOR ACCOUNTS (CONT'D)

r. Retained earnings (cont'd)

Under Article 20, paragraph 12, of the 5-year (January 31, 2007 to January 30, 2012) bank credit facilities agreement totaling \$20,700 million with Mega International Bank and other 26 financial institutions, the debtor may not distribute cash dividends if the debt ratio from previous year's audited consolidated financial statement is more than 100% or if there is accumulated loss on debtor's financial statements.

The appropriations of earnings for 2006 had been approved in the shareholders' meetings held on June 21, 2007. The appropriations were as follows:

	Appropriation of Earnings
Legal capital reserve	\$ 177,832
Retained earnings transfer to unrealized incremental value from asset revaluation	2,680,229
Total	\$ 2,858,061

The appropriations of the Company's earnings in 2007 are subject to the approval by the Board of Directors and Stockholders during their meeting. After such meeting, the related information can be obtained from the website of market observation post system.

s. Earnings per share

The basic earnings per share were calculated using the net income divided by the weighted average number of common shares outstanding. The Company had complex capital structure in 2006. No diluted earnings per share were disclosed in 2006. The number of shares reported for calculating the basic earnings per share was as follows:

	December 31, 2007	December 31, 2006
Weighted average number of common shares outstanding	1,689,999,459	1,689,999,459

t. Loss from suspension of production

	2007	2006
Land value incremental tax of discontinued department	\$ 66,429	\$ 59,203
Rebuilding construction expense(Note4(h))	835,415	51,777
Others	61,294	71,098
	\$ 963,138	\$ 182,078

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4. DETAILS OF MAJOR ACCOUNTS (CONT'D)

u. Relative information on derivative financial instruments

(1) Hedge :

The Company entered into forward contracts for hedging the exchange rate risk arising from redeeming foreign liabilities and secured bonds payable amounted to USD143,000 thousands in January, 2007 and reduced exchange losses amounted to NTD14,695 thousands. The Company did not hold any forward contracts as of December 31, 2007.

(2) Fair market value disclosure on financial instruments

	As of December 31, 2007	
	Carrying Amount	Fair Market Value
<u>Financial Assets</u>		
Items with carrying amount equal to fair value	\$ 5,967,285	\$ 5,967,285
Financial assets reported at fair value through profit or loss-non current	569,812	569,812
Available-for-sale financial assets-non-current	1,443,546	1,443,546
Financial assets carried at cost-non-current	606,600	-
Total financial assets	<u>\$ 8,587,243</u>	<u>\$ 7,980,643</u>
<u>Financial Liabilities</u>		
Items with carrying amount equal to fair value	<u>\$ 17,387,186</u>	<u>\$ 17,387,186</u>
	As of December 31, 2006	
	Carrying Amount	Fair Market Value
<u>Financial Assets</u>		
Items with carrying amount equal to fair value	\$ 6,065,824	\$ 6,065,824
Financial assets reported at fair value through profit or loss-non current	451,248	451,248
Available-for-sale financial assets-non-current	1,441,413	1,441,413
Financial assets carried at cost-non-current	1,054,737	-
Total financial assets	<u>\$ 9,013,222</u>	<u>\$ 7,958,485</u>
<u>Financial Liabilities</u>		
Items with carrying amount equal to fair value	\$ 16,928,023	\$ 16,928,023
Convertible bonds payable	3,133,682	3,133,682
Total financial liabilities	<u>\$ 20,061,705</u>	<u>\$ 20,061,705</u>

(3) Methods and assumptions used to establish the fair values of financial instruments are as following:

- i The fair value of short-term financial instruments is determined by their face value on the balance sheet. Since such instruments will mature within the short period, the face value is adopted as a reasonable basis for establishing the fair value. This methods is applied to cash and cash equivalents, notes and accounts receivable, other receivables, other financial assets-current, restricted assets, short-term borrowings, notes and accounts payable, income tax payable, accrued expenses, other payables, and other current liabilities.

