

### 13. Taxation

(a) Taxation in the income statement represents:

	Six-month period ended 30 June			
	The Group		The Company	
	2006	2005	2006	2005
	RMB'000	RMB'000	RMB'000	RMB'000
Provision for PRC income tax for the period	22,590	357,730	-	313,562
Deferred taxation	(6,684)	-	(6,684)	-
Over provision for income tax in respect of preceding year	(6,911)	-	(6,911)	-
	<b>8,995</b>	<b>357,730</b>	<b>(13,595)</b>	<b>313,562</b>

The charge for PRC income tax is calculated at the rate of 15% (2005: 15%) on the estimated assessable profit of the period determined in accordance with relevant income tax rules and regulations. The Group did not carry out business in overseas and Hong Kong and therefore no provision has been made for overseas and Hong Kong income tax.

The Company has not received notice from the Ministry of Finance that the 15% tax rate will be revoked in 2006. It is possible that the Company's tax rate will increase in the future. However, the Company continues to use the 15% tax rate in 2006.

(b) Taxes payable in the balance sheets represents:

	The Group		The Company	
	At 30 June	At 31 December	At 30 June	At 31 December
	2006	2005	2006	2005
	RMB'000	RMB'000	RMB'000	RMB'000
Income tax	15,588	(18,786)	-	(45,374)
VAT	108,927	125,720	109,679	111,595
Consumption tax	12,820	52,188	12,820	52,188
Business tax	1,302	2,525	264	645
Other taxes	12,508	21,673	11,497	19,122
	<b>151,145</b>	<b>183,320</b>	<b>134,260</b>	<b>138,176</b>

### 13. Taxation (continued)

(c) Deferred tax assets

	The Group	
	2006 RMB'000	2005 RMB'000
At 1 January	20,238	41,442
Deferred taxation arising from making / (reversing) provision for inventories and bad debts	6,684	(21,204)
At 30 June / 31 December	<u>26,922</u>	<u>20,238</u>

  

	The Company	
	2006 RMB'000	2005 RMB'000
At 1 January	20,238	40,154
Deferred taxation arising from making / (reversing) provision for inventories and bad debts	6,684	(19,916)
At 30 June / 31 December	<u>26,922</u>	<u>20,238</u>

There is no significant deferred tax liability not provided for in the financial statements.

### 14. Short-term loans

The Group's and Company's short-term loans include:

	The Group		The Company	
	At 30 June 2006 RMB'000	At 31 December 2005 RMB'000	At 30 June 2006 RMB'000	At 31 December 2005 RMB'000
Short-term bank loans	2,301,562	2,523,537	2,029,263	2,295,195
Short-term loans with related party(Note 30(g))	30,000	30,000	-	-
	<u>2,331,562</u>	<u>2,553,537</u>	<u>2,029,263</u>	<u>2,295,195</u>

#### 14. Short-term loans (continued)

At 30 June 2006, there were no secured loans (31 December 2005: Nil).

All short-term loans are unsecured loans without guarantee and payable in full when due. The weighted average interest rate of short-term loans of the Group at 30 June 2006 was 5.25% (31 December 2005: 4.53%)

As at 30 June 2006 and 31 December 2005, the Group and the Company had no significant overdue short-term loan.

Except for the balances disclosed in note 30(g), there is no amount due from major shareholders who held 5% or more shareholding included in the above balance.

#### 15. Trade creditors, bills payable, receipts in advance and other payables

There are no material trade creditors and other payables aged over 3 years.

There is no material receipts in advance aged over 1 year.

Bills payable are mainly bank bills issued for the purchase of material, merchandises and products, generally due in 3 to 6 months.

Except for the balances disclosed in Note 30(e), there is no amount due to shareholders who held 5% or more shareholding included in the balance of trade creditors, bills payable, receipts in advance and other payables.

