

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

**CHINA PETROCHEMICAL DEVELOPMENT  
CORPORATION**

**FINANCIAL STATEMENTS**

**AND**

**INDEPENDENT ACCOUNTANTS' REPORT**

**DECEMBER 31, 2009 AND 2008**

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(English Translation of Financial Report Originally Issued In Chinese)

**CHINA PETROCHEMICAL DEVELOPMENT CORPORATION**

**DECEMBER 31, 2009 AND 2008**

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(English Translation of Financial Report Originally Issued In Chinese)

**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, 2009 and 2008, 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, 2009 and 2008, were long-term investments from certain equity investees of \$4,145,540 thousand and \$3,779,000 thousand, respectively, which represented 9.76% and 9.09% of the Company's total assets as of December 31, 2009 and 2008, respectively, that were audited by other auditors, whose reports have been furnished to us. Income from these equity investees amounted to \$602,028 thousand and \$444,774 thousand, which represented 28.72% and (13.23)% of the Company's income (loss) before income tax for the years ended December 31, 2009 and 2008, 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 "Regulations Governing Auditing and Certification of Financial Statements by Certified Public Accountants" and generally accepted auditing standards in the Republic of China. 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, 2009 and 2008, and the results of its operations and cash flows for the years then ended, in conformity with the "Guidelines Governing the Preparation of Financial Reports by Securities Issuers", "Business Entity Accounting Act", "Regulation on Business Entity Accounting Handling" and generally accepted accounting principles in the Republic of China.

**Note to Readers**

The accompanying financial statements are intended only to present the financial position, results of operations and cash flows in accordance with the accounting principles and practices generally accepted in the Republic of China and not those of any other jurisdictions. The standards, procedures and practices to audit such financial statements are those generally accepted and applied in the Republic of China.

The auditors' report and the accompanying financial statements are the English translation of the Chinese version prepared and used in the Republic of China. If there is any conflict between, or any difference in the interpretation of, the English and Chinese language auditors' report and financial statements, the Chinese version shall prevail.

As described in Note 4(h),4(l) and 4(u), the Tainan Municipal Government and 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. As China Petrochemical Development Corporation never used the land since it took over from merger with TAIC, the Company still has a dissenting view on the government perception about the condition of pollution. Aside from cooperating with the government in its control and management procedure, the Company is seeking a way to define its responsibilities. In addition, the China Petrochemical Development Corporation submitted for approval a remediation project proposal to the Tainan Municipal Government in accordance with the related regulations and accrued relevant remediation project expenses in June 2008. This remediation project proposal was approved in May 2009.

As described in Note 3, effective January 1, 2009, China Petrochemical Development Corporation adopts the amended Statement of Financial Accounting Standards No. 10 (SFAS 10) "Inventories". In accordance with the amended SFAS 10, the Company classified, measured and disclosed inventories. The adoption of this amended accounting standard decreased the Company's net income and earnings per share by \$36,919 thousand and \$0.02, respectively, for the year ended December 31, 2009.

KPMG  
CPA: Charles Chen  
CPA: Melody Chen  
Securities and Futures Commission  
Ministry of Finance, R.O.C. regulation  
(88) Tai-Tsai-Jung (6) No. 18311  
March 12, 2010

### **Note to Readers**

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(English Translation of the Report Originally Issued in Chinese)  
**CHINA PETROCHEMICAL DEVELOPMENT CORPORATION**  
**BALANCE SHEETS**  
**DECEMBER 31, 2009 AND 2008**  
(Expressed in thousands of New Taiwan dollars)

	December 31, 2009		December 31, 2008	
	Amount	%	Amount	%
<b>ASSETS</b>				
<b>Current Assets</b>				
Cash and cash equivalents (Notes 2 and 4.a)	\$ 1,614,136	4	2,502,266	6
Notes and accounts receivable, net (Notes 2, 4.c and 5)	2,390,358	6	945,453	2
Other financial assets–current (Note 5)	183,893	-	212,693	1
Inventories, net (Notes 2 and 4.d)	1,922,305	5	1,226,488	3
Office supplies	231,081	1	253,316	1
Deferred income tax assets–current(Notes 2 and 4.o)	158,803	-	-	-
Pledged time deposit (Note 6)	1,501,169	4	1,500,500	4
Other current assets	177,148	-	178,803	-
	8,178,893	20	6,819,519	17
<b>Fund and Investments</b>				
Long-term equity investments–equity method (Notes 2, 4.e and 6)	5,966,455	14	5,584,653	13
Financial assets reported at fair value through profit or loss– non–current (Notes 2, 4.b and 6)	633,124	2	396,039	1
Available-for-sale financial assets–non–current (Notes 2, 4.b and 6)	1,409,237	3	1,042,242	3
Financial assets carried at cost–non–current (Notes 2, 4.b and 6)	589,096	1	590,333	1
Other financial assets–non–current (Note 6)	56,107	-	49,314	-
	8,654,019	20	7,662,581	18
<b>Fixed Assets (Notes 2, 4.f, 5 and 6)</b>				
Land	5,288,932	12	5,288,932	13
Land improvements	205,880	-	205,582	-
Buildings	1,570,767	4	1,514,009	4
Machinery and equipment	32,063,175	76	31,876,287	77
Transportation equipment	59,965	-	58,741	-
Other equipment	104,587	-	107,732	-
	39,293,306	92	39,051,283	94
Less: Accumulated depreciation	(21,782,170)	(51)	(20,263,883)	(48)
Less: Accumulated impairment–fixed assets	(5,450)	-	(5,450)	-
Construction in progress	194,660	-	98,321	-
	17,700,346	41	18,880,271	46
<b>Other Assets</b>				
Assets for lease (Notes 2, 4.g and 6)	3,659,569	9	3,698,547	9
Idle assets (Notes 2, 4.h and 6)	4,211,291	10	4,230,826	10
Deferred income tax assets–non–current (Notes 2 and 4.o)	-	-	207,291	-
Other (Notes 2 and 4.i)	63,587	-	89,092	-
	7,934,447	19	8,225,756	19
<b>TOTAL ASSETS</b>	<b>\$ 42,467,705</b>	<b>100</b>	<b>41,588,127</b>	<b>100</b>

The accompanying notes are an integral part of the financial statements.  
(With KPMG audit report dated March 12, 2010)

(English Translation of the Report Originally Issued in Chinese)  
**CHINA PETROCHEMICAL DEVELOPMENT CORPORATION**  
**BALANCE SHEETS**  
**DECEMBER 31, 2009 AND 2008**  
(Expressed in thousands of New Taiwan dollars)

	December 31, 2009		December 31, 2008	
	Amount	%	Amount	%
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>				
<b>Current Liabilities</b>				
Notes and accounts payable (Note 5)	\$ 1,538,534	4	441,063	1
Accrued expenses (Notes 4.l and 5)	1,211,800	3	584,524	1
Other financial liabilities—current	5,540	-	29,871	-
Long-term liabilities due within one year (Note 4.j)	-	-	770,000	2
Other current liabilities	76,981	-	3,487	-
	2,832,855	7	1,828,945	4
<b>Long-term Liabilities</b>				
Long-term loans (Note 4.j)	6,915,700	16	9,343,680	22
Long-term bills payable, net of discount (Note 4.k)	3,483,798	8	3,495,513	9
Other long-term payables (Note 4.l)	1,994,089	5	2,387,200	6
	12,393,587	29	15,226,393	37
<b>Other Liabilities</b>				
Reserve for land value incremental tax (Note 4.m)	3,872,770	9	3,879,784	9
Accrued pension liabilities (Notes 2 and 4.n)	526,020	1	578,900	2
Other (Notes 2, 4.e and 5)	514,648	1	315,892	1
	4,913,438	11	4,774,576	12
<b>Total Liabilities</b>	20,139,880	47	21,829,914	53
<b>Stockholders' Equity</b>				
Capital stock, common, \$10 par value, authorized 2,600,000,000 shares; 1,794,962,992 shares issued and outstanding (Note 4.p)	17,949,630	42	17,949,630	43
Capital surplus (Note 4.q)				
Long-term investments	320,140	1	320,140	1
Retained earnings (Note 4.s)				
Legal reserve	-	-	584,568	1
Unappropriated earnings	(436,884)	(1)	(3,086,178)	(7)
Other adjustment to stockholder's equity				
Cumulative translation adjustment (Note 2)	(18,218)	-	7,523	-
Unrealized loss on financial instruments (Note 2)	(1,034,463)	(2)	(1,578,917)	(4)
Unrealized incremental value from asset revaluation (Note 4.r)	5,547,620	13	5,561,447	13
<b>Total Stockholders' Equity</b>	22,327,825	53	19,758,213	47
<b>Significant Commitments and Contingencies (Notes 2 and 7)</b>				
<b>TOTAL LIABILITIES AND STOCKHOLDERS' EQUITY</b>	<b>\$ 42,467,705</b>	<b>100</b>	<b>41,588,127</b>	<b>100</b>

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(With KPMG audit report dated March 12, 2010)

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**CHINA PETROCHEMICAL DEVELOPMENT CORPORATION**  
**STATEMENTS OF INCOME**  
**FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008**  
(Expressed in thousands of New Taiwan dollars)

