

## 28. Related party transactions

- (a) Most of the transactions undertaken by the Group during the year ended 31 December 2006 have been affected with such counterparties and on such terms as have been determined by China Petroleum & Chemical Corporation ("Sinopec Corp"), the immediate parent company, and relevant PRC authorities.

Sinopec Corp negotiates and agrees the terms of crude oil supply with suppliers on a group basis, which is then allocated among its subsidiaries, including the Group, on a discretionary basis. During the year ended 31 December 2006, the value of crude oil purchased in accordance with Sinopec Corp's allocation was as follows:

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

- (b) Other transactions between the Group and other related parties during the year ended 31 December 2006 were as follows:

	2006 RMB'000	2005 RMB'000
Sales of goods and service fee income	20,173,106	20,068,746
Purchases other than crude oil	2,579,394	2,318,351
Insurance premiums paid	98,643	95,521
Net withdrawal from deposits in a related party	(101,353)	(70,389)
Interest received and receivable	229	1,035
Loans borrowed	576,000	130,000
Loans repayment	626,000	130,000
Interest paid and payable	7,529	6,649
Transportation fees	344,928	415,497
Construction and installation fees	194,958	183,191
Proceeds from sales of property, plant & equipment	52,547	62,742
Gains from disposal of investments	24,308	24,063
Sales commissions	182,840	70,752
Net decrease of guarantees	(18,550)	(33,586)

- (c) Deposits with related parties

	The Group		The Company	
	2006 RMB'000	2005 RMB'000	2006 RMB'000	2005 RMB'000
Deposits, with maturity within 3 months	79,913	181,266	79,001	180,040

## 28. Related party transactions (continued)

(d) Loans with related parties

	The Group	
	2006 RMB'000	2005 RMB'000
Short-term loans	-	30,000
Long-term loans	-	100,000
	-	130,000

(e) Key management personnel compensation and post-employment benefit plans

	2006	2005
	RMB'000	RMB'000
Short-term employee benefits	4,582	3,493
Post-employment benefits	31	31
	4,613	3,524

Post-employment benefits are included in "contributions to defined contribution retirement plans" as disclosed in Note 28(f).

(f) Contributions to defined contribution retirement plans

The Group participates in defined contribution retirement plans organised by municipal governments for its staff. The contributions to defined contribution retirement plans are as follows:

	2006	2005
	RMB'000	RMB'000
Municipal retirement scheme costs	207,071	165,046
Supplementary retirement scheme costs	61,692	65,685

At 31 December 2006 and 31 December 2005, there was no material outstanding contribution to post-employment benefit plans.

### 28. Related party transactions (continued)

(g) Transactions with other state-owned entities in the PRC

The Group is a state-controlled enterprise and operates in an economic regime currently dominated by entities directly or indirectly controlled by the PRC government (collectively referred as “state-controlled entities”) through its government authorities, agencies, affiliations and other organisations.

Apart from transactions with related parties, the Group has transactions with other state-controlled entities include but are not limited to the following:

- sales and purchase of goods and ancillary materials;
- rendering and receiving services;
- lease of assets, purchase of property, plant and equipment;
- placing deposits and obtaining finance; and
- use of public utilities.

These transactions are conducted in the ordinary course of the Group’s business on terms comparable to those with other entities that are not state controlled. The Group has established its procurement policies, pricing strategy and approval process for purchases and sales of products and services which do not depend on whether the counterparties are state-controlled entities or not.

Having considered the potential for transactions to be impacted by related party relationships, the entity’s pricing strategy, procurement policies and approval processes, and the information that would be necessary for an understanding of the potential effect of the related party relationship on the financial statements, the directors are of the opinion that the following transactions require disclosure of numeric details.

(i) Transactions with other state-controlled energy and chemical companies

The Group’s major domestic suppliers of crude oil are China National Offshore Oil Corporation and its subsidiaries (“CNOOC Group”), which are state-controlled entities.