Ageing analysis of trade creditors is as follows:

	The Group			
	At 30 June 2006		At 31 December 2005	
	Amount	Proportion	Amount	Proportion
	RMB'000	%	RMB'000	%
Within 3 months	812,489	68.17	905,469	91.63
Between 3 and 6 months	313,984	26.34	47,726	4.83
Over 6 months	65,424	5.49	35,001	3.54
	<u>1,191,897</u>	<u>100.00</u>	<u>988,196</u>	<u>100.00</u>

## 15. Trade creditors, bills payable, receipts in advance and other payables *(continued)*

Ageing analysis of trade creditors is as follows: *(continued)*

	<b>The Company</b>			
	<b>At 30 June 2006</b>		<b>At 31 December 2005</b>	
	<b>Amount</b>	<b>Proportion</b>	<b>Amount</b>	<b>Proportion</b>
	<b>RMB'000</b>	<b>%</b>	<b>RMB'000</b>	<b>%</b>
Within 3 months	565,232	91.56	550,655	92.27
Between 3 and 6 months	7,434	1.20	14,519	2.43
Over 6 months	44,645	7.24	31,608	5.30
	<b>617,311</b>	<b>100.00</b>	<b>596,782</b>	<b>100.00</b>

## 16. Dividends

Pursuant to the shareholders' approval at the Annual General Meeting on 15 June 2006, a dividend of RMB 0.10 per share totalling RMB 720,000,000 (2005: RMB 0.20 per share totalling RMB 1,440,000,000) in respect of the year ended 31 December 2005 was approved. During the period ended 30 June 2006, no dividend was paid to shareholders.

## 17. Accrued expenses

At 30 June 2006, the Group's and the Company's accrued expenses primarily represented accrued interest expenses.

## 18. Short-term debentures payable

		<b>The Group and the Company</b>	
		<b>At 30 June 2006</b>	<b>At 31 December 2005</b>
Interest rate and final maturity		<b>RMB'000</b>	<b>RMB'000</b>
Short-term debentures payable	Effective rate at 3.069% per annum, redeemable in November 2006	<b>990,150</b>	-

The Company issued 270-day corporate bonds of face value at RMB 1 billion to corporate investors in the PRC interbank debenture market on 24 February 2006. The bonds were sold at a discounted value of RMB 97.78 per RMB 100 par value, with an effective yield 3.069% per annum, and will mature in November 2006.

## 19. Long-term loans and current portion of long-term loans

	The Group		The Company	
	At 30 June	At 31 December	At 30 June	At 31 December
	2006	2005	2006	2005
	RMB'000	RMB'000	RMB'000	RMB'000
Between 1 and 2 years	433,705	630,817	300,000	397,112
Between 2 and 3 years	1,166,359	776,328	1,031,154	741,123
Between 3 and 5 years	50,411	50,410	-	-
After 5 years	4,705	19,706	-	15,000
	<b>1,655,180</b>	<b>1,477,261</b>	<b>1,331,154</b>	<b>1,153,235</b>
Current portion of long-term loans	<b>410,986</b>	<b>1,373,205</b>	<b>400,986</b>	<b>1,340,000</b>
	<b>2,066,166</b>	<b>2,850,466</b>	<b>1,732,140</b>	<b>2,493,235</b>

Long-term loans are analysed as follows:

Repayment terms and last payment date	Interest type	Interest rate at 30 June 2006	Original currency '000	Exchange rate at 30 June 2006	The Group		The Company	
					At 30 June 2006	December 2005	At 30 June 2006	December 2005
					RMB'000	RMB'000	RMB'000	RMB'000
<b>Arranged by Central Treasury of the Company:</b>								
U.S. Dollar denominated:								
Due in 2007	Floating	5.29%	50,151	7.9956	400,986	397,112	400,986	397,112
Payable semi-annually through 2008 (Note(a))	Fixed	1.8%	3,896	7.9956	31,154	41,123	31,154	41,123
Renminbi denominated:								
Due in 2006	Fixed	5.184%-5.56%	-	-	-	1,340,000	-	1,340,000
Due in 2008	Fixed	5.184%-5.427%	-	-	800,000	700,000	800,000	700,000
Due in 2009	Fixed	5.184%-5.427%	-	-	500,000	-	500,000	-
Other loans due in 2015	-	Interest free	-	-	-	15,000	-	15,000
<b>Arranged by subsidiaries:</b>								
U.S. Dollar denominated:								
Payable annually through 2011	-	Interest free	1,817	7.9956	14,526	17,431	-	-

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

Long-term loans are analysed as follows: (continued)