	2009		2008	
	Amount	%	Amount	%
<b>Operating revenue (Note 5)</b>	\$ 25,701,768	100	30,534,976	100
<b>Cost of goods sold (Notes 4.d and 5)</b>	(24,032,566)	(94)	(32,003,967)	(105)
	1,669,202	6	(1,468,991)	(5)
<b>Unrealized loss (profit) on intercompany transactions (Note 2)</b>	116	-	(4,430)	-
<b>Realized profit on intercompany transactions (Note 2)</b>	4,430	-	5,479	-
<b>Gross profit (loss)</b>	1,673,748	6	(1,467,942)	(5)
<b>Operating expenses (Note 5)</b>				
Marketing	(169,174)	(1)	(360,062)	(1)
Administration	(204,898)	(1)	(194,294)	(1)
Research and development	(113,701)	-	(107,843)	-
	(487,773)	(2)	(662,199)	(2)
<b>Income (loss) from operations</b>	1,185,975	4	(2,130,141)	(7)
<b>Non-operating income</b>				
Interest income	16,443	-	44,926	-
Income from equity method investments (Notes 2 and 4.e)	972,735	4	897,011	3
Dividends income	19,239	-	59,458	-
Gain on disposal of fixed assets	17,917	-	-	-
Gain on valuation of financial assets	237,085	1	-	-
Other (Notes 5 and 7)	114,648	-	356,619	1
	1,378,067	5	1,358,014	4
<b>Non-operating expenses</b>				
Interest expense	(275,290)	(1)	(520,355)	(2)
Financial expenses	(68,863)	-	(58,532)	-
Impairment loss (Notes 2 and 4.b)	(1,237)	-	(10,221)	-
Loss on valuation of financial assets	-	-	(173,614)	(1)
Other	(122,357)	-	(179,987)	(1)
	(467,747)	(1)	(942,709)	(4)
<b>Income (loss) before income tax</b>	2,096,295	8	(1,714,836)	(7)
<b>Income tax (expense) benefit (Notes 2 and 4.o)</b>	(31,569)	-	161,395	1
<b>Income (loss) before cumulative effect of change in accounting principle</b>	2,064,726	8	(1,553,441)	(6)
<b>Extraordinary loss (Note 4.u)</b>	-	-	(1,647,200)	(5)
<b>Net income (loss)</b>	<b>\$ 2,064,726</b>	<b>8</b>	<b>(3,200,641)</b>	<b>(11)</b>
	<b>Before Tax</b>	<b>After Tax</b>	<b>Before Tax</b>	<b>After Tax</b>
<b>Income (loss) before cumulative effect of change in accounting principle</b>	\$ 1.17	1.15	(0.96)	(0.86)
<b>Extraordinary loss</b>	-	-	(0.92)	(0.92)
<b>Basic earnings per share (Notes 2 and 4.t)</b>	<b>\$ 1.17</b>	<b>1.15</b>	<b>(1.88)</b>	<b>(1.78)</b>

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**CHINA PETROCHEMICAL DEVELOPMENT CORPORATION**  
**STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY**  
**FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008**  
(Expressed in thousands of New Taiwan dollars)

	Common stock	Capital surplus	Retained earnings		Cumulative translation adjustment	Unrealized loss on financial instruments	Unrealized incremental value from asset revaluation	Total
			Legal reserve	Unappropriated earnings				
<b>Balance - January 1, 2008</b>	\$ 16,899,995	320,143	297,803	2,867,651	(13,231)	(988,991)	4,168,686	23,552,056
Distributed:								
Legal reserve	-	-	286,765	(286,765)	-	-	-	-
Retained earnings transfer to unrealized incremental value from asset revaluation	-	-	-	(1,393,031)	-	-	1,393,031	-
Remuneration to directors and supervisors	-	-	-	(23,757)	-	-	-	(23,757)
Employees' bonuses in stock	35,635	-	-	(35,635)	-	-	-	-
Stock dividends	1,014,000	-	-	(1,014,000)	-	-	-	-
Increase in unrealized loss on financial instruments	-	-	-	-	-	(401,304)	-	(401,304)
Increase in unrealized loss on financial instruments long-term equity investments-equity method	-	-	-	-	-	(188,622)	-	(188,622)
Decrease in unrealized incremental value from asset revaluation from disposal of fixed assets	-	-	-	-	-	-	(270)	(270)
Change on equity investments	-	(3)	-	-	20,754	-	-	20,751
Net loss for the year ended December 31, 2008	-	-	-	(3,200,641)	-	-	-	(3,200,641)
<b>Balance - December 31, 2008</b>	<b>\$ 17,949,630</b>	<b>320,140</b>	<b>584,568</b>	<b>(3,086,178)</b>	<b>7,523</b>	<b>(1,578,917)</b>	<b>5,561,447</b>	<b>19,758,213</b>
Legal reserve transfer to unappropriated earnings	-	-	(584,568)	584,568	-	-	-	-
Decrease in unrealized loss on financial instruments	-	-	-	-	-	366,995	-	366,995
Decrease in unrealized incremental value from asset revaluation from disposal of fixed assets	-	-	-	-	-	-	(13,827)	(13,827)
Change in equity investments	-	-	-	-	(25,849)	177,459	-	151,610
Adjustment arising from subsidiary liquidation	-	-	-	-	108	-	-	108
Net income for the year ended December 31, 2009	-	-	-	2,064,726	-	-	-	2,064,726
<b>Balance - December 31, 2009</b>	<b>\$ 17,949,630</b>	<b>320,140</b>	<b>-</b>	<b>(436,884)</b>	<b>(18,218)</b>	<b>(1,034,463)</b>	<b>5,547,620</b>	<b>22,327,825</b>

The accompanying notes are an integral part of the financial statements.  
( With KPMG audit report dated March 12, 2010)

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**CHINA PETROCHEMICAL DEVELOPMENT CORPORATION**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008**  
(Expressed in thousands of New Taiwan dollars)

	New Taiwan Dollars	
	2009	2008
<b>Cash flows from operating activities:</b>		
Net income (loss)	\$ 2,064,726	(3,200,641)
Adjustments to reconcile net income to net cash provided by operating activities:		
(Income) loss from equity method investments, net of cash dividends received	(93,654)	581,107
Depreciation	1,627,982	1,578,066
Amortization	6,513	9,776
(Gain) loss on disposal of fixed assets	(17,917)	29,274
Loss (gain) on disposal of investment	108	(337)
(Gain) loss on inventory market price (recovery) decline	(870,925)	907,844
Reversal of allowance for loss on idle assets	(13,808)	-
(Gain) loss on revaluation of financial assets	(237,085)	173,773
Asset impairment loss	1,237	10,221
Extraordinary loss	-	1,647,200
Change in assets and liabilities		
(Increase) decrease in notes and accounts receivable	(1,444,905)	2,252,947
Decrease (increase) in other financial assets—current	28,800	(161,465)
Decrease in inventories	175,108	555,496
Decrease (increase) in office supplies	8,614	(22,081)
Decrease in other current assets	1,655	96,023
Decrease (increase) in deferred income tax assets	48,488	(207,291)
Increase (decrease) in notes and accounts payable	1,097,471	(1,226,063)
Increase (decrease) in accrued expenses	254,572	(647,105)
Decrease in other financial liabilities—current	(24,331)	(87,452)
Increase (decrease) in other current liabilities	73,494	(12,419)
Decrease in accrued remediation project expenses	(20,407)	-
(Decrease) increase in accrued pension liabilities	(52,880)	32,090
Net cash provided by operating activities	<u>2,612,856</u>	<u>2,308,963</u>
<b>Cash flows from investing activities:</b>		
Increase in pledged time deposits, net	(7,669)	(1,337,777)
Decrease in long-term equity investments	71,232	78,800
Divestment in financial assets	-	6,046
Disposal of long-term investment	-	480
Disposal of fixed assets	41,745	-
Increase in fixed assets	(406,783)	(1,093,053)
Decrease in other financial assets—non—current	206	894,954
Decrease in other assets	18,992	19,197
Net cash used in investing activities	<u>(282,277)</u>	<u>(1,431,353)</u>

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**STATEMENTS OF CASH FLOWS**  
**FOR THE YEARS ENDED DECEMBER 31, 2009 AND 2008**  
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	<u>2009</u>	<u>2008</u>
<b>Cash flows from financing activities:</b>		
(Decrease) increase in long-term loans	\$ (3,197,980)	40,000
(Decrease) increase in long-term bills payable	(11,715)	1,664
Payment of directors' and supervisors' remuneration	-	(23,757)
Decrease in other liabilities	(9,014)	(1,605)
Net cash (used in) provided by financing activities	<u>(3,218,709)</u>	<u>16,302</u>
Net (decrease) increase in cash and cash equivalents	(888,130)	893,912
<b>Cash and cash equivalents, beginning of the year</b>	<u>2,502,266</u>	<u>1,608,354</u>
<b>Cash and cash equivalents, end of the year</b>	<u><b>\$ 1,614,136</b></u>	<u><b>2,502,266</b></u>
<b>Supplemental disclosures of cash flow information:</b>		
Interest paid during the year	<u>\$ 294,641</u>	<u>521,219</u>
Income tax paid during the period	<u>\$ 1,667</u>	<u>146,665</u>
<b>Investing and financing activities not affecting cash flows:</b>		
Reclassification of long-term loans due within one year	<u>\$ -</u>	<u>770,000</u>
Transfer of office supplies to fixed assets	<u>\$ 13,621</u>	<u>5,105</u>
<b>Income (loss) from equity method investments, net of cash dividends received</b>		
Income from equity method investments	\$ 972,735	897,011
Add: Dividend income from equity method investments during the year	(879,081)	(1,478,118)
	<u><b>\$ 93,654</b></u>	<u><b>(581,107)</b></u>

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**CHINA PETROCHEMICAL DEVELOPMENT CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2009 AND 2008**

**(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, 2009, the Company had total manpower of 953 employees.

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**CHINA PETROCHEMICAL DEVELOPMENT CORPORATION**  
**NOTES TO FINANCIAL STATEMENTS**  
**DECEMBER 31, 2009 AND 2008**  
**(Amounts expressed in thousands of New Taiwan dollars, unless otherwise stated)**

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The financial statements are the English translation of the Chinese version prepared and used in the Republic of China. If there is any conflict between, or any difference in the interpretation of, the English and Chinese language financial statements, the Chinese version shall prevail.

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

**a. Use of Estimates**

The preparation of the accompanying financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting periods. Actual results could differ from these estimates.

**b. 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.

**c. 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 assets, otherwise they are classified as non-current assets. 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.

**d. Asset Impairment**

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.

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

**e. 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.

**f. Financial Instruments**

Financial instruments are classified 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. At initial recognition, financial instruments are recognized at fair value plus transaction costs, except for the financial instruments held for trading.

Subsequent to initial recognition, 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 measured 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 has 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. These 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.

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

**f. Financial Instruments (cont'd)**

(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.

(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.

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

**h. Allowance for Bad Debts**

Allowance for bad debts is provided based on management's estimate of the collectability 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 %

**i. 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.

Effective January 1, 2009, the Company adopts the amended Statement of Financial Accounting Standards No. 10 (SFAS 10) "Inventories". According to the amended SFAS 10, the cost of inventories consists of all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Inventories are measured at the lower of cost and net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and selling expenses at the end of the period.

**j. 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 consolidated financial statements every quarter, which include the accounts of those investees accounted for under the equity method and in which the Company has controlling interest over their operations.

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)**

**k. 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	2 – 17	years
Transportation equipment	2 – 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.

**l. Deferred Assets and Amortization**

Deferred assets consist of capitalized costs on 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.

