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This annual report includes forward-looking statements. All statements, other than statements of historical facts, that address activities, events or developments that the Company expects or anticipates will or may occur in the future (including but not limited to projections, targets, estimates and business plans) are forward-looking statements. The Company's actual results or developments may differ materially from those indicated by these forward-looking statements as a result of various factors and uncertainties. The Company makes the forward-looking statements referred to herein as at 25 March 2005 and undertakes no obligation to update these statements.

**IMPORTANT: THE BOARD OF CHINA PETROLEUM & CHEMICAL CORPORATION (“SINOPEC CORP.”) AND ITS DIRECTORS WARRANT THAT THERE ARE NO MATERIAL OMISSIONS FROM, OR MISREPRESENTATIONS OR MISLEADING STATEMENTS CONTAINED IN THIS ANNUAL REPORT, AND JOINTLY AND SEVERALLY ACCEPT FULL RESPONSIBILITY FOR THE AUTHENTICITY, ACCURACY AND COMPLETENESS OF THE INFORMATION CONTAINED IN THIS REPORT. MR. MOU SHULING, MR. GAO JIAN, MR. FAN YIFEI, MR. HO TSU KWOK, CHARLES AND MR. ZHANG YOUCAI, DIRECTORS OF SINOPEC CORP., COULD NOT ATTEND THE FIFTEENTH MEETING OF THE SECOND SESSION OF THE BOARD FOR REASON OF OFFICIAL DUTIES. MR. MOU SHULING, DIRECTOR OF SINOPEC CORP., AUTHORISED MR. CAO XIANGHONG, MR. FAN YIFEI, DIRECTOR OF SINOPEC CORP., AUTHORISED MR. WANG JIMING, AND MR. GAO JIAN, MR. HO TSU KWOK, CHARLES AND MR. ZHANG YOUCAI, DIRECTORS OF SINOPEC CORP., ALL AUTHORISED MR. CHEN QINGTAI TO VOTE ON THEIR BEHALF IN RESPECT OF THE RESOLUTIONS PUT FORWARD IN THE MEETING OF THE BOARD. MR. CHEN TONGHAI, CHAIRMAN OF THE BOARD, MR. WANG JIMING, VICE CHAIRMAN AND PRESIDENT OF SINOPEC CORP., MR. ZHANG JIAREN, DIRECTOR, SENIOR VICE PRESIDENT & CHIEF FINANCIAL OFFICER OF SINOPEC CORP. AND MR. LIU YUN, HEAD OF THE ACCOUNTING DIVISION OF SINOPEC CORP., HEREBY WARRANT THE AUTHENTICITY AND COMPLETENESS OF THE FINANCIAL STATEMENTS CONTAINED IN THIS ANNUAL REPORT.**



Exploration and Production



Refining



Marketing and Distribution



Chemicals

## COMPANY PROFILE

Sinopec Corp. is the first company in China listed in Hong Kong, New York, London and Shanghai, and is also an integrated energy and chemical company with upstream, midstream and downstream operations. The principal operations of Sinopec Corp. and its subsidiaries (the “Company”) include:

- exploring for and developing, producing and trading crude oil and natural gas
- processing crude oil into refined oil products, producing refined oil products and trading, transporting, distributing and marketing refined oil products
- producing, distributing and trading petrochemical products

Based on the turnover in 2004, Sinopec Corp. is the largest listed company in China. The Company is also:

- one of the largest petroleum and petrochemical companies in China and Asia
- one of the largest producers and distributors of gasoline, diesel, jet fuel and other major refined oil products in China and Asia
- the second largest producer of crude oil and natural gas in China

The Company’s competitive strengths are mainly reflected in:

- its leading market position in the production and sales of refined oil products in China
- its status as the largest petrochemical producer in China

- its strategic market position in China’s highest economic growth areas
- its well-established, highly efficient and cost effective sales and distribution network
- its integrated operation structure with strong resistance against industry cyclical risks
- its well-recognized brand and excellent reputation

The Company has been focusing on capturing profit growth and expanding opportunities, optimising capital allocation and investment activities, developing and effectively deploying technologies and human resources, promoting the efficient use of resources, seeking to improve its overall competitiveness and strengths, and pursuing a higher return on capital employed and sustained development and thereby increasing shareholders’ value and returns.