Repayment terms and last payment date	Interest type	Interest rate at 30 June 2006	Original currency '000	Exchange rate at 30 June 2006	The Group		The Company		
					At 31		At 31		
					At 30 June 2006	December 2005	At 30 June 2006	December 2005	
						RMB'000	RMB'000	RMB'000	RMB'000
<b>Arranged by subsidiaries:</b>									
Renminbi denominated:									
Due in 2008	Fixed	5.184%			110,000	110,000	-	-	
Payable annually through 2010	-	Interest free			92,000	102,500	-	-	
Due in 2006 and after	Fixed	5.184%-5.58%			108,500	116,500	-	-	
Payable annually through 2011	-	Interest free			9,000	10,800	-	-	
Total long-term loans outstanding					2,066,166	2,850,466	1,732,140	2,493,235	
Less: Amounts due within one year					(410,986)	(1,373,205)	(400,986)	(1,340,000)	
Amounts due after one year					1,655,180	1,477,261	1,331,154	1,153,235	

Note: (a) Guaranteed by China Petrochemical Corporation.

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

## 20. Other long-term liabilities

### Deferred income

	The Group
	RMB'000
<b>Cost:</b>	
At 1 January 2006/ 30 June 2006	115,177
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<b>Accumulated amortisation:</b>	
At 1 January 2006	92,144
Amortisation for the period	5,759
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At 30 June 2006	97,903
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<b>Net book value:</b>	
At 30 June 2006	17,274
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At 31 December 2005	23,033
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In 1998, the Group obtained the assets, liabilities and employees of certain businesses and various other net assets from the community of Jinshanwei without monetary consideration. The value of net assets obtained amounted to RMB115,177,000 and was recorded as deferred income in the consolidated financial statements.

## 21. Share capital

	The Group and the Company	
	At 30 June 2006	At 31 December 2005
	RMB'000	RMB'000
<b>Registered capital:</b>		
4,870,000,000 A shares at par value of RMB 1 each	4,870,000	4,870,000
2,330,000,000 H shares at par value of RMB 1 each	2,330,000	2,330,000
	<b>7,200,000</b>	7,200,000
<b>Issued and paid up capital</b>		
Shares not in trade:		
4,150,000,000 A shares at par value of RMB 1 each		
of which:		
Domestic legal persons shares	4,150,000	4,150,000
Total shares not in trade	<b>4,150,000</b>	4,150,000
Shares in trade:		
720,000,000 A shares at par value of RMB 1 each		
2,330,000,000 H shares at par value of RMB 1 each		
of which:		
RMB ordinary A shares listed in the PRC	720,000	720,000
Foreign investment H shares listed overseas	2,330,000	2,330,000
Total shares in trade	<b>3,050,000</b>	3,050,000
Total share capital	<b>7,200,000</b>	7,200,000

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

Capital verifications of the issued and paid up capital were performed by KPMG Huazhen. Capital verification reports were issued on 27 October 1993, 10 June 1994, 15 September 1996 and 20 March 1997 accordingly.

## 22. Capital reserves

	<b>The Group and the Company</b>	
	<b>2006</b>	2005
	<b>RMB'000</b>	RMB'000
Balance at 30 June / 31 December	<b>2,856,278</b>	2,856,278

Balance of capital reserves at 30 June 2006 and 31 December 2005 is represented by:

	<b>Note</b>	<b>The Group and the Company</b>	
		<b>At 30 June 2006</b>	At 31 December 2005
		<b>RMB'000</b>	RMB'000
Share premium		<b>2,420,841</b>	2,420,841
Safety fund	(a)	<b>4,180</b>	4,180
Valuation surplus	(b)	<b>44,887</b>	44,887
Government grants	(c)	<b>386,370</b>	386,370
		<b>2,856,278</b>	2,856,278

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

(b) Valuation surplus represents the excess of fair value over the carrying value of assets given up in part exchange for investments.