**m. Employee bonuses, Directors' and Supervisors' remuneration**

Employee bonuses and directors' emoluments appropriated after January 1, 2008 are accounted for by Interpretation (96)052 issued by the Accounting Research and Development Foundation. The Company estimates the amount of employee bonuses and directors' emoluments according to the Interpretation and recognizes it as operating costs or operating expenses. Differences between the amount approved in the shareholders' meeting and recognized in the financial statements, if any, are accounted for as changes in accounting estimates and recognized as profit or loss.

**n. 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 (revised in November 1995 and March 2009, respectively), and are deposited in a designated account with the Central Trust of China.

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

**n. Employee pension and termination pay plan (cont'd)**

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.

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.

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.

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

**o. 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.

**p. 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.

**q. Earnings per share**

Basic EPS is calculated by dividing net income (or loss) by weighted- average number of common shares issued and outstanding during the period. In the event of capitalization of retained earnings, capital surplus, or employee bonuses, the number of shares outstanding is retroactively adjusted for additional shares issued. Diluted EPS is calculated by dividing net income (or loss) by weighted- average number of common shares used in the basic EPS calculation plus the number of common shares that would be issued assuming all potentially dilutive common shares are converted and outstanding. Convertible corporate bonds issued and the employee bonus appropriated after 1 January, 2008 are potentially dilutive common shares. If a dilutive effect does not exist, only basic EPS is disclosed; otherwise, diluted EPS is disclosed in addition to the basic EPS.

**r. 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.

**3 REASONS AND EFFECT OF CHANGES IN ACCOUNTING**

Effective January 1, 2009, the Company adopts the amended Statement of Financial Accounting Standards No. 10 (SFAS 10) "Inventories". In accordance with the amended SFAS 10, the Company classified, measured, and disclosed inventories. The adoption of this amended accounting standard decreased the Company's net income and earnings per share by \$36,919 thousand and \$0.02, respectively, for the year ended December 31, 2009.

Effective January 1, 2008, the Company adopts the Republic of China Statement of Financial Accounting Standards No. 39 (SFAS 39) "Share-Based Payment" and Interpretation (96)052 issued by Accounting Research and Development Foundation, under which, the employee bonuses and remuneration to directors and supervisors are classified, measured, and disclosed. The adoption of these new accounting principles did not effect the net income and earnings per share. In accordance with Interpretation (97)169 issued by the ROC ARDF, the new shares issued as employee bonuses are no longer retroactively adjusted when calculating basic earnings per share and diluted earnings per share. Also, employee bonuses issued in the form of stock, which have a dilution effect, are considered when calculating diluted net income per share.

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**4 DETAILS OF MAJOR ACCOUNTS**

**a. Cash and cash equivalents**

	<b>December 31, 2009</b>	<b>December 31, 2008</b>
Cash on hand	\$ 560	560
Cash in bank		
Checking deposits	52,056	44,190
Demand deposits	2,391	7,415
Time deposit	540,000	1,729,625
Sub-total	594,447	1,781,230
Cash equivalents	1,019,129	720,476
Total	\$ 1,614,136	2,502,266

**b. Financial Instruments**

	<b>December 31, 2009</b>	<b>December 31, 2008</b>
<b>Financial assets reported at fair value through profit or loss-noncurrent:</b>		
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	296,353	59,268
Total	\$ 633,124	396,039
<b>Available for sale financial assets-non-current listed companies:</b>		
BES Engineering Co., Ltd.	\$ 1,580,885	1,580,885
China Development Financial Holding Corp.	814,911	814,911
Less: Adjustment on valuation of available for sale financial assets	(986,559)	(1,353,554)
Total	\$ 1,409,237	1,042,242

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**4 DETAILS OF MAJOR ACCOUNTS (CONT'D)**

**b. Financial Instruments (cont'd)**

	<b>December 31, 2009</b>	<b>December 31, 2008</b>
<b>Financial assets carried at cost-non-current</b>		
Equity securities-common stock:		
Chienkung Investment Co., Ltd.	\$ 22,986	24,223
Hardy Chemical Co., Ltd.	4,400	4,400
Overseas Investment Development Co., Ltd.	26,000	26,000
Core Pacific Venture Capital Corp.	13,145	13,145
Core Pacific City Co., Ltd.	522,565	522,565
BIO Investments LLC	-	-
Neuro Logic Inc.	-	-
Total	\$ 589,096	590,333

1. 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.
2. On June 26, 2008, Chien Kung Investment Co., Ltd. decided to discontinue its business effective October 1, 2008. The Company received the residual assets of \$22,986 based on its original share holding percentage. The procedures for the liquidation of this equity investee were finish on February 4, 2010. In 2009 and 2008, the Company recognized an impairment loss thereon of \$1,237 and \$10,221, respectively.
3. On March 26, 2008, Core Pacific Venture Capital Corp. decided to decrease its capital by \$49,126. Therefore, the Company received a cash refund of \$6,046 on April 1, 2008 based on its original share holding percentage. As of April 4, 2008, receivables from Core Pacific Venture Capital Corp. are already received.
4. On December 12, 2007, Core Pacific Venture Capital Corp. started the process of its dissolution and liquidation is still in process on December 31, 2009.
5. 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, 2009.
6. 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, 2009.

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**4. DETAILS OF MAJOR ACCOUNTS (CONT'D)**

**c. Notes and accounts receivable**

	<u>December 31,2009</u>	<u>December 31,2008</u>
Notes receivable	\$ 803,499	207,350
Accounts receivable	1,747,071	932,698
Accounts receivable-related parties	<u>195,551</u>	<u>161,168</u>
Sub-total	2,746,121	1,301,216
Less: Allowance for bad debts	<u>(355,763)</u>	<u>(355,763)</u>
Net value	<u>\$ 2,390,358</u>	<u>945,453</u>

**d. Inventories**

	<u>December 31,2009</u>	<u>December 31,2008</u>
Finished goods	\$ 324,552	444,860
Less : Allowance for inventory	<u>(5,675)</u>	<u>(137,064)</u>
Sub-total	<u>318,877</u>	<u>307,796</u>
Work-in-process	599,253	488,001
Less : Allowance for inventory	<u>(26,052)</u>	<u>(286,641)</u>
Sub-total	<u>573,201</u>	<u>201,360</u>
Raw materials	988,931	1,165,558
Less : Allowance for inventory	<u>(3,879)</u>	<u>(470,109)</u>
Sub-total	<u>985,052</u>	<u>695,449</u>
Fuel	46,488	35,913
Less : Allowance for inventory	<u>(1,313)</u>	<u>(14,030)</u>
Sub-total	<u>45,175</u>	<u>21,883</u>
Total	<u>\$ 1,922,305</u>	<u>1,226,488</u>

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**4. DETAILS OF MAJOR ACCOUNTS (CONT'D)**

**d. Inventories (cont'd)**

For the years ended December 31, 2009 and 2008, the details of cost of good sold were as follows :

	<u>2009</u>	<u>2008</u>
Cost of goods sold	\$ 24,640,594	30,479,595
(Gain) loss on inventory market price (recovery) decline	(870,925)	907,844
Loss on physical inventories	8,440	4,764
Unallocated fixed production overheads from idle facilities	271,093	647,935
Revenue from sale of scraps	(16,636)	(36,171)
Total	<u>\$ 24,032,566</u>	<u>32,003,967</u>

**e. Long-term investments**

	<u>December 31, 2009</u>		<u>December 31, 2008</u>	
	<u>Ownership</u>		<u>Ownership</u>	
<u>Equity Method</u>	%	Book Value	%	Book Value
Taiwan Prosperity Chemical Co. Ltd. (with original investment cost of \$986,932 )	36.37	\$ 2,064,724	36.37	1,818,448
Taiwan Chlorine Industries Co., Ltd. (with original investment cost of \$400)	40.00	309,754	40.00	428,937
Kaohsiung Monomer Co., Ltd. (with original investment cost of \$0)	40.00	702,858	40.00	570,261
Chung-Kung Safe-Guarding & Security Co., Ltd. (with original investment cost of \$14,400)	24.00	17,669	24.00	16,459
Chung Hua Hsing Trading Co., Ltd. (with original investment cost of \$145,000)	100.00	243,732	100.00	236,625
Chung Shih Hsing Development Corp. (with original investment cost of \$100,000)	100.00	77,760	100.00	78,138
Hua Tung Power Co., Ltd. (with original investment cost of \$244,000)	40.00	15,769	40.00	24,300
China Petrochemical Devt. Co. (Singapore) Pte. Ltd. (with original investment cost of \$136,607 on December 31, 2008)	-	-	100.00	71,076
CPDC Investment (BVI) Co Ltd. (with original investment cost of \$904,946)	100.00	1,329,280	100.00	1,089,391
Praxair Chemax Semiconductor Material Co., Ltd. (with original investment cost of \$49,980)	49.00	408,344	49.00	401,465
CPDC Engineering Co., Ltd. (with original investment cost of \$100,000)	100.00	113,107	100.00	104,902

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**4. DETAILS OF MAJOR ACCOUNTS (CONT'D)**

**e. Long-term investments (cont'd)**

	December 31, 2009		December 31, 2008	
	Ownership %	Book Value	Ownership %	Book Value
<u>Equity Method</u>				
Tsou Seen Chemical Industries Corporation (with original investment cost of \$550,000)	100.00	\$ 677,783	100.00	738,835
Rich Equities Ltd. (with original investment cost of \$5,996)	100.00	5,675	100.00	5,816
Unichem Development Limited (with original investment cost of \$0)	100.00	-	-	-
Sub-total		5,966,455		5,584,653
<u>Other Liabilities</u>				
Shih Fu Investment Co., Ltd. (with original investment cost of \$440,125)	100.00	(162,028)	100.00	(58,116)
Shih Hua Investment Co., Ltd. (with original investment cost of \$437,946)	100.00	(164,189)	100.00	(60,331)
Sub-total		(326,217)		(118,447)
Total		\$ 5,640,238		5,466,206