## PRINCIPAL FINANCIAL DATA AND INDICATORS

### 1 FINANCIAL DATA AND OPERATING DATA PREPARED IN ACCORDANCE WITH THE PRC ACCOUNTING RULES AND REGULATIONS

#### (1) Summary of principal financial data and operating data of the Company for the year 2004

Profit before taxation	:	RMB 53,535 million
Net profit	:	RMB 32,275 million
Net profit before non-operating profits/losses	:	RMB 35,996 million
Profit from principal operations	:	RMB 115,222 million
Profit from other operations	:	RMB 1,102 million
Operating profit	:	RMB 62,953 million
Investment income	:	RMB 1,088 million
Subsidy income	:	Nil
Net non-operating income/expenses	:	RMB 10,506 million (net expense)
Net cash flow from operating activities	:	RMB 70,139 million
Net increase in cash and cash equivalents	:	RMB 1,160 million

#### Items under non-operating profits/losses and corresponding amounts:

		(Income)/Expense
Gain on disposal of long-term equity investments	:	RMB (2) million
Written back of provisions on assets provided in previous years	:	RMB (322) million
Non-operating expenses (excluding normal provisions on assets provided in accordance with the Accounting Regulations for Business Enterprises)	:	RMB 6,543 million
Of which: Loss on disposal of fixed assets	:	RMB 4,304 million
Employee reduction expenses	:	RMB 919 million
Donations	:	RMB 275 million
Non-operating income	:	RMB (665) million
Tax effect	:	RMB (1,833) million
Total	:	RMB 3,721 million

## PRINCIPAL FINANCIAL DATA AND INDICATORS (CONTINUED)

### (2) Principal financial data and indicators prepared in accordance with the PRC Accounting Rules and Regulations

	Note	For the year	For the year	For the year ended 31	
		ended 31	ended 31	December	December
		December	December	December	December
		2004	2003	2002	2002
		RMB millions	RMB millions	RMB millions	
				After	Before
				adjustment (i)	adjustment
Income from principal operations		590,632	417,191	324,184	324,184
Net profit		32,275	19,011	14,121	14,121
Earnings per share (RMB)					
Fully diluted	(ii)	0.372	0.219	0.163	0.163
Weighted average	(iii)	0.372	0.219	0.163	0.163
Net cash flow from operating activities per share (RMB)		0.809	0.743	0.693	0.693
Return on net assets (%)					
Fully diluted	(iv)	17.320	11.667	9.307	9.638
Weighted average	(v)	18.403	12.048	9.478	9.723
Return (adjusted for non-operating profits/losses) on net assets (%)					
Fully diluted		19.316	13.690	9.611	9.953
Weighted average		20.524	14.137	9.787	10.040

	At 31	At 31	At 31	
	December	December	December	December
	2004	2003	2002	2002
	RMB millions	RMB millions	RMB millions	
			After	Before
			adjustment (i)	adjustment
Total assets	460,081	390,213	368,375	368,375
Shareholders' funds (excluding minority interests)	186,350	162,946	151,717	146,515
Net assets per share (RMB)	2.149	1.879	1.750	1.690
Adjusted net assets per share (RMB)	2.102	1.850	1.736	1.676

Notes:

- (i) The Company adopted the revised Accounting Standard for Business Enterprises - Post Balance Sheet Events that resulted in a change in accounting policy which has been applied retrospectively.
- (ii) Fully diluted earnings per share = net profit for the year / total number of shares in issue at the end of the year
- (iii) Weighted average earnings per share = net profit for the year / (number of shares at the beginning of the year + number of shares increased due to the transfer from surplus reserves to capital or share dividend distributed + (increase in number of shares during the year due to issuance of new shares or capitalization of debt x number of months from the month following the increase of shares to the end of the year / number of months in the year) - (number of shares decreased due to share repurchases or reduction in share capital x number of months from the month following the decrease of shares to the end of the year / number of months for the year))
- (iv) Fully diluted return on net assets basis = (net profit for the year / shareholders' funds at the end of the year) x 100%
- (v) Weighted average return on net assets basis = net profit for the year / (shareholders' funds at the beginning of the year + net profit for the year / 2 + (shareholders' funds increased due to issuance of new shares or capitalization of debt during the year x number of months from the month following the increase of shareholders' funds to the end of the year / number of months in the year) - (shareholders' funds decreased due to share repurchases or cash dividends during the year x number of months from the month following the decrease of shareholders' funds to the end of the year / number of months in the year)) x 100%