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

## 23. Surplus reserves

<b>The Group and the Company</b>					
Note	Statutory				Total
	Statutory surplus reserve	Statutory public welfare fund	General surplus reserve	Discretionary surplus reserve	
	RMB'000	RMB'000	RMB'000	RMB'000	RMB'000
Balance at 1 January 2005	1,457,791	1,375,702	82,089	1,280,514	4,196,096
Appropriation of net profit	(a) 170,463	170,463	-	-	340,926
Balance at 31 December 2005	1,628,254	1,546,165	82,089	1,280,514	4,537,022
Statutory public welfare fund transfer to statutory surplus reserve	(b) 1,546,165	(1,546,165)	-	-	-
Balance at 31 December 2005 (restated) and 30 June 2006	<u>3,174,419</u>	<u>-</u>	<u>82,089</u>	<u>1,280,514</u>	<u>4,537,022</u>

(a) Pursuant to resolution of the Board, the Company transfer the following proportion of net profit to the surplus reserve for the year ended 31 December 2005:

- |                                    |     |
|------------------------------------|-----|
| (i) Statutory surplus reserve      | 10% |
| (ii) Statutory public welfare fund | 10% |

(b) Pursuant to the resolution of the Shareholders' meeting on 15 June 2006, the Company's Articles of Association was revised that the Company is no longer to set aside statutory public welfare fund from the net profit available for appropriation.

Pursuant to the notice "Cai Qi [2006] No. 67" issued by the Ministry of Finance, the Company is no longer required to make profit appropriation to the statutory public welfare fund commencing from 1 January 2006. The balance of this fund as at 31 December 2005 was transferred to the statutory surplus reserve.

## 24. Income from principal operations / cost of sales

The Group's principal activity is the processing of crude oil into petrochemical products for sale. The Group's income from principal activity and cost of sales represent income received and cost incurred in relation to above activity. The Group's segment information is set out in Note 34. The Group's most products are sold in domestic market.

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

For the period ended 30 June 2006, total sales to top five customers are as follow:

	2006	2005
Amount (RMB'000)	<u>8,919,977</u>	8,880,209
Percentage of total sales	<u>38.08%</u>	<u>40.57%</u>

## 25. Sales taxes and surcharges

	Six-month period ended 30 June			
	The Group		The Company	
	2006	2005	2006	2005
	RMB'000	RMB'000	RMB'000	RMB'000
Consumption tax	254,323	276,516	254,323	276,516
City construction tax	43,022	70,904	40,271	69,012
Education surcharge and others	18,659	30,715	17,259	29,577
	<b>316,004</b>	<b>378,135</b>	<b>311,853</b>	<b>375,105</b>

The charge for consumption tax is calculated at RMB277.6 per tonne and RMB117.6 per tonne on the sales of gasoline and diesel respectively in accordance with relevant tax rules and regulations. The charges for city construction tax and education surcharge are based on 7% and 3% respectively of the VAT, consumption tax and business tax paid during the period.

## 26. Financial expenses

	Six-month period ended 30 June			
	The Group		The Company	
	2006	2005	2006	2005
	RMB'000	RMB'000	RMB'000	RMB'000
Interest expense	183,907	146,728	159,926	126,093
Less: borrowing costs capitalised as construction in progress	8,863	-	8,863	-
Net interest expense	175,044	146,728	151,063	126,093
Less: interest income	(20,605)	(18,613)	(16,746)	(14,785)
Foreign exchange (gain) / loss, net	(36,094)	853	(34,413)	636
Others	6,986	372	4,671	243
Total	<b>125,331</b>	<b>129,340</b>	<b>104,575</b>	<b>112,187</b>

## 27. Investment income / (losses)

	Six-month period ended 30 June			
	The Group		The Company	
	2006 RMB'000	2005 RMB'000	2006 RMB'000	2005 RMB'000
Investment income accounted for under cost method	39,362	57,814	4,770	15,220
Gain from disposal of investments	24,308	-	-	-
Share of profits of subsidiaries	-	-	118,792	55,735
Share of profits / (losses) of associates	175,156	(179,328)	171,244	(176,885)
Amortization of investment differences	5,000	5,425	5,000	5,425
<b>Total</b>	<b>243,826</b>	<b>(116,089)</b>	<b>299,806</b>	<b>(100,505)</b>

## 28. Non-operating income

	Six-month period ended 30 June			
	The Group		The Company	
	2006 RMB'000	2005 RMB'000	2006 RMB'000	2005 RMB'000
Net gain on disposal of fixed assets	2,094	2,613	280	1,670
Penalties income	74	233	44	217
Amortization of deferred income	5,759	5,759	-	-
others	7,122	2,161	708	847
<b>Total</b>	<b>15,049</b>	<b>10,766</b>	<b>1,032</b>	<b>2,734</b>