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

	2009	2008
Taiwan Prosperity Chemical Co. Ltd.	\$ 166,200	7,257
Taiwan Chlorine Industries Co. Ltd.	182,492	301,675
Kaohsiung Monomer Co. Ltd.	420,717	319,775
Chung Kung Safe-guarding & Security Co., Ltd.	2,295	1,449
Chung Hua Hsing Trading Co., Ltd.	56,262	54,147
Chung Shih Hsing Development Co.	(350)	(306)
Hua Tung Power Co., Ltd.	(8,531)	(16,062)
China Petrochemical Devt. Co. (Singapore) Pte. Ltd.	156	12,425
CPDC Investment (BVI) Co., Ltd.	210,353	(33,809)
Praxair Chemax Semiconductor Material Co., Ltd.	49,219	184,264
CPDC Engineering Co., Ltd.	8,205	10,178
Tsou Seen Chemical Industries Corporation	102,526	181,753
Rich Equities Ltd.	6	102
Shih Fu Investment Co., Ltd.	(108,407)	(62,932)
Shih Hua Investment Co., Ltd.	(108,408)	(62,905)
	\$ 972,735	897,011

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**4. DETAILS OF MAJOR ACCOUNTS (CONT'D)**

**f. Long-term investments (cont'd)**

- (2) The aggregate cash dividends from equity investees amounted to \$879,081 and \$1,478,118 for the years ended December 31, 2009 and 2008, respectively. Dividends received were recorded as a reduction of the carrying value of the related equity investments.
- (3) In 2009 and 2008, the Company recognized an investment loss in Shih Fu, Investment Co., Ltd. of \$108,407 and \$62,932. As the Company has controlling interest over the said investee's operation, the Company continuously recognized the investment loss thereon under other liabilities.
- (4) In 2009 and 2008, the Company recognized an investment loss in Shin Hwa investment Co., Ltd. of \$108,408 and \$62,905. As the Company has controlling interest over the said investee's operation, the Company continuously recognized the investment loss thereon under other liabilities.
- (5) The Company indirectly holds 80% of voting rights in Fujian Huanxing Petrochemical Co. (FHPC) through Shih Fu, Investment Co., Ltd. and Shin Hwa investment. As the Company has controlling interest over the said FHPC's operation, the Company continuously recognized the investment loss thereon under other liabilities of \$ 329,533 and \$122,050 as of December 31, 2009 and 2008. The Company recognized an investment loss of \$216,614 and \$127,965 in 2009 and 2008 based on indirect holding percentage. In the first quarter of 2008, FHPC faced financial difficulty caused by the breakdown in its main production equipment. As of December 31, 2009, FHPC's bank loans of USD9,338 and CNY 75,343 matured. The bank asked for the court's approval to preserve and to sell the security for the FHPC's bank loans. The bank won the lawsuit, and the court also to freeze the FHPC's bank account. The bank did not sell the security of the loan until December 31, 2009. FHPC retrenched all employees effective December 31, 2008.
- (6) In 2008, the Company sold its ownership of 6,000 shares for \$80.5 per share, in Taiwan Prosperity Chemical Co. Ltd and recognized a gain on disposal thereof of \$337.
- (7) Kaohsiung Monomer Co. Ltd. decided to decrease its capital by \$197,000 on March 18, 2008; therefore, the Company received a cash refund of \$78,800 based on its original share holding percentage. In addition, Kaohsiung Monomer Co. Ltd. decided to capitalize \$197,000 of its legal reserve on March 18, 2008, and to allocate the stock based on its original share holding percentage.
- (8) On May 20, 2008, the Company established Unichem Development Limited for the purpose of investment.
- (9) On February 14, 1996, the Company established China Petrochemical Devt.Co.(Singapore) Pte. Ltd, with original investment cost of US\$14,000,000 (NT\$466,376). The Company decided to decrease its capital by \$9,900,000 on March 29, 2000, and the Company received a cash refund in May, 2000. On December 22, 2008, the Company decided to liquidate China Petrochemical Devt.Co.(Singapore) Pte and the liquidation process was completed on December 9, 2009. The Company received US\$2,169,706.26 (NT\$71,232) as proceeds from the liquidation of this investment and recognized a loss on disposal thereof of \$108.
- (10) On December 29, 2009, Hua Tung Power Co., Ltd. decided to liquidate. Liquidation is still in process on December 31, 2009.

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**4. DETAILS OF MAJOR ACCOUNTS (CONT'D)**

**f Long-term investments (cont'd)**

(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
<b>December 31, 2009</b>						
Chung Shih Hsing Development Co., Ltd	100%	\$ -	-	\$ 77,825	0.18%	Total assets and operating revenue are minor to the Company
CPDC (Singapore) Pte. Ltd.	-	-	-	-	-	"
Rich Equities Ltd.	100%	-	-	5,675	0.01%	"
Unichem Development Limited	100%	-	-	-	-	"
<b>December 31, 2008</b>						
Chung Shih Hsing Development Co., Ltd	100%	\$ -	-	\$ 78,203	0.19%	Total assets and operating revenue are minor to the Company
CPDC (Singapore) Pte. Ltd.	100%	-	-	71,076	0.17%	"
Rich Equities Ltd.	100%	-	-	5,816	0.01%	"
Unichem Development Limited	100%	-	-	-	-	"

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**4. DETAILS OF MAJOR ACCOUNTS (CONT'D)**

**f. Fixed assets**

	<b>Cost and incremental value from revaluation</b>	<b>Accumulated depreciation</b>	<b>Net</b>
<b>December 31, 2009</b>			
Land	\$ 5,288,932	-	5,288,932
Land improvements	205,880	159,085	46,795
Buildings	1,570,767	580,819	989,948
Machinery	32,063,175	20,924,438	11,138,737
Transportation equipment	59,965	40,333	19,632
Other equipment	104,587	77,495	27,092
Construction in progress and prepayment	194,660	-	194,660
Total	<u>\$ 39,487,966</u>	<u>21,782,170</u>	17,705,796
Less: Accumulated impairment-fixed assets			<u>(5,450)</u>
Net value			<u>17,700,346</u>
<b>December 31, 2008</b>			
Land	\$ 5,288,932	-	5,288,932
Land improvements	205,582	153,880	51,702
Buildings	1,514,009	527,210	986,799
Machinery	31,876,287	19,468,932	12,407,355
Transportation equipment	58,741	37,211	21,530
Other equipment	107,732	76,650	31,082
Construction in progress and prepayment	98,321	-	98,321
Total	<u>\$ 39,149,604</u>	<u>20,263,883</u>	18,885,721
Less: Accumulated impairment-fixed assets			<u>(5,450)</u>
Net value			<u>18,880,271</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 holds a portion of the land which is unusable at Methyl Methacrylate plant. As the carrying value of portion of the unusable operating property cannot be separately established, the unusable operating property has not been classified as idle asset.

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**4. DETAILS OF MAJOR ACCOUNTS (CONT'D)**

**g. Assets for lease**

	<b>Cost and incremental value from revaluation</b>	<b>Accumulated depreciation</b>	<b>Net</b>
<b>December 31, 2009</b>			
Land	\$ 5,250,993	-	5,250,993
Buildings	6,276	4,416	1,860
Transportation equipment	36,705	33,369	3,336
Total	<u>\$ 5,293,974</u>	<u>37,785</u>	5,256,189
Less:Accumulated impairment -assets for lease			<u>(1,596,620)</u>
Net value			<u>3,659,569</u>
<b>December 31, 2008</b>			
Land	\$ 5,250,993	-	5,250,993
Buildings	54,348	13,510	40,838
Transportation equipment	36,705	33,369	3,336
Total	<u>\$ 5,342,046</u>	<u>46,879</u>	5,295,167
Less:Accumulated impairment -assets for lease			<u>(1,596,620)</u>
Net value			<u>3,698,547</u>

The Company leases portion of its land in 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 2009 and 2008 amounted to \$3,134 and \$2,798, 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. 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 2009 and 2008 amounted to \$1,705 and \$1,695, 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, 2007 amounted to \$530. The lease will not be renewed after expiring on January 23, 2009.

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**4. DETAILS OF MAJOR ACCOUNTS (CONT'D)**

**h. Idle Assets**

	<b>Cost and incremental value from revaluation</b>	<b>Accumulated depreciation</b>	<b>Net</b>
<b>December 31, 2009</b>			
Land	\$ 4,940,303	-	4,940,303
Land improvements	38,761	35,246	3,515
Buildings	117,471	79,835	37,636
Machinery	1,132,717	996,505	136,212
Transportation equipment	1,292	1,077	215
Other equipment	4,782	4,087	695
	<u>\$ 6,235,326</u>	<u>1,116,750</u>	<u>5,118,576</u>
Less: Allowance for loss on idle assets			(166,769)
Allowance for impairment loss- idle assets			(740,516)
Net value			<u>4,211,291</u>
<b>December 31, 2008</b>			
Land	\$ 4,965,505	-	4,965,505
Land improvements	38,761	35,246	3,515
Buildings	117,798	79,953	37,845
Machinery	1,413,602	1,248,053	165,549
Transportation equipment	1,292	1,077	215
Other equipment	4,782	4,087	695
	<u>\$ 6,541,740</u>	<u>1,368,416</u>	<u>5,173,324</u>
Less: Allowance for loss on idle assets			(201,982)
Allowance for impairment loss- idle assets			(740,516)
Net value			<u>4,230,826</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.

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**4. DETAILS OF MAJOR ACCOUNTS (CONT'D)**

**h. Idle Assets (cont'd)**

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.
6. 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) ①The Company filed a petition with the District Court in January 2006.  
②In February, 2008, the petition was dismissed by the Supreme Court.
7. (1) Following the said merger, the Tainan Municipal Government required the Company to pay remediation fee for Soil and Groundwater Remediation Act on May 10, 2004. The Tainan Municipal Government penalized the Company for failing to make such payment on due date and ordered to pay double the fee on August 31, 2004. The administrative penalties amounted to \$1,956.
  - (2) As the Company has a dissenting view on the government perception about the condition of pollution, the Company filed an administrative appeal at the Kaohsiung High Court in December 2004. Finally, the Supreme Court dismissed this appeal in November 2007. The Company disputed the government perception about the condition of pollution and filed an appeal for retrial with the Supreme Court in December 2007. In December 2009, the Supreme Court decided not to be accept such appeal.
  - (3) The Company paid the administrative penalties of \$1,956 in 2007.
8. (1) On February 27, 2008, the Tainan City Government demanded the Company to pay \$88,786 to the Tainan City Government and Environmental Protection Administration of the Executive Yuan. 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. Based on the accounting principle of conservatism, however, the Company recorded this fine as a non-operating cost in 2007 and paid this fine by the end of July 2008.
  - (2) As the Company has a dissenting view on the government perception about the fine and the condition of pollution, it filed an administrative appeal in July 2008 and the appeal was dismissed by the Environmental Protection Bureau in December 2008. The Company filed an administrative appeal of the Kaohsiung High Court in February 2009. In January 2010, the Kaohsiung High Court demanded the Company to pay \$88,430. However the Company will file an appeal for an administrative remedy thereafter.
9. The Tainan Municipal Government required the Company to apply for improving the situation of this pollution problem in the first quarter of 2008. The Company provided a remediation project proposal to the Tainan Municipal Government and accrued relevant remediation project expenses of \$1,647,200. As of December 31, 2008, the remediation project is awaiting approval by the Tainan Municipal Government.