### (3) Appendix to income statement prepared in accordance with the PRC Accounting Rules and Regulations

	For the year ended		For the year ended	
	31 December 2004		31 December 2003	
	Return on net assets		Return on net assets	
	Fully diluted	Weighted average	Fully diluted	Weighted average
	(%)	(%)	(%)	(%)
Profit from principal operations	61.83	65.70	49.54	51.15
Operating profit	33.78	35.90	21.79	22.50
Net profit	17.32	18.40	11.67	12.05
Net profit before non-operating profits/losses	19.32	20.52	13.69	14.14

	For the year ended		For the year ended	
	31 December 2004		31 December 2003	
	Earnings per share		Earnings per share	
	Fully diluted	Weighted average	Fully diluted	Weighted average
	RMB	RMB	RMB	RMB
Profit from principal operations	1.329	1.329	0.931	0.931
Operating profit	0.726	0.726	0.410	0.410
Net profit	0.372	0.372	0.219	0.219
Net profit before non-operating profits/losses	0.415	0.415	0.257	0.257

## PRINCIPAL FINANCIAL DATA AND INDICATORS (CONTINUED)

### (4) Changes to the consolidated shareholders' funds and the reasons for changes for the year

Unit: RMB millions

Items	Share capital	Capital reserve	Statutory surplus reserve	Statutory public welfare fund	Discretionary surplus reserve	Unrecognized investment losses	Undistributed profits	Total shareholders' funds
Beginning of the year	86,702	36,852	6,330	6,330	7,000	(243)	19,975	162,946
Increase in the year	—	269	3,228	3,228	—	(470)	32,275	38,530
Decrease in the year	—	—	—	—	—	—	(15,126)	(15,126)
End of the year	86,702	37,121	9,558	9,558	7,000	(713)	37,124	186,350

The reasons for the changes are as follows:

- i Capital reserve at the end of 2004 was RMB 37,121 million, an increase by RMB 269 million compared with RMB 36,852 million at the beginning of the year. The increase was due to the received government grants on investments. For further information, please refer to note 30 to the financial statements prepared in accordance with the PRC Accounting Rules and Regulations;
- ii Statutory surplus reserve at the end of 2004 was RMB 9,558 million, an increase by RMB 3,228 million compared with that at the beginning of the year. The increase was mainly due to the transfer by Sinopec Corp. of 10% of its consolidated net profit for 2004 in accordance with the PRC Accounting Rules and Regulations of RMB 32,275 million to the statutory surplus reserve;
- iii Statutory public welfare fund at the end of 2004 was RMB 9,558 million, an increase by RMB 3,228 million compared with that at the beginning of the year. The increase was mainly due to the transfer by Sinopec Corp. of 10% of its consolidated net profit for 2004 in accordance with the PRC Accounting Rules and Regulations of RMB 32,275 million to the statutory public welfare fund;
- iv Discretionary surplus reserve at the end of 2004 was RMB 7,000 million, which amount remained unchanged from that at the beginning of the year;
- v Unrecognized investment losses at the end of 2004 was RMB 713 million, an increase by RMB 470 million compared with RMB 243 million at the beginning of the year. The increase represents unrecognized investment losses which exceeded the carrying value of long-term equity investment;

vi Consolidated undistributed profits at the end of 2004 was RMB 37,124 million, an increase by RMB 17,149 million compared with that at the beginning of the year. The increase was attributable to the realization by Sinopec Corp. of a consolidated net profit for 2004 in accordance with the PRC Accounting Rules and Regulations of RMB 32,275 million, and taking into account of the deduction of RMB 6,456 million for

the appropriation of statutory surplus reserve and statutory public welfare fund, and RMB 8,670 million declared as interim dividend for 2004 and final dividend for 2003; and

vii Total shareholders' funds at the end of 2004 was RMB 186,350 million, an increase by RMB 23,404 million compared with that at the beginning of the year.