During the year ended 31 December 2006, the aggregate amount of crude oil purchased by the Group’s refining segment from CNOOC Group was RMB 1,682,519,000 (2005: RMB 2,095,315,000).

The amounts due from/to CNOOC Group are nil as at 31 December 2006 (31 December 2005: Nil).

## 28. Related party transactions (continued)

(g) Transactions with other state-owned entities in the PRC (continued)

(ii) Transactions with state-controlled banks

The Group deposits its cash with several state-controlled banks in the PRC. The Group also obtains short-term and long-term loans from these banks in the ordinary course of business. The interest rates of the bank deposits and loans are regulated by the People's Bank of China. The Group's interest income from and interest expenses to these state-controlled banks in the PRC are as follows:

	2006 RMB'000	2005 RMB'000
Interest income	56,597	39,315
Interest expenses	324,267	285,647

The amounts of cash deposited at and loans from state-controlled banks in the PRC are summarised as follows:

	2006 RMB'000	2005 RMB'000
Cash and cash equivalents at state-controlled banks in the PRC	731,971	924,887
Short-term loans and current portion of long-term loans	2,245,225	3,528,295
Long-term loans excluding current portion of long-term loans	983,710	1,256,735
Total loans from state-controlled banks in the PRC	3,228,935	4,785,030

## 29. Retirement schemes

As stipulated by the regulations of the PRC, the Group participates in a defined contribution retirement plan organised by the Shanghai Municipal Government for its staff. The Group is required to make contributions to the retirement plan at a rate of 22% of the salaries, bonuses and certain allowances of its staff in 2006 (2005: 22%). A member of the plan is entitled to a pension equal to a fixed proportion of the salary prevailing at his retirement date. The Group has no other material obligation for the payment of pension benefits associated with this plan beyond the annual contributions described above. In addition, pursuant to a document "Lao Bu Fa (1995) No.464" dated 29 December 1995 issued by the Ministry of Labour of the PRC, the Company has set up a supplementary defined contribution retirement plan for the benefit of employees. Employees who have served the Company for five years or more may participate in this plan. The Company and participating employees make defined contributions to their pension saving accounts according to the plan. The assets of this plan are held separately from those of the Company in an independent fund administered by a committee consisting of representatives from the employees and the Company. In April 2003, the Company revised certain terms of the plan and increased the amounts of contributions. For the year ended 31 December 2006, the Group's contribution to this plan amounted to RMB 61,692,000 (2005: RMB 65,685,000).

## 30. Capital commitments

The Group and the Company had capital commitments outstanding at 31 December not provided for in the financial statements as follows:

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

## 31. Contingent liabilities

At 31 December, the Group and the Company had the following contingent liabilities:

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

Guarantees issued to banks in favour of subsidiaries, associates and joint ventures are given to the extent of the Company's respective interest in these entities. The Group monitors the conditions that are subject to the guarantees to identify whether it is probable that a loss has occurred, and recognises any such losses under guarantees when those losses are estimable. At 31 December 2006 and 2005, it is not probable that the Group will be required to make payments under the guarantees. Thus no liability has been accrued for a loss related to the Group's and the Company's obligation under the guarantees arrangement.

## Notes to the Financial Statements (continued)

(Prepared under International Financial Reporting Standards)

### 32. Details of bank loans

The interest rates and terms of repayment for bank loans of the Group and the Company are as follows:

Repayment terms and last payment date	Interest rate at 31 December 2006	Interest type	The Group		The Company	
			2006 RMB'000	2005 RMB'000	2006 RMB'000	2005 RMB'000
<b>Arranged by Central Treasury of the Company:</b>						
<b>U.S. Dollars denominated:</b>						
Due in 2007	5.70%	Floating	383,034	397,112	383,034	397,112
Payable semi-annually through 2008(Note)	1.80%	Fixed	23,710	41,123	23,710	41,123
<b>Renminbi denominated:</b>						
Due in 2006	5.18%-5.56%	Fixed	-	1,340,000	-	1,340,000
Due in 2008	5.18%-5.67%	Fixed	400,000	700,000	400,000	700,000
Due in 2009	5.18%-5.67%	Fixed	450,000	-	450,000	-
Other loans due in 2015	Interest free	-	-	15,000	-	15,000
<b>Arranged by subsidiaries:</b>						
<b>U.S. Dollars denominated:</b>						
Payable annually through 2011	Interest free	-	14,055	17,431	-	-
<b>Renminbi denominated:</b>						
Payable due in 2007	5.85%	Fixed	8,500	116,500	-	-
Payable due in 2008	5.67%	Fixed	110,000	110,000	-	-
Payable annually through 2010	Interest free	-	82,000	102,500	-	-
Payable annually through 2011 and after	Interest free	-	9,000	10,800	-	-
<b>Total long-term bank loans outstanding</b>			<b>1,480,299</b>	<b>2,850,466</b>	<b>1,256,744</b>	<b>2,493,235</b>
<b>Less: Amounts due within one year (Note 23)</b>			<b>(416,645)</b>	<b>(1,373,205)</b>	<b>(383,034)</b>	<b>(1,340,000)</b>
<b>Amounts due after one year (Note 23)</b>			<b>1,063,654</b>	<b>1,477,261</b>	<b>873,710</b>	<b>1,153,235</b>

Note: Guaranteed by China Petrochemical Corporation

The weighted average short-term interest rates for the Group and the Company were 5.87% and 5.95% respectively at 31 December 2006 (2005: the Group and the Company 4.53% and 4.45% respectively).

### 33. Segment reporting

Segment information is presented in respect of the Group's business segments. The format is based on the Group's management and internal reporting structure. In view of the fact that the Company and its subsidiaries operate mainly in the PRC, no geographical segment information is presented.

The Group evaluates performance based on operating profits before income tax and non-operating income and expenses. Certain administrative expenses are allocated based on the percentage of sales.

Inter-segment transfer pricing is based on cost plus an appropriate margin, as specified by Group policy.

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. Unallocated items mainly comprise income-earning assets and revenue, interest-bearing loans, borrowings and expenses, and corporate assets and expenses.

Segment capital expenditure is the total cost incurred during the year to acquire segment assets that are expected to be used for more than one period.

The Group principally operates in four operating segments: synthetic fibres, resins and plastics, intermediate petrochemicals and petroleum products. All of the Group's products are produced through intermediate steps from the principal raw material of crude oil. The specific products of each segment are as follows:

- (i) The synthetic fibres segment produces primarily polyester and acrylic fibres mainly used in the textile and apparel industries.
- (ii) The resins and plastics segment produces primarily polyester chips, low density polyethylene resins and films, polypropylene resins and PVA granules. The polyester chips are used in the processing of polyester fibres and construction coating materials and containers. Low density polyethylene resins and plastics are used in cable jacketing, sheeting, the manufacture of moulded products, such as housewares and toys and for agricultural and packaging uses. Polypropylene resins are used in the manufacturing of extruded films or sheets and injection moulded products such as housewares, toys and household electric appliance and automobile parts.
- (iii) The intermediate petrochemicals segment primarily produces ethylene and benzene. Most of the intermediate petrochemicals produced by the Group are used by the Group as raw materials in the production of other petrochemicals, resins, plastics and synthetic fibres. A portion of the intermediate petrochemicals as well as certain by-products of the production process are sold to outside customers.

## 33. Segment reporting (continued)

- (iv) The Group's petroleum products segment has crude oil distillation facilities used to produce vacuum and atmospheric gas oils used as feedstocks of the Group's downstream processing facilities. Residual oil and low octane gasoline fuels are produced primarily as a co-product of the crude oil distillation process. A proportion of the residual oil is further processed into qualified refined gasoline and diesel oil. In addition, the Group produces a variety of other transportation, industrial and household heating fuels, such as diesel oils, jet fuels, heavy oils and liquefied petroleum gases.
- (v) All other operating segments represent the operating segments which do not meet the quantitative threshold for determining reportable segments. These include sales of consumer products and services and a variety of other commercial activities, which are not allocated to the above four operating segments.