As the Tainan Municipal Government believes that the Company's remediation project proposal does not conform to the Soil and Groundwater Pollution Remediation Act, the Company is requested to provide a revised project proposal before October 18, 2008 and pay the administrative penalty of \$1,000 on September 30, 2008. Therefore, the Company provided a revised remediation project proposal to the Tainan Municipal Government according to the minutes of meeting concerning the pollution problem discussion on October 17, 2008. The revised remediation project proposal was approved in May 2009.

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**4. DETAILS OF MAJOR ACCOUNTS (CONT'D)**

**h. Idle Assets (cont'd)**

10. Wu Hsin et al. who lived in the An-Nan area filed a lawsuit against the Ministry of Economic Affairs, Tainan City Government, Environmental Protection Bureau of Tainan City and the Company for civil and state compensation in June, 2008, August, 2008 and March, 2009, July, 2009, respectively. Wu Hsin et al. claimed that the Taiwan Alkali Company (TAIC) should take the responsibility for their health due to the polluting waste such as mercury and dioxin produced by the TAIC from 1942 to 1983. The Ministry of Economic Affairs, the major employer of the Company, who allegedly failed to administrate and supervise the Company should be responsible for the compensation. Moreover, Wu Hsin et al. claimed that the Tainan City Government and Environmental Protection Bureau of Tainan City which failed to take any waste disposal act against the pollution produced by the Company should also be among those parties who are negligent. Also, they have indicated the Company, which did not take any action to clean and prevent the pollution after its merger with the TAIC by the order from the Ministry of Economic Affairs should also be responsible for the compensation. Therefore, Wu Hsin et al. requested the defendants including the Ministry of Economic Affairs, Tainan City Government, Environmental Protection Bureau of Tainan City and the Company to pay the medical expenses and the spiritual solatium of \$ 378,800, with imputed interest at the rate of 5 % from the first day the private prosecution is sent to the defendant to the day the reimbursement is accomplished. The Company has authorized its lawyers to reply to this request in October 2008. In December, 2009 the Company filed a lawsuit against the CPC Corporation, Taiwan who owns TAIC equity nearly 100%.
11. (1) On September 1, 2008, the Tainan Municipal Government required the Company to pay before August 31, 2009 the expenses of \$8,247 (then corrected by Taiwan Municipal Government into \$8,242) for the relocation of pipes and tubes, or would be forced into execution for late payment. The Company paid these expenses and filed an appeal for administrative remedy in September, 2008.  
  
(2) On May 22, 2009, the Tainan Municipal Government required the Company to pay before January 31, 2010 the expenses of \$17,962 for the remediation project of Anshun plant. The Company accrued these expenses by the end of 2009 and paid them in January, 2010. However, the Company filed an appeal for administrative remedy in January 2010.
12. (1) The Company still has a dissenting view on the government perception about the condition of pollution and will be filed an administrative appeal.  
  
(2) Besides, part of the Anshun land was rented. The Anshun land was recorded partly as "Assets for lease" and partly as "Idle Assets" depending on how each part of this land is used. 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, 2009 and 2008.  
  
(3) As of December 31, 2009, the Company accrued relevant remediation project expenses of \$ 1,883,871.

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.

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**4. DETAILS OF MAJOR ACCOUNTS (CONT'D)**

**h. Idle Assets (cont'd)**

3. In 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, and remediating the pollution problem. In November 2007, the Company applied for the pollution remediation situation to the Kaohsiung Municipal Government Environmental Protection Bureau and the remediation project got approved in July 2009. As of December 31, 2009 the relevant remediation project inputted and accrued expenses amounted to \$853,785.
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. The application for the pollution control project was approved in September 2009.
6. As the carrying value of portion of those useable operating properties cannot be separately established, those operating properties have been classified as idle assets.

Yi Xin Yi road in Kaohsiung city:

1. The land located at Yi Xin Yi road in Kaohsiung city was originally used as the Company's Kaohsiung plant.
2. Production of the Kaohsiung plant was intermittently suspended because of the economic factors. When the plant production was finally discontinued, 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".
3. The Company applies 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 \$66,702 as of December 31, 2009.
4. The Kaohsiung plant was recorded partly as "Fixed assets" and partly as "Idle Assets" depending on how each part of this land is used.

In 2009 and 2008, the Company had written off the idle production equipment of its Kaohsiung plant against allowance for loss on idle assets of \$21,406 and \$607, respectively.

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**4. DETAILS OF MAJOR ACCOUNTS (CONT'D)**

**i. Other Assets**

	<u>December 31, 2009</u>	<u>December 31, 2008</u>
Deferred expenses for handling charges of associated bank credit facilities	\$ 46,208	69,284
Deferred expenses for capitalized costs on use of Taiwan Power Company's electric circuit	13,212	17,876
Deferred charges-other	4,167	1,932
	<u>\$ 63,587</u>	<u>89,092</u>

**j. Long-term loans**

<u>Financial Institution</u>	<u>Term</u>	<u>Annual Interest Rate</u>	<u>Repayment Terms</u>	<u>December 31, 2009</u>	<u>December 31, 2008</u>
Loan by 26 banks including Mega International Commercial Bank					
Item A	01/31/07-01/29/12	2.0021%	Payable in accordance with the financial contract.	\$ -	1,673,680
Item B	01/31/07-01/29/12	2.0021%	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. (Please see Note 4.j.2 augment)	4,645,700	5,440,000
Item C	01/31/07-01/29/12	2.5307%	According to financial contract, loans are payable when the Company could not issue convertible bonds.	2,270,000	3,000,000
Total				<u>6,915,700</u>	<u>10,113,680</u>
Less: Due within one year				<u>-</u>	<u>(770,000)</u>
				<u>\$ 6,915,700</u>	<u>9,343,680</u>

- 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. 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 Company 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. As of December 31, 2009 and 2008, the unused credit line amounted to \$4,682,666 and \$3,552,631, respectively.

As of December 31, 2009 and 2008, the Company was granted short-term credit lines of \$470,300 and \$427,180, with \$219,243 and \$424,788 unused from banks.

- 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. According to the addendum to the original agreement on July 1, 2009, the term 5 and 6 will be extended to the term 10, and the review of interest coverage ratio in 2009 and 2008 was waived. As of December 31, 2009, the Company has paid in advance part of loans which are redeemable on July 31, 2010 and portion of the loans classified under Item C.

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**4. DETAILS OF MAJOR ACCOUNTS (CONT'D)**

**k. Long-term bills payable**

<u>December 31, 2009</u>	<u>Period</u>	<u>Annual Interest Rate</u>	<u>Amount</u>
China Bills Finance Group	10.14.2009-01.12.2010	0.250%	\$ 527,600
Intenrational Bills Finance Group	"	1.094%	716,800
Mega Bills Finance Corp.	"	0.494%	1,493,300
Taiwan Bills Finance Group	"	0.494%	248,900
Union Bills Finance Group	"	0.494%	248,900
Hua Nan Bills Finance Group	"	0.394%	248,900
Sub-total			3,484,400
Less: Discount			(602)
Net			<u>\$ 3,483,798</u>

<u>December 31, 2008</u>	<u>Period</u>	<u>Annual Interest Rate</u>	<u>Amount</u>
China Bills Finance Group	07.23.2008-01.19.2009	2.350%	\$ 530,000
Intenrational Bills Finance Group	"	2.754%	720,000
Mega Bills Finance Corp.	"	2.754%	1,500,000
Taiwan Bills Finance Group	"	2.404%	250,000
Union Bills Finance Group	"	2.154%	250,000
Hua Nan Bills Finance Group	"	2.404%	250,000
Sub-total			3,500,000
Less: Discount			(4,487)
Net			<u>\$ 3,495,513</u>

The Company had revolving commercial promissory note agreements with bills finance companies amounting to \$3,500,000 as of December 31, 2009 and 2008. 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).

**l. Other long-term payables**

	<u>December 31, 2009</u>	<u>December 31, 2008</u>
Accrued remediatioin project expenses	\$ 2,366,793	2,387,200
Less : Due within one year	(372,704)	-
	<u>\$ 1,994,089</u>	<u>2,387,200</u>

As the Environmental Protection Administration has indicated that there are still some areas on the land of Chian Jen Training Center, which are polluted by mercury up to now, the Company is controlling, and remediating the pollution problem thereon. In November 2007, the Company applied for the pollution remediation project to the Kaohsiung Municipal Government Environmental Protection Bureau and this remediation project was approved in July 2009

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**4. DETAILS OF MAJOR ACCOUNTS (CONT'D)**

**l. Other long-term payables (cont'd)**

In June 2008, the Tainan Municipal Government required the Company to improve the pollution problem in Anshun plant. Accordingly, the Company provided a remediation project proposal to the Tainan Municipal Government in June 2008 and accrued relevant remediation project expenses of \$1,647,200. This remediation project proposal was approved in May 2009. Please see Note 4.h. 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.

**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, 2009 and 2008. Actuarial assumptions and components of actuarially calculated pension cost were as follows:

(1) Components of net periodic pension cost:

	2009	2008
Service cost	\$ 37,281	66,766
Interest cost	22,368	25,189
Projected return on plan assets	(1,927)	(8,162)
Amortization of transition net benefit obligation	(1,994)	6,973
Net pension cost	\$ 55,728	90,766

(2) Actuarial assumptions used in calculating net pension cost:

	2009	2008
Discounting rate	2.25%	2.50%
Average long-term salary increase rate	2.30%	2.30%
Expected rate of return on plan assets	2.25%	2.50%

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**4. DETAILS OF MAJOR ACCOUNTS (CONT'D)**

**n. Pension (cont'd)**

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

	<u>December 31, 2009</u>	<u>December 31, 2008</u>
Benefit obligation		
Vested benefit obligation	\$ (665,837)	(585,188)
Nonvested benefit obligation	<u>(146,235)</u>	<u>(129,867)</u>
Accumulated benefit obligation	(812,072)	(715,055)
Additional benefits based on future salaries	<u>(142,977)</u>	<u>(122,248)</u>
Projected benefit obligation	(955,049)	(837,303)
Fair value of assets	<u>388,563</u>	<u>296,987</u>
Funding status	(566,486)	(540,316)
Unrecognized pension loss (gain)	36,334	(46,847)
Unamortized net transition obligation	<u>4,132</u>	<u>8,263</u>
Accrued pension liabilities	<u>\$ (526,020)</u>	<u>(578,900)</u>

As of December 31, 2009 and 2008, the employees vested benefits amounted to \$866,678 and \$796,861, respectively.