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4. DETAILS OF MAJOR ACCOUNTS (CONT'D)

u. Relative information on derivative financial instruments (cont'd)

- ii The fair value of financial instruments traded in active markets is based on quoted market prices.
 - iii With respect to financial instruments such as refundable deposits that are indispensable guarantee for the ongoing operation of the Company, it is impossible to estimate the time necessary to accomplish exchange of assets. Consequently, the fair market value of such financial instruments cannot be established. The book value is used as the fair market value.
 - iv The fair market value of long-term bills payable is determined by net value of issue cost minus discount.
 - v Because of there is no trading record in the public market, the book value of Euro-Convertible Bond is used as the fair market value.
- (4) The Company's financial assets were pledged as collateral for long-term and short-term loans at the end of December 31, 2007 and 2006 (Please see note 6 for details of pledged assets).
- (5) As of December 31 2007, financial liabilities exposed risks of fair value caused by interest rate changed were \$3,493,849 and risks of cash flow caused by interest rate changed were \$10,073,680.
- (6) Financial Risk Information
- i Market risk

Except for financial assets carried at cost, the equity securities held by the Company were divided into trading and available-for-sale financial assets. These assets were recognized at fair value and all changes in security market price will expose the Company to market risk.

- ii Credit risk

The Company's credit risk primarily arises from cash and cash equivalent, equity securities and accounts receivable. The Company deposits cash in different financial institutions. The cash equivalents include investment in short-term bills with repurchase agreements. The investment in equity securities includes the investment in mutual funds with financial institution of good credit ratings. The Company manages the credit risks which are exposed to each financial institution. Management believes that cash and cash equivalent and equity securities do not have significant credit risks concentration.

Credit risk represents the potential loss that would be incurred from accounts receivable and other accounts receivable. In order to decrease credit risk, the Company constantly evaluates clients' financial circumstance and periodically evaluates the status of collectibility of accounts receivable and recognizes allowance for bad debts based on managements' estimate. The accounts receivable from the top 10 customers represented 69.57% and 61.23% in 2007 and 2006, respectively, of total accounts receivable.

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4. DETAILS OF MAJOR ACCOUNTS (CONT'D)

iii Liquidity Risk

No capital deficiency risk is expected as the Company has sufficient operating capital to meet cash needs upon implementation of the contracts. The financial assets reported at fair value through profit or loss and available-for-sale financial assets that the Company is holding have active market. Expectably, these financial instruments can be sold quickly at near-fair value price in the market.

iv Cash Flow and Interest Rate Risk

The Company's interest rate risk arises from short-term and long-term loans. Loans obtained with floating interest rate will be affected by the changes of market rate, as well as the future cash flow. The increase in market interest rate by 1% will increase the Company's cash flow by approximately \$100,737.

5. RELATED PARTY TRANSACTIONS AND BALANCES

a. Names and relationships of related parties

Related Party	Relationship with the Company
Taiwan Prosperity Chemical Co., Ltd.	An investee company under equity method
Taiwan Chlorine Industries Co., Ltd.	"
Kaohsiung Monomer Co., Ltd.	"
Chung Kung Safeguarding & Security Corp.	"
Praxair Chemax Semiconductor Materials Co., Ltd.	"
Chung Hua Hsing Trading Co., Ltd.	A subsidiary of the Company
Chung Shih Hsing Development Corp.	"
CPDC Information Consultants Corporation	"
Tsou Seen Chemical Industries Corp.	"
CPDC Investment (BVI) Co., Ltd.	"
China Petrochemical Devt. Co. (Singapore) Pte. Ltd.	"
Shih Hua Investment Co., Ltd.	"
Shih Fu Investment Co., Ltd.	"
CPDC Engineering Co., Ltd.	"
Rich Equities Ltd.	"
BES Engineering Co., Ltd.	The Company is its corporate director
Core Pacific City Co., Ltd.	"
Hung-Yih Construction Co., Ltd.	Common corporate director
Chung Kung Management and Maintenance of Apartment Co., Ltd	An investee company under equity method of Chung Kung Safeguarding & Security Corp.
Core Pacific Investment Holding	Corporate director of the Company

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5. RELATED PARTY TRANSACTIONS AND BALANCES (CONT'D)

b. Significant transactions with related parties

(1) Purchases

	2007		2006	
	Amount	% of net purchases	Amount	% of net purchases
Taiwan Chlorine Industries Co., Ltd.	\$ 379,601	1	\$ 323,689	1
Chung Hua Hsing Trading Co., Ltd.	813,602	3	785,407	3
Taiwan Prosperity Chemical Co., Ltd.	2,416,971	8	2,107,561	9
Others	194	-	266	-
Total	<u>\$ 3,610,368</u>	<u>12</u>	<u>\$ 3,216,923</u>	<u>13</u>

The payment terms for related party purchase transactions were the same as those of other unrelated vendors except for Chung Hua Hsing Trading Co. which allows a credit term of two-months.