## 29. Non-operating expenses

	Six-month period ended 30 June			
	The Group		The Company	
	2006	2005	2006	2005
	RMB'000	RMB'000	RMB'000	RMB'000
Employee reduction expenses	<b>19,810</b>	90,792	<b>11,494</b>	35,465
Net loss on disposal of fixed assets	<b>2,167</b>	4,423	<b>958</b>	2,900
Service fee	<b>13,910</b>	22,500	<b>13,910</b>	22,500
Donations	<b>380</b>	7,280	<b>380</b>	7,280
Other expenses	<b>25,832</b>	30,228	<b>13,592</b>	27,067
Total	<b>62,099</b>	155,223	<b>40,334</b>	95,212

In accordance with the Group's voluntary employee reduction plan, the Group recorded employee reduction expenses of RMB 19,810,000 (six-month period ended 30 June 2005: RMB 90,792,000) during the six-month period ended 30 June 2006, in respect of the voluntary resignation of approximately 265 employees (six-month period ended 30 June 2005: 1,246 employees).

### 30. Related parties and related party transactions

(a) Company having the ability to exercise significant influence over the Group

Name of company	:	China Petroleum & Chemical Corporation ("Sinopec Corp")
Registered address	:	No.6, Hui Xin Dong Jie Jia, Chao Yang Qu, Beijing
Scope of operations	:	Exploring for, extracting and selling crude oil and natural gas; oil refining; production, sale and transport of petro-chemical, chemical fibres and other chemical products; pipe transport of crude oil and natural gas; research and development and application of new technologies and information.
Relationship with the Company	:	The immediate parent company
Economic nature	:	Joint stock limited company
Authorised representative	:	Chen Tonghai
Registered capital	:	RMB 86.7billion (2005: RMB 86.7billion)

The above registered capital has not been changed during the six-month period ended 30 June 2006.

At 30 June 2006, Sinopec Corp held 4 billion shares of the Company. There are no changes during the reporting period.

(b) Companies not having the direct ability to exercise significant influence over the Group

	<u>Relationships with the Company</u>
China Petrochemical Corporation	The ultimate parent company
Sinopec Finance Company Limited	Subsidiary of the ultimate parent company
Sinopec Storage and Transportation Branch	Subsidiary of the ultimate parent company
Sinopec Zhenhai Refining & Chemical Company Limited	Subsidiary of the immediate parent company
Sinopec Huadong Sales Company	Branch of the immediate parent company
Sinopec Pipeline storage & Transport Company	Branch of the immediate parent company
China International United Petroleum and Chemical Company Limited	Subsidiary of the immediate parent company
China Petrochemical International Company Limited	Subsidiary of the immediate parent company
Shanghai Secco Petrochemical Company Limited	Associated company

### 30. Related parties and related party transactions *(continued)*

- (c) Most of the transactions undertaken by the Group during the reporting period have been effected with such counterparties and on such terms as have been determined by Sinopec Corp and other relevant authorities.

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

	<u>Six-month period ended 30 June</u>	
	2006	2005
	RMB'000	RMB'000
Purchases of crude oil	<b>15,173,359</b>	12,424,946

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

	<u>Six-month period ended 30 June</u>	
	2006	2005
	RMB'000	RMB'000
Sales of goods and service	<b>9,153,900</b>	9,075,959
Purchases other than crude oil	<b>1,151,915</b>	677,597
Insurance premiums paid	<b>47,544</b>	45,347
Net withdrawal from deposits in related party	<b>28,321</b>	56,510
Interest received and receivable	<b>182</b>	277
New loans obtained from a related party	<b>448,000</b>	50,000
Loans repaid to a related party	<b>448,000</b>	50,000
Interest paid and payable	<b>4,085</b>	3,315
Transportation fees	<b>177,120</b>	186,133
Construction and installation fees	<b>117,349</b>	93,983
Gain from disposal of investments	<b>24,308</b>	-
Sales commissions	<b>93,234</b>	-
Net decrease of guarantees	<b>3,553</b>	23,300

The sales and purchases transactions between the Group and the other related parties as disclosed in note (b) accounted for approximately 90% of the transactions of the similar nature.

The Directors of the Company are of the opinion that the above transactions were entered into in the normal course of business and on normal commercial terms or in accordance with the agreements governing such transactions, and this has been confirmed by the non-executive Directors.