Reportable information on the Group's operating segments is as follows:

### Turnover and other income

	2006 RMB'000	2005 RMB'000
<b>Manufactured Products</b>		
Synthetic Fibres		
-external sales	4,727,261	4,781,787
-intersegment sales	71	79
<b>Total</b>	<b>4,727,332</b>	4,781,866
<b>Resins and Plastics</b>		
-external sales	15,800,015	14,010,287
-intersegment sales	63,767	53,020
<b>Total</b>	<b>15,863,782</b>	14,063,307
<b>Intermediate Petrochemicals</b>		
-external sales	6,800,577	6,586,556
-intersegment sales	14,536,675	13,848,105
<b>Total</b>	<b>21,337,252</b>	20,434,661
<b>Petroleum Products</b>		
-external sales	19,977,755	18,616,544
-intersegment sales	1,187,744	1,064,616
-other income	282,142	632,820
<b>Total</b>	<b>21,447,641</b>	20,313,980



## Notes to the Financial Statements (continued)

(Prepared under International Financial Reporting Standards)

### 33. Segment reporting (continued)

#### Turnover and other income (continued)

	2006 RMB'000	2005 RMB'000
<b>All others</b>		
-external sales	3,293,877	1,960,729
-intersegment sales	3,582,206	3,687,428
Total	6,876,083	5,648,157
<b>Eliminations of intersegment sales</b>	(19,370,463)	(18,653,248)
<b>Turnover and other income</b>	50,881,627	46,588,723

External sales include sales to Sinopec Corp group companies.

#### Profit before taxation

	2006 RMB'000	2005 RMB'000
<b>Profit from operations</b>		
Synthetic Fibres	196,255	263,359
Resins and Plastics	1,162,103	1,490,740
Intermediate Petrochemicals	680,425	981,025
Petroleum Products	(1,697,730)	(446,867)
All others	211,854	239,703
<b>Profit from operations</b>	552,907	2,527,960
<b>Share of profits/(losses) of associates and jointly controlled entities</b>	576,682	(60,968)
<b>Net financing costs</b>	(165,389)	(179,398)
<b>Profit before taxation</b>	964,200	2,287,594

## Notes to the Financial Statements (continued)

(Prepared under International Financial Reporting Standards)

### 33. Segment reporting (continued)

Assets	2006 RMB'000	2005 RMB'000
<b>Segment assets</b>		
Synthetic Fibres	2,877,473	3,052,522
Resins and Plastics	3,115,456	3,326,289
Intermediate Petrochemicals	5,876,117	5,450,842
Petroleum Products	8,507,134	8,055,388
All others	2,263,875	2,173,132
<b>Total segment assets</b>	<b>22,640,055</b>	22,058,173
<b>Interest in associates and jointly controlled entities</b>	<b>2,787,795</b>	2,130,803
<b>Unallocated</b>	<b>1,978,210</b>	2,621,395
<b>Total assets</b>	<b>27,406,060</b>	26,810,371
<b>Liabilities</b>	<b>2006 RMB'000</b>	<b>2005 RMB'000</b>
<b>Segment liabilities</b>		
Synthetic Fibres	254,614	226,760
Resins and Plastics	851,001	664,392
Intermediate Petrochemicals	366,284	312,346
Petroleum Products	1,076,017	882,828
All others	177,411	92,981
<b>Total segment liabilities</b>	<b>2,725,327</b>	2,179,307
<b>Unallocated</b>	<b>5,368,377</b>	5,453,624
<b>Total liabilities</b>	<b>8,093,704</b>	7,632,931

## Notes to the Financial Statements (continued)

(Prepared under International Financial Reporting Standards)