(2) Sales

	2007		2006	
	Amount	% of net sales	Amount	% of net sales
Chung Hua Hsing Trading Co., Ltd.	\$ 774,815	2	\$ 691,133	2
Kaohsiung Monomer Co., Ltd.	710,476	2	719,458	2
Tsou Seen Chemical Industries Corp.	988,890	3	1,047,012	3
Praxair Chemax Semiconductor Materials Co.,Ltd.	23,611	-	16,058	-
Total	<u>\$ 2,497,792</u>	<u>7</u>	<u>\$ 2,473,661</u>	<u>7</u>

Credit terms for related party sales were similar to those of other regular customers except for Tsou Seen Chemical Industries Corp. and Chung Hua Hsing Trading Co., which were granted credit term of four-months and three-months, respectively.

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5. RELATED PARTY TRANSACTIONS AND BALANCES (CONT'D)

b. Significant transactions with related parties (cont'd)

(3) Receivables and payables

	December 31, 2007		December 31, 2006	
	Amount	%	Amount	%
Accounts and notes receivable				
Chung Hua Hsing Trading Co., Ltd.	\$ 86,647	2	\$ 202,581	7
Kaohsiung Monomer Co., Ltd.	63,676	2	72,219	3
CPDC (BVI) Investment	-	-	65,864	2
Tsou Seen Chemical Industries Corp.	89,267	3	282,806	12
Other	5,175	-	3,303	-
Total	\$ 244,765	7	\$ 626,773	24
Other receivables				
CPDC Engineering Co., Ltd.	\$ 4,066	11	\$ 2,209	6
BES Engineering Co., Ltd.	1,170	3	1,051	3
Kaohsiung Monomer Co., Ltd.	6,955	19	6,817	19
Tsou Seen Chemical Industries Corp.	1,823	5	-	-
Praxair Chemax Semiconductor Materials Co., Ltd.	187	1	-	-
Total	\$ 14,201	39	\$ 10,077	28
Accounts payable				
Taiwan Chlorine Industries Co., Ltd.	\$ 25,357	2	\$ 30,494	2
Chung Hua Hsing Trading Co., Ltd.	140,550	8	147,883	12
Taiwan Prosperity Chemical Co., Ltd.	239,179	14	345,052	27
CPDC Engineering Co., Ltd.	34,098	2	-	-
Others	2,058	-	66	-
Total	\$ 441,242	26	\$ 523,495	41

In 2004, the Company evaluated the status of collectibility of accounts receivable from CPDC (BVI) Investment collection and recognized an allowance for bad debts thereon.

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5. RELATED PARTY TRANSACTIONS AND BALANCES (CONT'D)

b. Significant transactions with related parties (cont'd)

(4) Rental income (please see note 4.g for details)

	2007		2006	
	Amount	% of rental income	Amount	% of rental income
Taiwan Prosperity Chemical Co., Ltd.	\$ -	-	\$ 2,285	7
Kaohsiung Monomer Co., Ltd.	4,490	13	4,854	14
CPDC Engineering Co., Ltd.	12,671	38	12,624	36
BES Engineering Co., Ltd.	6,092	18	6,003	17
Chung Hua Hsing Trading Co., Ltd.	3,012	9	2,510	7
Tsou Seen Chemical Industries Corp.	514	2	478	1
Total	\$ 26,779	80	\$ 28,754	82

(5) Other revenues

	2007		2006	
	Amount	% of other revenues	Amount	% of other revenues
Kaohsiung Monomer Co., Ltd.	\$ 26,913	24	\$ 28,321	28
Chung Hua Hsing Trading Co., Ltd.	25,253	23	21,605	21
Taiwan Prosperity Chemical Co., Ltd.	7,989	7	-	-
Praxair Chemax Semiconductor Materials Co., Ltd.	2,373	2	2,051	1
BES Engineering Co., Ltd.	3,392	3	1,085	1
Others	5,727	5	4,425	4
Total	\$ 71,647	64	\$ 57,487	55

Other revenues were income from sale of scrap and wastes, handling charges derived from related party and compensation as directors and supervisors, etc.