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

	<u>December 31, 2009</u>	<u>December 31, 2008</u>
Beginning balance	\$ 296,987	268,660
Add: Contributions	108,608	58,643
Interest income	1,927	8,162
Less: Benefit payments	<u>(18,959)</u>	<u>(38,478)</u>
Ending balance	<u>\$ 388,563</u>	<u>296,987</u>

(5) Pension expenses

	<u>2009</u>	<u>2008</u>
Defined benefit pension plan	\$ 55,728	90,766
Defined contribution pension plan	<u>8,443</u>	<u>7,805</u>
	<u>\$ 64,171</u>	<u>98,571</u>

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**4. DETAILS OF MAJOR ACCOUNTS (CONT'D)**

**o. Income Tax**

1. In accordance with the R.O.C Financial Accounting Standards No. 22, the income tax expense in 2009 and 2008 were as follows:

	2009	2008
Current income tax expense	\$ -	-
Prior year under accrued	(16,919)	45,896
Deferred income tax assets - current	414	(228,332)
Deferred income tax assets - noncurrent	837,324	(933,817)
Valuation allowance	(789,250)	954,858
Income tax (benefit) expense before extraordinary loss	31,569	(161,395)
Extraordinary loss	-	-
Income tax (benefit) expense	\$ 31,569	(161,395)

2. The Company is subject to an income tax rate of 25% and complies with the Basic income Tax Act. The statutory income tax will be 20% beginning from 2010 according to the revised tax law announced on May 27, 2009. The income tax calculated on financial pretax was reconciled with income tax expense as reported in the accompanying financial statements in 2009 and 2008, as follows:

	2009	2008
Income tax calculated on pretax accounting income		
at statutory rate of 25%	\$ 524,073	(840,509)
Prior year (over) under accrued	(16,919)	45,896
Gain from equity investment	(190,595)	(224,253)
Unused tax credits	(28,914)	(95,445)
Reversal of land value tax	-	(56,322)
(Gain) loss on valuation of financial assets	(59,271)	43,403
Other	25,209	8,422
Effect of changes in income tax rate	164,865	-
Valuation allowance	(386,879)	957,413
Income tax expense (benefit) as reported in the financial statements	\$ 31,569	(161,395)

	December 31, 2009	December 31, 2009
3. Gross deferred income tax assets	\$ 845,648	1,626,694
Gross deferred income tax liability	\$ (56,692)	-
Valuation allowance	\$ 630,153	1,419,403

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**4. DETAILS OF MAJOR ACCOUNTS (CONT'D)**

**o. Income Tax (cont'd)**

	<u>December 31, 2009</u>		<u>December 31, 2008</u>	
	<u>Amount</u>	<u>Tax effect</u>	<u>Amount</u>	<u>Tax effect</u>
4. Temporary differences between financial and tax reporting which resulted in deferred income tax assets or liabilities as follows:				
• Available loss carryforward benefit	\$ 169,016	33,803	1,725,774	431,444
• Unused tax credits	-	129,496	-	95,445
• Unrealized loss for market price decline	36,919	7,384	907,844	226,961
• Accrued pension costs	526,020	105,204	578,900	144,725
• Unrealized income from equity method investments	(281,302)	(56,260)	-	-
• Bad debt allowance exceeding the tax limit	342,751	68,550	342,751	85,688
• Unrealized loss on idle assets market value decline	139,262	27,852	178,095	44,524
• Unrealized loss on temporary suspens of production	740,000	148,000	740,000	185,000
• Extraordinary loss	1,626,793	325,359	1,647,200	411,800
• Others	(2,157)	(432)	4,429	1,107
		<u>788,956</u>		<u>1,626,694</u>

**4.DETAILS OF MAJOR ACCOUNTS (CONT'D)**

	<u>December 31, 2009</u>	<u>December 31, 2008</u>
5. (1) Deferred income tax assets–current	\$ 313,774	313,756
Deferred income tax liabilities–current	(432)	-
Valuation allowance	(154,539)	(313,756)
Net deferred income tax assets–current	<u>\$ 158,803</u>	<u>-</u>
(2) Deferred income tax assets–noncurrent	\$ 531,874	1,312,938
Deferred income tax liabilities–noncurrent	(56,260)	-
Valuation allowance	(475,614)	(1,105,647)
Net deferred income tax assets–noncurrent	<u>\$ -</u>	<u>207,291</u>

6. As of December 31, 2009, the operating loss carryforward benefits available for offset against future operating income were as follows:

<u>Loss Year</u>	<u>Amount</u>	<u>Effective Period</u>
2008	<u>\$ 169,016</u>	2009 - 2018

7. As of December 31, 2009, the unutilized tax credits which can be credited against future income tax liabilities were as follows:

<u>Year Incurred</u>	<u>Amount</u>	<u>Effective Period</u>
2008	\$ 100,582	2008 - 2012
2009	28,914	2009 - 2013
Total	<u>\$ 129,496</u>	

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**4. DETAILS OF MAJOR ACCOUNTS (CONT'D)**

**o. Income Tax (cont'd)**

8. The income tax returns of the Company have been assessed by the Tax Authority through 2007.
9. 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 \$1,621,470 and \$1,319,470 as of December 31, 2009 and 2008, respectively.

In 2009 and 2008, the estimated amount of tax deduction for local shareholders was 0% of distributed earnings.

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

	<u>December 31, 2009</u>	<u>December 31, 2008</u>
Undistributed earnings arising from earnings generated from January 1, 1998 when corporate and personal income taxes were integrated.	<u>\$ (436,884)</u>	<u>(3,086,178)</u>

**p. Capital Stock**

On June 19, 2008, the Company's shareholders approved a resolution authorizing the Company to capitalize its retained earnings of \$1,014,000 and employee bonus of \$35,635, for a total of \$1,049,635, representing 104,963 thousand shares. This process was approved by SFB. The recorded date of the capital increase was October 22, 2008.

**q. 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 amount. As of June 30, 2008, capital surplus generated from the revaluation of assets was restored to its original amount. In addition, the Enterprise Assets Revaluation Rules was amended and promulgated on July 15, 2008, under which, the requirement prohibiting "the Company to declare dividends on its subsequent earnings until the entire capital surplus is restored to its original level" has been abolished. 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)**

**r. 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, 2008, the unrealized incremental value from fixed assets revaluation amounted to \$1,158,138.

**s. 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) 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. 2% as directors' and supervisors' compensation.
- b. 3% as employee bonus; and
- c. 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.

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.

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**4. DETAILS OF MAJOR ACCOUNTS (CONT'D)**

**s. Retained earnings (cont'd)**

The appropriations of earnings and offset deficit had been approved in the shareholders' meetings. In 2008 and 2007 were as follows:

	<u>2008</u>	<u>2007</u>
Unappropriated earnings	\$ (3,086,178)	2,867,651
Legal capital reserve	-	(286,765)
Retained earnings transfer to unrealized incremental value from asset revaluation	-	(1,393,031)
Employee bonuses - stocks (at par value)	-	(35,635)
Stock dividends -stockholders (at par value)	-	(1,014,000)
Remuneration to directors and supervisors	-	(23,757)
Legal reserve transfer to accumulated deficit	584,568	-
Total	<u>\$ (2,501,610)</u>	<u>114,463</u>

The appropriation of earnings did not differ from the resolutions approved by the Company's directors.

Employee bonus and directors' and supervisors' remuneration appropriated after January 1, 2008, are accounted for by Interpretation (96)052 issued by the Accounting Research and Development Foundation. The Company uses a ruling by the Financial Supervisory Commission, Executive Yuan to estimate the amount of employee bonus and directors' and supervisors' remuneration according to the Interpretation. As of December 31, 2009 and 2008, both of the estimated employee bonus and directors' and supervisors' remuneration amounted to \$0. Differences between the amount approved in the shareholders' meeting and recognized in the financial statements, if any, are accounted for as changes in accounting estimates and recognized as profit or loss.

The appropriations of the Company's earnings (offset the Company's deficit) in 2009 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.

**t. 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 number of shares reported for calculating the basic earnings per share was as follows:

	<u>Number of shares</u>	
	<u>December 31, 2009</u>	<u>December 31, 2008</u>
Weighted average number of common shares outstanding	<u>1,794,962,992</u>	<u>1,794,962,992</u>

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**4. DETAILS OF MAJOR ACCOUNTS (CONT'D)**

**u. Extraordinary loss**

In the first quarter of 2008, the Tainan Municipal Government required the Company to improve the situation of this pollution problem. Accordingly, the Company provided a remediation project proposal to the Tainan Municipal Government in June 2008 and accrued relevant remediation project expenses of \$1,647,200 in accordance with Accounting Research and Development Foundation Letter Ruling (97) No. 277 as of December 31, 2008. The remediation project was approved by the Tainan Municipal Government in May 2009. As described in Note 4.h., 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. A portion of the land where the Anshun plant was located was originally owned by the former state-run company, Taiwan Alkali Company (TAIC), was polluted by waste from mercury and dioxin produced. 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. As the Company never used the land since it took over, the Company has a dissenting view on the government perception about the condition of pollution.