### 33. Segment reporting (continued)

Depreciation and amortisation	2006 RMB'000	2005 RMB'000
Synthetic Fibres	236,559	222,910
Resins and Plastics	353,321	350,625
Intermediate Petrochemicals	664,667	596,717
Petroleum Products	407,835	368,210
All others	178,008	167,192
<b>Segment depreciation and amortisation</b>	<b>1,840,390</b>	1,705,654
<b>Unallocated</b>	<b>12,678</b>	12,847
<b>Depreciation and amortisation</b>	<b>1,853,068</b>	1,718,501
<b>Impairment losses</b>	<b>2006 RMB'000</b>	<b>2005 RMB'000</b>
Synthetic fibres	50,000	-
<b>Impairment losses</b>	<b>50,000</b>	-
<b>Total capital expenditures for segment long-lived assets</b>	<b>2006 RMB'000</b>	<b>2005 RMB'000</b>
Synthetic Fibres	145,513	172,106
Resins and Plastics	45,418	17,323
Intermediate Petrochemicals	1,083,542	497,787
Petroleum Products	586,570	335,586
All others	147,736	104,003
<b>Total segment capital expenditures</b>	<b>2,008,779</b>	1,126,805
<b>Unallocated</b>	-	16,122
<b>Capital expenditures for segment long-lived assets</b>	<b>2,008,779</b>	1,142,927

## 34. Accounting estimates and judgements

The Group's financial condition and results of operations are sensitive to accounting methods, assumptions and estimates that underlie the preparation of the financial statements. The Group bases the assumptions and estimates on historical experience and on various other assumptions that the Group believes to be reasonable and which form the basis for making judgements about matters that are not readily apparent from other sources. On an on-going basis, management evaluates its estimates. Actual results may differ from those estimates as facts, circumstances and conditions change.

The selection of critical accounting policies, the judgements and other uncertainties affecting application of those policies and the sensitivity of reported results to changes in conditions and assumptions are factors to be considered when reviewing the financial statements. The principal accounting policies are set forth in Note 1. The Group believes the following critical accounting policies involve the most significant judgements and estimates used in the preparation of the financial statements.

### Impairments for long lived assets

If circumstances indicate that the net book value of a long-lived asset may not be recoverable, the asset may be considered "impaired", and an impairment loss may be recognised in accordance with IAS 36 "Impairment of Assets". The carrying amounts of long-lived assets are reviewed periodically in order to assess whether the recoverable amounts have declined below the carrying amounts. These assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. When such a decline has occurred, the carrying amount is reduced to recoverable amount. For goodwill, the recoverable amount is estimated annually. The recoverable amount is the greater of the net selling price and the value in use. It is difficult to precisely estimate selling price because quoted market prices for the Group's assets are not readily available. In determining the value in use, expected cash flows generated by the assets are discounted to their present value, which requires significant judgement relating to level of sale volume, selling price and amount of operating costs. The Group uses all readily available information in determining an amount that is a reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of sale volume, selling price and amount of operating costs.

### Depreciation

Property, plant and equipment are depreciated on a straight-line basis over the estimated useful lives of the assets, after taking into account the estimated residual values. The Group reviews the estimated useful lives of the assets regularly in order to determine the amount of depreciation expense to be recorded during any reporting period. The useful lives are based on the Group's historical experience with similar assets and taking into account anticipated technological changes. The depreciation expense for future periods is adjusted if there are significant changes from previous estimates.

### Impairment for bad and doubtful debts

The Group estimates impairment losses for bad and doubtful debts resulting from the inability of the customers to make the required payments. The Group bases the estimates on the aging of the accounts receivable balance, customer credit-worthiness, and historical write-off experience. If the financial condition of the customers were to deteriorate, actual write-offs would be higher than estimated.

## 35. Financial instruments

Financial assets of the Company and the Group include cash and cash equivalents, deposits with banks, investments, trade debtors, bills receivable, deposits, other debtors and amounts due from related parties. Financial liabilities of the Company and the Group include loans and borrowings, trade creditors, other creditors and amounts due to related parties. The Group does not hold or issue financial instruments for trading purposes. The Group had no positions in derivative contracts that are designated and qualified as hedging instruments at 31 December 2006 and 2005.