- (6) Due to business needs, the Company rented an office space from Hung Yih Construction Company in February 1998. The initial contract term covers a period of one year and can be renewed thereafter. The total rent expense amounted to \$6,253 and \$7,096 in 2007 and 2006, respectively.
- (7) On January 15, 1998, the Company signed a one year contract with Chung Kung Safeguarding & Security Corp., under which, Chung Kung Safeguarding & Security Corp provides security service for all of the Company's offices and factories. This agreement is renewable to allow for an extension of the service period. The security service fees amounted to \$12,403 and \$11,046 in 2007 and 2006, respectively.
- (8) On June 1, 2005, the Company signed a three-year contract with CPDC Engineering Co., Ltd. for providing construction services and equipment maintenance. This agreement is renewable to allow for an extension of the service period. Under this contract, the Company received a refundable deposit of \$40,000. Maintenance fee generated thereon amounted to \$283,914 and \$296,597 in 2007 and 2006, respectively. As of December 31, 2007, accounts payables were amounted to \$8,700.

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5. RELATED PARTY TRANSACTIONS AND BALANCES (CONT'D)

b. Significant transactions with related parties (cont'd)

- (9) At December 31, 2007 and 2006, the Company had contracts with CPDC Engineering Co., Ltd. for construction projects (pre-tax) amounting to \$151,427 and \$85,539, respectively. In 2007 and 2006, the Company paid \$16,290 and \$12,340, respectively.

(10) Commission expenses

	2007		2006	
	Amount	% of commission expenses	Amount	% of commission expenses
Tsou Seen Chemical Industries Corp.	\$ 2,176	17	\$ 1,054	12
Chung Hua Hsing Trading Co., Ltd.	-	-	4,876	58
Total	\$ 2,176	17	\$ 5,930	70

The Company assigned Tsou Seen Chemical Industries Corp. to purchase, on its behalf, of amonia from foreigner suppliers and paid US\$0.4 per ton for commission on the basis of actual purchases.

The Company assigned Chung Hua Hsing Trading Co., Ltd. to promote Acrylonitrile and Acetic Acid in 2006. The Company paid 0.1% to 0.6% commission on the basis of total export sales.

- (11) On December 16, 1991, the Company formally signed with Taiwan Prosperity Chemical Corporation a contract to lease a 129,999 square meter land located in Lin Yuan Industrial Park where it will build a factory. The lease term covered a period of 10 years which expired on December 15, 2001. Under the lease agreement, however, Taiwan Prosperity Chemical Corporation is granted the right to continue leasing such land under the same terms and conditions as the original lease agreement provided that there is no significant change in its operations. On December 12, 2005, the Company formally contracted to sell the said land to Taiwan Prosperity Chemical Corporation for a selling price of \$883,993, which was determined based on the independent appraiser's report. Refer to Note 4(g) for further details. After deducting the related cost, the disposal gain thereon amounted to approximately \$314,287, of which \$125,715 was recognized as deferred disposal gain based on the shareholding ratio in such investee. The Company transferred its ownership of the land on January 25, 2006 and terminated the original lease contract simultaneously. The full payment of the selling price was received in 2006.
- (12) The Company sold 1 share of Taiwan Prosperity Chemical Co. Ltd. at book value to each of Tsou Seen Chemical Industries Corporation and Chung Hua Hsing Trading Co., Ltd., with no disposal gain or loss thereon.
- (13) The maintenance fees amounted to \$768 and \$3,000 in 2007 and 2006, respectively. As of December 31, 2007, accounts payables were amounted to \$8,700.

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6. PLEDGED ASSETS

The pledged assets were as follows:

	December 31,2007	December 31,2006	Purposes
Time deposits	\$ 1,086,723	\$ 1,132,198	Deposit for court re-appeal Guarantee for the Ministry of Economic Affairs, R.O.C. Guarantee for purchases Guarantee for purchases from Chinese Petroleum Corp. and Taiwan Sugar Corp. Long-term debt collateral
Land	11,541,172	12,812,952	Guarantee for purchases from Chinese Petroleum Corp. Collateral for secured bonds payable Short-term loan and long-term loans and Collateral for secured commercial paper
Long term equity investment	263,219	290,026	Short-term and long-term debt collateral for financial credit
Buildings	566,738	590,094	Collateral for secured bonds payable Short-term loan and long-term loans
Machines	10,221,651	10,623,915	Short-term and long-term debt collateral
Available for sale financial assets-non-current	1,322,886	1,210,559	Short-term and long-term debt collateral for financial credit Land value tax administrative remedy collateral
Financial assets designed as at fair value through profit or loss-Non current	484,824	383,945	Short-term and long-term debt collateral for financial credit
Financial assets carried at cost-non-current	522,565	890,565	"
	<u>\$ 26,009,778</u>	<u>\$ 27,934,254</u>	

7. SIGNIFICANT COMMITMENTS AND CONTINGENCIES

a. As of December 31, 2007 and 2006, the Company had the following unused letters of credit.