### 30. Related parties and related party transactions (continued)

(e) At 30 June, the Group's balances with related parties are as follow:

	<u>Immediate Parent Company</u>		<u>Other related parties</u>	
	<u>At 30 June</u>	<u>At 31 December</u>	<u>At 30 June</u>	<u>At 31 December</u>
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>
Bills receivable	2,289	-	2,040	8,590
Trade debtors	29,877	37,168	460,771	254,721
Other receivables	12,372	96,412	44,145	150,351
Advance payments	18,700	203	93,206	14,107
Bills payable	-	-	340,000	-
Trade creditors	50,885	125,631	78,727	276,329
Other payables	14,311	12,388	27,286	22,310
Receipts in advance	14,294	735	4,353	30,516
Balance of guarantee	-	-	64,747	68,300

(f) Deposits at related party

	<u>The Group</u>		<u>The Company</u>	
	<u>At 30 June</u>	<u>At 31 December</u>	<u>At 30 June</u>	<u>At 31 December</u>
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>
Cash at bank and in hand	152,945	181,266	142,403	180,040

(g) Loans with related party

	<u>The Group</u>		<u>The Company</u>	
	<u>At 30 June</u>	<u>At 31 December</u>	<u>At 30 June</u>	<u>At 31 December</u>
	<u>2006</u>	<u>2005</u>	<u>2006</u>	<u>2005</u>
	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>	<u>RMB'000</u>
Short-term loans	30,000	30,000	-	-
Long-term loans	100,000	100,000	-	-

### 31. Retirement schemes

As stipulated by the relevant regulations, the Group participates in a defined contribution retirement plan organised by the Shanghai Municipal Government for its staff. The Group is required to make contributions to the retirement plan at a rate of 22.5% of the salaries, bonuses and certain allowances of its staff. The contribution rate has been changed to 22% since 1 August 2004 according to the notice "Hu Fu Ban Fa (2004) No.45". A member of the plan is entitled to a pension equal to a fixed proportion of the salary prevailing at his retirement date. The Group has no other material obligation for the payment of pension benefits associated with this plan beyond the annual contributions described above. In addition, pursuant to a document "Lao Bu Fa (1995) No.464" dated 29 December 1995 issued by the Ministry of Labour of the PRC, the Company has set up a supplementary defined contribution retirement plan for the benefit of employees. Employees who have served the Company for five years or more may participate in this plan. The Company and participating employees make defined contributions to their pension savings account according to the plan. The assets of this plan are held separately from those of the Company in an independent fund administered by a committee consisting of representatives from the employees and the Company. In April 2003, the Company revised certain terms of the plan and increased the amount of contributions. During the six-month period ended 30 June 2006, the Company's contribution to this plan amounted to RMB20,264,000 (period ended 30 June 2005: RMB21,388,000).

### 32. Capital commitments

Capital commitments outstanding at 30 June 2006 are as follows:

	<b>The Group and the Company</b>	
	<b>At 30 June 2006 RMB'000</b>	<b>At 31 December 2005 RMB'000</b>
Contracted but not provided for	<b>1,022,149</b>	222,711
Authorised by the Board but not contracted for	<b>107,672</b>	1,501,490
Total	<b>1,129,821</b>	1,724,201

These capital commitments relate to the acquisition of property, plant and equipment and capital contributions to the Group's investments.

At 30 June 2006, the Group and the Company do not have significant operating lease commitment.

### 33. Contingent liabilities

Contingent liabilities of the Group and the Company are as follows:

	The Group		The Company	
	At 30 June	At 31 December	At 30 June	At 31 December
	2006	2005	2006	2005
	RMB'000	RMB'000	RMB'000	RMB'000
Guarantees issued to banks in favour of:				
-subsidiaries	-	-	520,799	483,842
-associates	40,000	40,000	40,000	40,000
-other unlisted investment companies	24,747	28,300	-	-
	<b>64,747</b>	<b>68,300</b>	<b>560,799</b>	<b>523,842</b>

The Group monitors the conditions that are subject to the guarantees to identify whether it is probable that a loss has occurred, and recognised any such losses under guarantees when those losses are estimable. At 30 June 2006, it is not probable that the Group will be required to make payments under the guarantees. Thus no liability has been accrued for a loss related to the Group's and the Company's obligation under these guarantee arrangements.