**v. Relative information on derivative financial instruments**

(1) Fair market value disclosure on financial instruments

	<u>As of December 31, 2009</u>	
	<u>Carrying Amount</u>	<u>Fair Market Value</u>
<u>Financial Assets</u>		
Items with carrying amount equal to fair value	\$ 5,745,663	5,745,663
Financial assets reported at fair value through profit or loss-non current	633,124	633,124
Available-for-sale financial assets-non-current	1,409,237	1,409,237
Financial assets carried at cost-non-current	589,096	-
Total financial assets	<u>\$ 8,377,120</u>	
<u>Financial Liabilities</u>		
Items with carrying amount equal to fair value	<u>\$ 15,207,900</u>	15,207,900
	<u>As of December 31, 2008</u>	
	<u>Carrying Amount</u>	<u>Fair Market Value</u>
Financial Assets		
Items with carrying amount equal to fair value	\$ 5,210,226	5,210,226
Financial assets reported at fair value through profit or loss-non current	396,039	396,039
Available-for-sale financial assets-non-current	1,042,242	1,042,242
Financial assets carried at cost-non-current	590,333	-
Total financial assets	<u>\$ 7,238,840</u>	
Financial Liabilities		
Items with carrying amount equal to fair value	<u>\$ 17,114,873</u>	17,114,873

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**4. DETAILS OF MAJOR ACCOUNTS (CONT'D)**

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

(2) 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.
- 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 and deposits received 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.

(3) The Company's financial assets were pledged as collateral for long-term and short-term loans at the end of December 31, 2009 and 2008 (Please see note 6 for details of pledged assets).

(4) As of December 31 2009 and 2008, financial liabilities exposed risks of fair value caused by interest rate changed were \$3,483,798 and \$3,495,513, and risks of cash flow caused by interest rate changed were \$6,915,700 and \$10,113,680.

(5) 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.

Portion of cash, accounts receivable/payable and short/long-term loans are denominated in foreign currency. Hence, changes in market exchange rate 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. In order to decrease credit risk, the Company constantly evaluates clients' operation circumstance and periodically evaluates the status of collectibility of accounts receivable and recognizes allowance for bad debts based on managements' estimate. Management believes that the loss from bad debt is within their expectation and there are no significant credit risks concentration.

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**4. DETAILS OF MAJOR ACCOUNTS (CONT'D)**

**v. Relative information on derivative financial instruments (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 at the end of December 31, 2009 and 2008 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 \$69,157 and \$101,137.

**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.	"
China Petrochemical Devt. Co., (Singapore) Pte. Ltd.	A subsidiary of the Company (2009.12.09 liquidation)
Chemax International Co.	A subsidiary of the Company
Chung Shih Hsing Development Corp.	"
Tsou Seen Chemical Industries Corp.	"
CPDC Investment (BVI) Co., Ltd.	"
Shih Hua Investment Co., Ltd.	"
Shih Fu Investment Co., Ltd.	"
CPDC Engineering Co., Ltd.	"
Rich Equities Ltd.	"
Unichem Development Limited	"
Hung-Yih Construction Co., Ltd.	Common corporate director
BES Engineering Co., Ltd.	The Company is its corporate director
Chung Kung Management and Maintenance of Apartment Co., Ltd	An investee company under equity method of Chung Kung Safeguarding & Security Corp.
All directors, supervisors, chief executive officers and executive vice presidents	The consolidated Company' main management

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

b. Significant transactions with related parties

(1) Purchases

	2009		2008	
	Amount	% of net purchases	Amount	% of net purchases
Taiwan Chlorine Industries Co., Ltd.	\$ 279,602	1	322,288	1
Chemax International Co.	389,274	2	786,095	3
Taiwan Prosperity Chemical Co., Ltd.	3,172,914	15	2,347,011	9
Materials Co., Ltd.	90	-	141	-
Total	\$ 3,841,880	18	3,455,535	13

The payment terms for related party purchase transactions were the same as those of other unrelated vendors except for Chemax International Co. which allows a credit term of four-months.

(2) Sales

	2009		2008	
	Amount	% of net sales	Amount	% of net sales
Chemax International Co.	\$ 683,911	3	764,936	3
Kaohsiung Monomer Co., Ltd.	582,858	2	814,518	3
Tsou Seen Chemical Industries Corp.	906,202	4	1,674,114	5
Materials Co., Ltd.	29,884	-	22,822	-
Total	\$ 2,202,855	9	3,276,390	11

Credit terms for related party sales were similar to those of other regular customers except for Tsou Seen Chemical Industries Corp. and Chemax International Co., which were granted credit term of three-months and four-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, 2009		December 31, 2008	
	Amount	%	Amount	%
Accounts and notes receivable				
Chemax International Co.	\$ 68,847	2	78,456	6
Kaohsiung Monomer Co., Ltd.	73,542	3	33,946	2
Tsou Seen Chemical Industries Corp.	46,908	2	47,228	4
Other	6,254	-	1,538	-
Total	\$ 195,551	7	161,168	12
Other receivables				
CPDC Engineering Co., Ltd.	\$ -	-	2,277	1
BES Engineering Co., Ltd.	-	-	1,266	1
Kaohsiung Monomer Co., Ltd.	9,618	5	9,656	4
Other	222	-	327	-
Total	\$ 9,840	5	13,526	6
Accounts payable				
Taiwan Chlorine Industries Co., Ltd.	\$ 13,882	1	6,792	2
Taiwan Prosperity Chemical Co.	232,532	15	-	-
Praxair Chemax Semiconductor Materials Co., Ltd.	21	-	-	-
Total	\$ 246,435	16	6,792	2

(4) Sale of scraps (which were reflected as reduction of cost of goods sold)

	2009		2008	
	Amount	% of sale of scrap	Amount	% of sale of scrap
Chemax International Co.	\$ 9,519	57	18,437	51

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

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

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

	2009		2008	
	Amount	% of rental income	Amount	% of rental income
Kaohsiung Monomer Co., Ltd.	\$ 4,839	14	4,673	13
CPDC Engineering Co., Ltd.	12,737	38	12,738	37
Praxair Chemax Semiconductor Materials Co., Ltd.	5,500	16	-	-
BES Engineering Co., Ltd.	530	2	6,357	18
Chung Hua Hsing Trading Co., Ltd.	2,101	6	2,967	9
Tsou Seen Chemical Industries Corp.	634	2	634	2
Total	\$ 26,341	78	27,369	79

The refundable deposit from related party at December 31, 2009 and 2008 were \$1,500 and \$ 0, respectively.

(6) Other revenues

	2009		2008	
	Amount	% of other revenues	Amount	% of other revenues
Kaohsiung Monomer Co., Ltd.	\$ 21,571	58	27,658	9
Taiwan Prosperity Chemical Co., Ltd.	1,306	3	27,480	9
Others	9,146	25	10,188	4
Total	\$ 32,023	86	65,326	22

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

- (7) Due to business needs, the Company rented an office space from Hung Yih Construction Company which matured in December 31, 2008. The total rent expense amounted to \$5,848 in 2008.
- (8) 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 paid were \$13,843 and \$12,384 in 2009 and 2008, respectively. The unpaid fees were \$2,598 and \$2,200 at December 31, 2009 and 2008, respectively.
- (9) 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 \$283,001 and \$263,597 in 2009 and 2008, respectively. The unpaid fee amounted to \$87,773 and \$15,328 at December 31, 2009 and 2008, respectively.

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

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

(10) At December 31, 2009 and 2008, the Company had contracts with CPDC Engineering Co., Ltd. for construction projects (pre-tax) amounting to \$171,650 and \$7,870, respectively. In 2009 and 2008, the Company paid \$48,200 and \$1,196, respectively.

(11) Commission expenses

	2009		2008	
	Amount	% of commission expenses	Amount	% of commission expenses
Tsou Seen Chemical Industries Corp.	\$ 272	8	378	8

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.

(12) On September 1, 2007, the Company signed a one year contract with Chung Kung Management and Maintenance of Apartment Co., Ltd for office cleaning services. This agreement is renewable to allow for an extension of the service period. The cleaning fees amounted to \$804 both in 2009 and 2008.

c. Key management compensation

For the year ended December 31, 2009 and 2008, the compensations of the Company' key management were as follows:

	2009		2008	
	Amount		Amount	
Salaries	\$ 29,392		22,520	
Cash awards and special allowances	27,810		9,039	
Business expense	2,984		2,784	
Employee bonus	-		-	

The estimated employee bonus and directors' and supervisors' remuneration are discussed further in Note 4.s..

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**6. PLEDGED ASSETS**

The pledged assets were as follows:

Assets	December 31,2009	December 31,2008	Purposes
Time deposits	\$ 1,537,169	1,529,500	Guarantee and counter-guarantee the law case
			Guarantee for purchases
Land	11,543,630	11,567,355	Long-term debt collateral for financial credit
			Guarantee and counter-guarantee the law case
Long-term equity investment	308,083	335,834	Long-term debt collateral for financial credit
Buildings	814,639	849,986	"
Machines	7,947,353	9,092,789	"
Available for sale financial assets–non–current	1,361,897	999,974	Long-term debt collateral for financial credit
			Guarantee the law case
Financial assets designed as at fair value through profit or loss–non–current	538,694	336,970	Long-term debt collateral for financial credit
Financial assets carried at cost–non–current	522,565	522,565	"
Total	<u>\$ 24,574,030</u>	<u>25,234,973</u>	

**7. SIGNIFICANT COMMITMENTS AND CONTINGENCIES**

a. As of December 31, 2009 and 2008, the Company had the following unused letters of credit.

Currency	December 31,2009	December 31,2008
U.S. dollar	\$ 26,686	\$ 3,172
EUR	70	22
YEN	-	13,273
NTD	1,156,000	366,000

b. As of December 31, 2009 and 2008, the Company had issued guaranty notes for bank loans, sales and purchases aggregating to \$25,015,449 and \$25,407,364, respectively.

c. At December 31, 2009 and 2008, the Company had contracts for various construction projects in-progress amounting to \$203,650 and \$44,290, respectively. As of December 31, 2009 and 2008, the remaining future obligations under these contracts amounted to \$155,060 and \$38,780, respectively.

d. As of December 31, 2009 and 2008, 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 in prepayment or domestic letter of credit.

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**7. SIGNIFICANT COMMITMENTS AND CONTINGENCIES (CONT'D)**

- e. In May 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. In January 2006, the District Court of Kaohsiung ruled that the Company should pay Salansa Inc. \$24,000 for the alleged patent infringement in December 2000. The Company appealed this verdict and filed a petition with the High Court in February 2006. In January 2009, the High Court dismissed this appeal. As the Company is doubtful about the reason adopted by the High Court, the Company appealed this verdict and filed a petition with the Supreme Court in February 2009. The Supreme Court repealed the original verdict and remanded the litigation to the Intellectual Property Court in March 2010.