Currency	December 31,2007	December 31,2006
U.S. dollar	\$ 33,442	\$ 34,798
NTD	1,230,000	-
Yen	8,584	9,531

b. As of December 31, 2007 and 2006, the Company had issued guaranty notes for bank loans, sales and purchases aggregating to \$23,644,129 and \$19,011,071, respectively.

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7. SIGNIFICANT COMMITMENTS AND CONTINGENCIES (CONT'D)

- c. At December 31, 2007 and 2006, the Company had contracts for various construction projects in-progress amounting to \$1,190,469 and \$206,152, respectively. As of December 31, 2007 and 2006, the remaining future obligations under these contracts amounted to \$707,010 and \$115,653, respectively.
- d. As of December 31, 2007 and 2006, the Company signed an agreement to purchase raw materials such as benzene, hydrogen and methylbenzene from Chinese Petroleum Corporation (CPC). Under this contract, the Company may purchase specified monthly volume of these raw materials at current month prices announced by the Chinese Petroleum Corporation and provided land as collateral. In 2006, the Chinese Petroleum Corporation asked for other collateral from the Company and the Company is still negotiating on this matter with CPC.
- e. On May 17, 1999, the Salansa Inc. accused the President of the Company, Mr. Guan Yang Shi and the factory manager of Da Sa Factory, Mr. Chi-Si Jin for encroaching upon the patent for the registered know-how with the District Court of Kaohsiung. Due to the newly amended legislation concerning patent protection, Salansa can only file monetary damage claims against the Company.

The Salansa Inc. filed petitions by period of patent infringement:

In December 2000, the Salansa Inc. filed its first petition at the District Court of Kaohsiung to claim for compensation of \$59,000 on alleged patent infringement by the Company. On January 19, 2006, the District Court of Kaohsiung ruled that the Company should pay Salansa Inc. \$200,000 for the alleged patent infringement in December 2000. The Company appealed this verdict and filed a petition with the High Court on February 22, 2006.

On February 16, 2001, Salansa Inc. filed a second petition at the District Court of Kaohsiung to claim for compensation of \$1,196,000 on another alleged patent infringement by the Company. On August 24, 2005, the District Court of Kaohsiung ruled that the Company should pay Salansa Inc. \$897,000 for the allegation of another patent infringement. The Company appealed this verdict and filed a petition with the High Court on September 15, 2005 and provided a time deposit of \$900,000 as collateral.

On January 5, 2006, Salansa Inc. filed a third petition at the District Court of Taipei to claim for compensation of \$100,000 on alleged patent infringement by the Company and then extended to \$2,000,000. On June 29, 2007, the District Court of Taipei ruled that the Company should pay Salansa Inc. \$2,000,000 for the allegation of another patent infringement. The Company appealed this verdict and filed a petition with the High Court on July 25, 2007. This case is still in the process.

The Company is unable to determine as to whether or not it is liable to pay compensation for any claim of alleged patent infringement before it receives the final ruling from the court.

- f. DSM Fibre Intermediate Enterprises B.V. (DSM) requested for arbitration at the New York City, U.S.A Arbitration Association of the alleged patent infringement by the Company, under which the Company is being required to pay royalty of US\$82,500 and is prohibited from transferring ownership of its factory that utilizes such patent and technology to others. On February 10, 2007, the Company disagreed with the allegation and formally submitted its arguments to the said arbitration association. On February 4, 2008, the Company signed settlement and release agreement with DSM. DSM revoked the arbitration process. The Company uses the patent, pays royalty and sells products (CPL) to DSM under the original contracts, for which the Company does not pay extra royalty payments.