### 34. Segment reporting

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

The Group 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.

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

- (i) The synthetic fibres segment produces primarily polyester and acrylic fibres primarily used in the textile and apparel industries.
- (ii) The resins and plastics segment produces primarily polyester chips, low density polyethylene resins and films, polypropylene resins and PVA granules. The polyester chips are used in the processing of polyester fibres and construction coating materials and containers. Low density polyethylene resins and plastics are used in cable jacketing, sheeting, the manufacture of moulded products, such as housewares and toys and for agricultural and packaging uses. Polypropylene resins are used in the manufacturing of extruded films or sheets and injection moulded products such as housewares, toys and household electric appliance and automobile parts.
- (iii) The intermediate petrochemicals segment primarily produces ethylene and benzene. Most of the intermediate petrochemicals produced by the Group are used by the Group as raw materials in the production of other petrochemicals, resins, plastics and synthetic fibres. A portion of the intermediate petrochemicals as well as certain by-products of the production process are sold to outside customers.
- (iv) The Group's petroleum products segment has crude oil distillation facilities used to produce vacuum and atmospheric gas oils used as feedstocks of the Group's downstream processing facilities. Residual oil and low octane gasoline fuels are produced primarily as a co-product of the crude oil distillation process. A proportion of the residual oil is further processed into qualified refined gasoline and diesel oil. In addition, the Group produces a variety of other transportation, industrial and household heating fuels, such as diesel oils, jet fuels, heavy oils and liquefied petroleum gases.
- (v) All other operating segments represent the operating segments which do not meet the quantitative threshold for determining reportable segments. These include trading, consumer products and services and a variety of other commercial activities, which are not allocated to the above four operating segments.

### 34. Segment reporting *(continued)*

#### Income from principal operations

	<u>Six-month period ended 30 June</u>	
	2006 RMB'000	2005 RMB'000
Synthetic fibres		
External sales	2,312,743	2,449,372
Intersegment sales	38	43
Sub-total	2,312,781	2,449,415
Resins and plastics		
External sales	7,606,847	6,930,737
Intersegment sales	29,577	27,797
Sub-total	7,636,424	6,958,534
Intermediate petrochemicals		
External sales	3,048,549	3,483,154
Intersegment sales	6,340,998	6,408,146
Sub-total	9,389,547	9,891,300
Petroleum products		
External sales	9,074,588	8,351,262
Intersegment sales	663,223	532,169
Sub-total	9,737,811	8,883,431
All others		
External sales	1,380,553	671,947
Intersegment sales	1,890,620	1,808,478
Sub-total	3,271,173	2,480,425
Elimination of intersegment sales	(8,924,456)	(8,776,633)
Total	<u>23,423,280</u>	<u>21,886,472</u>

### 34. Segment reporting (continued)

#### Cost of principal operations

	Six-month period ended 30 June	
	2006	2005
	RMB'000	RMB'000
Synthetic fibres	2,152,743	2,073,613
Resins and plastics	6,684,743	5,195,695
Intermediate petrochemicals	2,546,760	2,347,794
Petroleum products	9,667,732	8,175,333
All others	1,283,106	570,141
Total	<u>22,335,084</u>	<u>18,362,576</u>

#### Profit from principal operations

	Six-month period ended 30 June	
	2006	2005
	RMB'000	RMB'000
Synthetic fibres	153,222	364,939
Resins and plastics	903,503	1,704,780
Intermediate petrochemicals	492,323	1,115,809
Petroleum products	(872,222)	(139,473)
All others	95,366	99,706
Total	<u>772,192</u>	<u>3,145,761</u>

### 35. Non-recurring items

In accordance with "Standard questions and answers on the preparation of information disclosures by companies publicly issuing securities, No.1-Non-recurring items" (2005 Revised), the Group's non-recurring items is set out as below:

	Six-month period ended 30 June	
	2006	2005
	RMB'000	RMB'000
<b>Items under non-recurring items</b>		
Non-operating expenses (excluding provision for impairment loss on fixed assets)	62,099	155,223
Non-operating income	(15,049)	(10,766)
Tax effect for the above items	(7,058)	(21,669)
Total	<u>39,992</u>	<u>122,788</u>