### (a) Interest rate risk

The interest rates and terms of repayment of loans of the Company and the Group are disclosed in note 32.

### (b) Credit risk

The Group's financial instruments do not represent a concentration of credit risk because the Group deals with a variety of major financial institutions with good credit ratings, and its trade debtors are spread among a number of major industries and customers.

### (c) Foreign currency risk

The Group has foreign currency risk as certain loans and cash and cash equivalents are denominated in foreign currencies, principally U.S. dollars and Hong Kong dollars. Depreciation or appreciation of Renminbi against foreign currencies will affect the Group's financial position and results of operations.

Other than the amounts as disclosed in Note 23, the amounts of other financial assets and liabilities of the Group are substantially denominated in the functional currency of respective entity of the Group.

### (d) Fair value

The following table presents the carrying amounts and fair values of the Group's long term bank loans 31 December 2006 and 2005.

	2006		2005	
	Carrying amount RMB'000	Fair value RMB'000	Carrying amount RMB'000	Fair value RMB'000
<b>Liabilities:</b>				
Long-term bank loans	1,480,299	1,445,950	2,850,466	2,804,295

## 35. Financial instruments (continued)

### (d) Fair value (continued)

Long-term bank loans - the fair values are estimated based on applying a discounted cash flow using current market interest rates for similar financial instruments.

Unquoted equity securities are individually and in the aggregate not material to the Group's financial condition or results of operations. There are no listed market prices for such interests in the PRC and, accordingly, a reasonable estimate of fair value could not be made without incurring excessive costs.

The fair values of cash, trade debtors, bills receivable, deposits, other debtors, trade creditors, other creditors and amounts due from/to related parties are not materially different from their carrying amounts.

Time deposits and short-term loans and borrowings - the carrying value is estimated to approximate fair value based on the nature or short term maturity of these instruments.

Fair value estimates are made at a specific point in time and based on relevant market information and information about the financial instrument. These estimates are subjective in nature and involve uncertainties and matters of significant judgement and therefore cannot be determined with precision. Changes in assumptions could significantly affect the estimates.

## 36. Possible impact of amendments, new standards and interpretations issued but not yet effective for the annual accounting period ended 31 December 2006

Up to the date of issue of these financial statements, the IASB has issued the following amendments, new standards and interpretations which are not yet effective for the annual accounting period ended 31 December 2006 and which have not been adopted in these financial statements:

	Effective for accounting period beginning on or after
IFRS 7, Financial instruments: disclosures	1 January 2007
IFRS 8, Operating Segments	1 January 2009
IFRIC 7, Applying the restatement approach under IAS 29, Financial reporting in hyperinflationary economies	1 March 2006
IFRIC 8, Scope of IFRS 2	1 May 2006

### 36. Possible impact of amendments, new standards and interpretations issued but not yet effective for the annual accounting period ended 31 December 2006 (continued)

	Effective for accounting period beginning on or after
IFRIC 9, Reassessment of Embedded Derivatives	1 June 2006
Amendment to IAS 1, Presentation of financial statements: capital disclosures	1 January 2007
IFRIC 10, Interim financial reporting and impairment	1 November 2006
IFRIC 11, IFRS2 - Group and treasury share transaction	1 March 2007
IFRIC 12, Service concession arrangements	1 January 2008

The Group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application. Up to the date of issuance of these financial statements, the Group believes that the adoption of IFRIC 7, IFRIC 8, IFRIC 9, the amendment to IAS 1, IFRIC 10, IFRIC 11 and IFRIC 12 are not applicable to any of the Group's operations and that the adoption of the remainder of the above new standards and new interpretations is unlikely to have a significant impact on the Group's results of operations and financial position.

### 37. Non-adjusting post balance sheet events

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

### 38. Parent companies

The Directors consider the immediate parent company and the ultimate parent company at 31 December 2006 to be China Petroleum & Chemical Corporation and China Petrochemical Corporation, respectively, which are incorporated in the PRC. China Petroleum & Chemical Corporation produces financial statements available for public use.