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7. SIGNIFICANT COMMITMENTS AND CONTINGENCIES (CONT'D)

- g. The Company was notified by the Kaohsiung tax office to pay additional land value tax of \$118,759 from 2000 to 2004. As the Company is doubtful about the statutes adopted by the local tax office in assessing the said tax, the Company applied for the application of correct statutes to the Kaohsiung tax office on October 27, 2005. However, the Kaohsiung tax office rejected the application on March 28, 2006. The Company re-applied for the application of correct statutes to the Kaohsiung tax office on April 6, 2006 and the Kaohsiung tax office rejected the application on June 5, 2006. In August 2006, the Company filed its application for tax reinvestigation under Article 35 of the Tax Collection Law because the Company still disagrees with the assessment made by the local tax office on its 2000 to 2004 land value tax. The application for the tax reinvestigation of the Company's 2005 land value tax was combined with the cases above. However, the Kaohsiung tax office rejected the application on March 28, 2006. The Company filed an administrative appeal on March 13, 2007. On October 17, 2007, the Kaohsiung tax office dismissed this administrative appeal. The Company appealed such verdict and filed a petition with the High Court on December 14, 2007. Based on the principle of conservatism, the Company accrued this tax assessment in its 2005 books of accounts.

On April 14, 2007, the Company was notified by the Kaohsiung tax office to pay a fine of \$225,289 from its assessment of the Company's 2002 to 2003 land value tax (the fine for the years-2000 to 2001 was remitted). As the Company remains to be doubtful about the statutes adopted by the Kaohsiung tax office in assessing the said tax, the Company filed its application for tax reinvestigation on June 14, 2007. However, the Kaohsiung tax office held the original judgment on December 17, 2007. As the Company was dissatisfied with the decision, the Company filed an administrative appeal to the Kaohsiung City Government on January 23, 2008. Based on the principle of conservatism, the Company accrued this penalty assessment in its 2007 books of accounts.

The Company has a dissenting view on land value tax imposed by Kaohsiung revenue service office amounted to \$58,883 and \$58,874 in 2007 and 2006, respectively. Although the Company filed an administrative appeal, the Company recognized a provision thereon in 2006 and 2005, based on the principle of conservatism.

The Company provided securities as pledged assets for administrative remedy-(please see note 6). However, according to Article 24 of Tax Collection Law, Kaohsiung tax office registered its prohibition on the disposition of a portion land in Yi Xin Yi road.

- h. The Tainan city government declared the land of An-Nan as chemical-contaminated zone. Aside from cooperating with the government in its pollution control and management procedure on a polluted portion of An-Nan land, the Company is seeking a way to define its responsibilities. Furthermore, the Environmental Protection Administration has notified that a portion of the land at Chian Jen Training Center has been polluted by mercury, and another part that is rented was polluted by the lessee. The Environmental Protection Administration recently notified that the groundwater on the land was polluted by chemicals. The Company proceed with the remediation work and submitted its remediation plan in accordance with the related regulations to the Kaohsiung City Government. The impact of the above land pollution is discussed further in Note 4 (h).

8. SIGNIFICANT DISASTER LOSS: None

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9. SIGNIFICANT SUBSEQUENT EVENTS:

- (1) As described in Note 7, the Kaohsiung tax office-held its original judgment on December 17, 2007 of levying the Company for land value tax. As the Company was dissatisfied with such decision, the Company filed an administrative appeal to the Kaohsiung City Government on January 23, 2008.
- (2) As described in Note 7, the Company signed settlement and release agreement with DSM on February 4, 2008. DSM revoked the arbitration process. The Company uses the patent, pays royalty and sells products (CPL) to DSM under original contracts, for which the Company does not pay extra royalty payments.
- (3) As described in Note 4(h), on January 21, 2008, the Tainan City Government demanded the Company to pay \$92,000 to the Tainan City Government and Environmental Protection Administration of the Executive Yuan. This monetary penalty was assessed to recoup the costs incurred to investigate and to take necessary corrective measures for land pollution allegedly caused by the Company. The Company has declared to the Tainan City Government that it did not cause the pollution of which it is accused. The Tainan City Government agreed to reduce the fine to \$89,000 on February 27, 2008. The Company is requested to pay \$89,000 before March 31, 2008. If this amount is not paid on time, the case would have been transferred to the courts and the Company could have been assessed a 100% penalty (double the fine amount) for late payment. The Company is contemplating of hiring law experts to analyze related laws for purposes of filing an administrative appeal. Based on the principle of conservatism, however, the Company recorded this fine as a non-operating cost in 2007.