**(5) Details of provisions for assets**

**Unit: RMB millions**

Items	Beginning of the year	Provisions for the year	Written back for the year	Written off for the year	End of the year
1 Allowance for doubtful accounts	5,533	2,176	(126)	(416)	7,167
Of which: Allowance for doubtful accounts for accounts receivable	3,185	931	(85)	(360)	3,671
Allowance for doubtful accounts for other receivables	2,348	1,245	(41)	(56)	3,496
2 Provision for impairment losses on short-term investments	—	—	—	—	—
3 Provision for diminution in value of inventories	519	621	(188)	(46)	906
4 Provision for impairment losses on long-term equity investments	271	96	(8)	(6)	353
5 Provision for impairment losses on fixed assets	1,331	4,628	(79)	(64)	5,816
6 Provision for impairment losses on intangible assets	—	—	—	—	—
7 Provision for impairment losses on construction in progress	—	—	—	—	—
8 Provision for impairment losses on entrusted loans	—	—	—	—	—

## PRINCIPAL FINANCIAL DATA AND INDICATORS (CONTINUED)

### (6) Significant changes of items in the financial statements

Reasons for the changes of data during the reporting period where the fluctuation is more than 30%, or such fluctuation is 5% or above of the total assets at the balance sheet date or more than 10% of the profit before taxation:

Items			Changes		Reasons of changes
	At 31	At 31	Amount	Percentage	
	December	December	increased/ (decreased)	increased/ (decreased)	
	2004	2003	(decreased)	(decreased)	
	RMB millions	RMB millions	RMB millions	(%)	
Bills receivable	7,812	5,953	1,859	31.23	Mainly due to the increase in income from principal operations
Inventories	63,918	44,915	19,003	42.31	Due to the increase in inventories of crude oil and refined oil products
Provision for impairment losses on fixed assets	5,816	1,331	4,485	336.96	Due to the provisions based on recoverable amount after the amendments of production and operation plans
Construction materials	430	1,226	(796)	(64.93)	Mainly due to the utilisation of construction materials for certain significant construction in progress projects according to construction work schedules
Construction in progress	45,976	28,513	17,463	61.25	Please refer to note 13 to the financial statements prepared in accordance with the PRC Accounting Rules and Regulations
Deferred tax assets	4,166	1,752	2,414	137.79	Please refer to note 16 to the financial statements prepared in accordance with the PRC Accounting Rules and Regulations
Long-term deferred expenses	3,563	97	3,466	3,573.20	Mainly due to the increase in the prepaid long-term rental expenses
Receipts in advance	8,605	5,908	2,697	45.65	Due to the Company raised the level of deposit required from customers
Wages payable	3,223	1,850	1,373	74.22	Due to the increase in staff wages
Accrued expenses	652	303	349	115.18	Mainly due to the increase in accrued and unpaid production and operation costs
Current portion of long-term liabilities	14,298	8,175	6,123	74.90	Mainly due to the increase in portion of long term loans repayable within one year in accordance with loan contracts
Debentures payable	3,500	—	3,500	—	Please refer to note 27 to the financial statements prepared in accordance with the PRC Accounting Rules and Regulations
Deferred tax liabilities	198	289	(91)	(31.49)	Please refer to note 16 to the financial statements prepared in accordance with the PRC Accounting Rules and Regulations

Items			Changes		Reasons of changes
	For the year	For the year	Amount	Percentage	
	ended 31	ended 31	increased	increased	
	December	December	(decreased)	(decreased)	
	2004	2003	RMB millions	(%)	
	RMB millions	RMB millions	RMB millions	(%)	
Income from principal operations	590,632	417,191	173,441	41.57	Please refer to Management's Discussion and Analysis
Cost of sales	459,207	323,104	136,103	42.12	Please refer to Management's Discussion and Analysis
Selling expenses	19,477	14,582	4,895	33.57	Mainly due to the increase in selling expenses for refined oil products
Investment income	1,088	548	540	98.54	Mainly due to the increase in net profit from associates
Non-operating income	665	292	373	127.74	Mainly due to the increase in net gains from disposal of fixed assets
Non-operating expenses	11,171	6,334	4,837	76.37	Please refer to note 37 to the financial statements prepared in accordance with the PRC Accounting Rules and Regulations
Taxation	16,060	9,361	6,699	71.56	Mainly due to the increase in profit before taxation
Minority interests	5,670	1,886	3,784	200.64	Mainly due to the increase in net profit from subsidiaries
Unrecognized investment losses	470	243	227	93.42	Mainly due to unrecognized investment losses which exceeded the carrying value of long-term equity investment



## 2 FINANCIAL INFORMATION EXTRACTED FROM THE FINANCIAL STATEMENTS PREPARED IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRS”)