In February 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. In August 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 in September 2005 and provided a time deposit of \$900,000 as collateral. In October 2008, the High Court decided on this case in favor of the Company. Therefore, the Company recovered the above time deposit but Salansa Inc. appealed this verdict and filed a petition with the Supreme Court in November 2008. The Supreme Court repealed the original verdict and remanded the litigation to the Intellectual Property Court in June 2009.

In January 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. In June 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 in July 2007. In July 2009, the High Court repealed the verdict which was unfavorable to the Company. In August 2009, Salansa Inc. appealed this verdict and filed a petition with the Supreme Court. In December 2009, the Supreme Court repealed the original verdict except for the provisional execution then remanded the litigation to the Intellectual Property Court.

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 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.
- g. (1)①The 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 filed its application for tax reinvestigation under Article 35 of the Tax Collection Law in October 2005. The application for the tax reinvestigation of the Company's 2005 land value tax was combined with the cases above. Based on the principle of conservatism, the Company accrued this tax assessment in its 2005 books of accounts.

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**7. SIGNIFICANT COMMITMENTS AND CONTINGENCIES (CONT'D)**

- ②In February 2010, the Supreme Administrative Court dismissed this administrative appeal. However, the Company will deliberate the administrative remedy thereafter.
- (2)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 2004 land value tax. The Company filed its application for tax reinvestigation in June 2007. Based on the principle of conservatism, the Company accrued this penalty assessment in its 2007 books of accounts. Finally, the Kaohsiung City Government rescinds the appeal in June 2008. The Company reversed the above fine as other income in its 2008 books of accounts.
- (3)The Company is doubtful about the statutes adopted by the local tax office in assessing the land value tax of \$58,874 in 2006. The Company filed an administrative remedy in January 2007. Based on the principle of conservatism, the Company accrued this tax assessment in its 2006 books of accounts. In February 2009, the Supreme Administrative Court dismissed this administrative appeal and the Company will file an appeal for retrial of its case with the Supreme Court. The Supreme Court decided that the Company shall pay the land value tax, including interest, of \$61,545 before April 30, 2009. The Supreme Administrative Court dismissed this administrative remedy and completed its investigation in October 2009.
- (4)The Company has a dissenting view on land value tax of \$58,883, \$58,871, and \$63,481 in 2007, 2008 and 2009, respectively, as assessed by the Kaohsiung revenue service office. As the Company is doubtful about the statutes adopted, the Company filed an appeal for administrative remedy. As the administrative remedy for the land value tax of 2008, had been dismissed by the Supreme Administrative Court in March 2010, the Company will deliberate the administrative remedy thereon. The Company recognized a provision thereof in relevant years, based on the principle of conservatism.
- (5)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 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 and announced as "Pollution Control Area" in 2006. The Company proceed with the remediation work and submitted its remediation plan in accordance with the related regulations to the Kaohsiung City Government. This remediation plan was approved in July 2009. In addition, the Kaohsiung Municipal Government Environmental Protection Bureau indicated that Taiwan Vcm Corp. polluted the land and required to apply for the pollution remediation project to the Kaohsiung Municipal Government Environmental Protection Bureau. This remediation project was approved in September 2009. The impact of the above land pollution is discussed further in Note 4.h..
- i. The Tainan city government and the Environmental Protection Administration declared the land located at the Anshun plant as chemical-contaminated zone. Aside from cooperating with the government in its control and management procedure, the Company is seeking a way to define its responsibilities.
- (1)On June 30, 2008, the Company provided a remediation project proposal to the Tainan Municipal Government but the Tainan Municipal Government noted that the remediation project proposal did not conform to the Soil and Groundwater Pollution Remediation Act. The Company is requested to provide a revised project proposal before October 18, 2008 and pay the administrative penalty of \$1,000 on September 30, 2008. Therefore, the Company re-submitted a revised remediation project proposal to the Tainan Municipal Government according to the meeting minutes concerning the pollution problem discussion on October 17, 2008. This remediation project proposal was approved in May 2009. The impact of the above land pollution is discussed further in Note 4.h..

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**7. SIGNIFICANT COMMITMENTS AND CONTINGENCIES (CONT'D)**

- (2) On February 27, 2008, the Tainan City Government demanded the Company to pay \$88,786 to the Tainan City Government and Environmental Protection Administration of the Executive Yuan. 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. Based on the accounting principle of conservatism, however, the Company recorded this fine as a non-operating cost in 2007 and paid this fine by the end of July 2008. As the Company has a dissenting view on the government perception about the fine and the condition of pollution, it filed an administrative appeal in July 2008 and the appeal was dismissed by the Environmental Protection Bureau in December 2008. The Company filed an administrative appeal of the Kaohsiung High Court in February 2009. In January 2010, the Kaohsiung High Court demanded the Company to pay \$88,430. However the Company will file an appeal for an administrative remedy thereafter.
- (3) On June 3, 2008, the Tainan city government announced that the land located east of Lu-ermen Bridge at An-Nan area which is managed by the Ministry of Economic Affairs (about two hundred meters) is under pollution control. Therefore, the Tainan city government requested the Company to improve the pollution. As the Company has a dissenting view on the government perception about the condition of pollution, it filed an administrative action with Environmental Protection Bureau in July 2008. The original judgment was voided by the Environmental Protection Bureau in March 2009. Also, the Tainan city government repealed the announcement in April 2009.
- (4) Wu Hsin et al. who lived in the An-Nan area filed a lawsuit against the Ministry of Economic Affairs, Tainan City Government, Environmental Protection Bureau of Tainan City and the Company for civil and state compensation in June, 2008, August, 2008 and March, 2009, July, 2009, respectively. Wu Hsin et al. claimed that the Taiwan Alkali Company (TAIC) should take the responsibility for their health due to the polluting waste such as mercury and dioxin produced by the TAIC from 1942 to 1983. The Ministry of Economic Affairs, the major employer of the Company, which allegedly failed to administrate and supervise the Company, should be responsible for the compensation. Moreover, Wu Hsin et al. claimed that the Tainan City Government and Environmental Protection Bureau of Tainan City which failed to take any waste disposal act against the pollution produced by the Company should also be among those parties who are negligent. Also, they have indicated that the Company, which did not take any action to clean and prevent the pollution after its merged with the TAIC by the order from Ministry of Economic Affairs, should also be responsible for the compensation. Therefore, Wu Hsin et al. requested the defendants including the Ministry of Economic Affairs, Tainan City Government, Environmental Protection Bureau of Tainan City and the Company to pay the medical expenses and spiritual solatium of \$ 370,880, with imputed interest at the rate of 5 % from the first day the private prosecution is sent to the defendant to the day the reimbursement is accomplished. The Company has authorized its lawyers to reply this request in October 2008. In December 2009, the Company filed a lawsuit against the CPC Corporation, Taiwan who owns TAIC equity nearly 100%.
- (5) ① On September 1, 2008, the Tainan Municipal Government required the Company to pay before August 31, 2009 the expenses of \$8,247( then corrected by Taiwan Municipal Government into \$8,242) for the relocation of pipes and tubes, or would be forced into execution for late payment. The Company paid these expenses and filed an appeal for administrative remedy in September, 2008.
- ② On May 22, 2009, the Tainan Municipal Government required the Company to pay before January 31, 2010 the expenses of \$17,962 for the remediation project of Anshun plant. The Company accrued the expenses by the end of 2009 and paid them in January 2010. However, the Company filed an appeal for administrative remedy in January 2010.

**8. SIGNIFICANT DISASTER LOSS: None**

**9. SIGNIFICANT SUBSEQUENT EVENTS: None**

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**10. OTHERS**

- a. For the years ended December 31, 2009 and 2008, the Company's personnel costs amortization and depreciation expenses categorized by functions were as follows:

	2009				2008			
	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)	\$ 835,339	185,765	2,335	1,023,439	676,220	166,618	2,220	845,058
Labor and health Insurance premiums	57,068	10,776	157	68,001	53,529	9,577	198	63,304
Pension costs	53,493	10,523	155	64,171	82,626	15,600	345	98,571
Other personnel cost (meal allowance)	17,357	3,181	48	20,586	17,516	3,043	64	20,623
Depreciation	1,606,962	20,632	388	1,627,982	1,562,361	15,275	430	1,578,066
Amortization	5,613	900	-	6,513	9,098	678	-	9,776

- b. Reclassification

Certain accounts in the 2008 financial statements were reclassified to conform to the presentation adopted in the 2009 financial statement representation.

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**11. SEGMENT FINANCIAL INFORMATION DISCLOSURE:**

a. Financial Information by Major Product Categories

	<b>Acrylonitrile &amp; Acetic Acid</b>	<b>Caprolactam</b>	<b>Total</b>
2009			
Product revenue	\$ 9,281,682	16,420,086	25,701,768
Product profit (loss)	\$ 855,748	818,000	1,673,748
Investment gain			972,735
Miscellaneous income (expenses), net			(274,898)
Interest expense			(275,290)
Income before tax from continuing operations			2,096,295
Identifiable assets	\$ 4,530,329	17,034,188	21,564,517
Long-term investments under equity method			5,966,455
Common assets			14,936,733
Total assets			42,467,705
Depreciation	\$ 69,037	1,545,716	
Capital expenditures	\$ 34,464	244,716	
2008			
Product revenue	\$ 11,965,872	18,569,104	30,534,976
Product profit (loss)	\$ 621,428	(2,089,370)	(1,467,942)
Investment gain			897,011
Miscellaneous income (expenses), net			(623,550)
Interest expense			(520,355)
Income before tax from continuing operations			(1,714,836)
Identifiable assets	\$ 4,729,387	24,307,172	29,036,559
Long-term investments under equity method			5,584,653
Common assets			6,966,915
Total assets			41,588,127
Depreciation	\$ 68,151	1,497,329	
Capital expenditures	\$ 53,230	979,138	

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**12. 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:

	2009		2008	
	Sub-total	Total	Sub-total	Total
Operating revenue from domestic sales	\$ -	24,364,376	-	26,408,624
Operating revenue from overseas sales:				
Asia	1,325,534		3,704,573	
Other (individual area under 10%)	11,858	<u>1,337,392</u>	421,779	<u>4,126,352</u>
Total operating revenue		<u><u>25,701,768</u></u>		<u><u>30,534,976</u></u>

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

Customers	2009		2008	
	Amount	% of operating revenue	Amount	% of operating revenue
1018	\$ 3,879,811	15.10%	3,636,373	11.91%
1019	3,760,757	14.63%	3,350,961	10.97%
1001	2,979,116	11.59%	2,576,225	8.43%