10. OTHERS

- i. For the year ended December 31, 2007 and 2006, the details of the Company's personnel costs and depreciation were as follows:

	2007				2006			
	Recorded as cost of goods sold	Recorded as operating expenses	Recorded as non-operating expenses	Total	Recorded as cost of goods sold	Recorded as operating expenses	Recorded as non-operating expenses	Total
Personnel cost								
Salaries and wages (including bonus)	\$ 838,379	\$ 216,378	\$ 3,355	\$ 1,058,112	\$ 949,876	\$ 205,765	\$ 6,818	\$ 1,162,459
Labor and health								
Insurance premiums	53,284	9,027	192	62,503	52,265	8,398	188	60,851
Pension costs (meal allowance)	91,936	18,539	362	110,837	93,144	18,269	355	111,768
Depreciation	17,637	2,896	66	20,599	17,715	2,671	65	20,451
Amortization	1,520,165	12,792	453	1,533,410	1,503,076	9,734	398	1,513,208
	7,120	653	-	7,773	10,037	2,204	-	12,241

- ii. Reclassification

Certain accounts in the 2006 financial statements were reclassified to conform to the presentation adopted in the 2007 financial statement representation.

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11. SEGMENT FINANCIAL INFORMATION DISCLOSURE:

a. Financial Information by Major Product Categories

	Acrylonitrile & Acetic Acid	Caprolactam	Total
<u>2007</u>			
Product revenue	\$ 14,161,430	\$ 21,887,917	\$ 36,049,347
Product profit (loss)	\$ 2,421,284	\$ 1,388,382	\$ 3,809,666
Investment gain			2,141,441
Miscellaneous income (expenses), net			(2,168,177)
Interest expense			(621,169)
Income before tax from continuing operations			\$ 3,161,761
Identifiable assets	\$ 4,695,659	\$ 21,689,259	\$ 26,384,918
Long-term investments under equity method			6,294,127
Common assets			12,838,050
Total assets			\$ 45,517,095
Depreciation expense	\$ 76,479	\$ 1,445,407	
Capital expenditures	\$ 59,198	\$ 688,842	
<u>2006</u>			
Product revenue	\$ 12,951,654	\$ 19,420,029	\$ 32,371,683
Product profit (loss)	\$ 1,542,492	\$ 1,196,684	\$ 2,739,176
Investment gain			792,576
Miscellaneous income (expenses), net			(763,018)
Interest expense			(887,486)
Income before tax from continuing operations			\$ 1,881,248
Identifiable assets	\$ 4,432,155	\$ 21,750,059	\$ 26,182,214
Long-term investments under equity method			4,864,345
Common assets			14,180,473
Total assets			\$ 45,227,032
Depreciation expense	\$ 84,905	\$ 1,419,578	
Capital expenditures	\$ 59,141	\$ 480,202	

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11. SEGMENT FINANCIAL INFORMATION DISCLOSURE (CONT'D)

a. Financial Information by Major Product Categories (cont'd)

Revenues by segment represented external sales. The Company did not have inter-segment sales. Investment income was not included in segment revenue.

Segments' results of operation did not include interest expense. Segment assets were tangible and intangible assets of the segment that can be segregated. Investments were not included in segment assets.

b. Financial Information for foreign branches or offices: There were no foreign operations.

c. Export Sales Information: Domestic and export sales by major markets were as follows:

	2007		2006	
	Sub-total	Total	Sub-total	Total
Operating revenue from domestic sales		\$ 29,938,441		\$ 25,590,767
Operating revenue from overseas sales:				
China	3,281,674	-	3,022,221	-
Other (individual area under 10%)	2,829,232	6,110,906	3,758,695	6,780,916
Total operating revenue		\$ 36,049,347		\$ 32,371,683

d. Major Customers: Customers generating over 10% of total revenue.

	2007		2006	
	Amount	% of operating revenue	Amount	% of operating revenue
Formosa Chemical & Fiber Corp.	\$ 3,665,198	10.17%	\$ 4,077,856	12.60%
Chain Yarn Corp.	4,138,737	11.50%	3,082,451	9.52%
Li Peng Enterprise Corp.	4,137,009	11.48%	2,819,304	8.71%