Unit: RMB millions

	For the years ended 31 December				
	2004	2003	2002	2001	2000
Turnover and other operating revenues	619,783	449,001	350,078	326,424	341,576
Operating profit	63,069	38,883	29,301	27,311	38,356
Profit from ordinary activities before taxation	59,606	35,041	24,916	23,930	33,020
Profit attributable to shareholders	36,019	22,424	16,296	15,503	21,732
Basic earnings per share (RMB)	0.415	0.259	0.188	0.182	0.302
Earnings per share (Based on the total number of shares in issue at the year end) (RMB)	0.415	0.259	0.188	0.179	0.259
Return on capital employed (%)	12.84	9.01	6.90	6.26	9.90
Return on net assets (%)	18.66	13.07	9.77	9.72	15.00
Net cash flow from operating activities per share (RMB)	0.797	0.716	0.655	0.663	0.360

Unit: RMB millions

	At 31 December				
	2004	2003	2002	2001	2000
Non-current assets	354,323	317,145	301,614	286,093	247,695
Net current (liabilities)/assets	(26,006)	(26,233)	(18,759)	(16,574)	11,380
Non-current liabilities	(104,231)	(93,346)	(91,927)	(86,309)	(90,682)
Minority interests	(31,046)	(26,051)	(24,151)	(23,652)	(23,472)
Net assets	193,040	171,515	166,777	159,558	144,921
Net assets per share (RMB)	2.226	1.978	1.924	1.840	1.727
Adjusted net assets per share (RMB)	2.187	1.950	1.910	1.820	1.717
Debt/equity ratio*(%)	33.58	33.73	34.25	34.03	37.85

\* Debt/equity ratio = long-term loans / (shareholders' funds + long-term loans) x 100%

## PRINCIPAL FINANCIAL DATA AND INDICATORS (CONTINUED)

### 3 MAJOR DIFFERENCES BETWEEN THE PRC ACCOUNTING RULES AND REGULATIONS AND IFRS ON NET PROFIT FOR THE YEAR 2004 AND SHAREHOLDERS' FUNDS AT THE END OF THE REPORTING PERIOD

#### (1) Analysis of the effects of major differences between the PRC Accounting Rules and Regulations and IFRS on net income

	For the years ended 31 December	
	2004 RMB millions	2003 RMB millions
<b>Net profit under the PRC Accounting Rules and Regulations</b>	32,275	19,011
<b>Adjustments:</b>		
Disposal of oil and gas properties, net of depreciation effect	2,110	1,260
Acquisition of Sinopec Maoming, Xi'an Petrochemical, Tahe Petrochemical, Tianjin Petrochemical, Luoyang Petrochemical, Zhongyuan Petrochemical and Catalyst Plants	1,499	1,157
Acquisition of Sinopec National Star	117	117
Depreciation of oil and gas properties	761	1,784
Impairment losses on revalued assets	709	—
Capitalization of general borrowing costs	480	389
Revaluation of land use rights	19	18
Government grants	3	—
Unrecognized losses of subsidiaries	(531)	(182)
Pre-operating expenditures	(288)	(169)
Gain from issuance of shares by a subsidiary	—	136
Gain from debt restructuring	—	82
Effects of the above adjustments on taxation	(1,135)	(1,179)
<b>Net profit under IFRS*</b>	36,019	22,424

#### (2) Analysis of the effects of major differences between the PRC Accounting Rules and Regulations and IFRS on shareholders' funds

	At 31 December	
	2004 RMB millions	2003 RMB millions
<b>Shareholders' funds under the PRC Accounting Rules and Regulations</b>	186,350	162,946
<b>Adjustments:</b>		
Disposal of oil and gas properties, net of depreciation effect	3,370	1,260
Acquisition of Tianjin Petrochemical, Luoyang Petrochemical, Zhongyuan Petrochemical and Catalyst Plants	—	3,616
Acquisition of Sinopec National Star	(2,695)	(2,812)
Depreciation of oil and gas properties	11,646	10,885
Capitalization of general borrowing costs	1,605	1,125
Revaluation of land use rights	(851)	(870)
Government grants	(592)	(326)
Effect of minority interests on unrecognized losses of subsidiaries	—	61
Pre-operating expenditures	(457)	(169)
Impairment losses on long-lived assets	(113)	(113)
Effects of the above adjustments on taxation	(5,223)	(4,088)
<b>Shareholders' funds under IFRS*</b>	193,040	171,515

\* The above figure is extracted from the financial statements prepared in accordance with IFRS which have been audited by KPMG.

## CHANGES IN SHARE CAPITAL AND SHAREHOLDINGS OF PRINCIPAL SHAREHOLDERS

### 1 CHANGES IN THE SHARE CAPITAL OF SINOPEC CORP.

Unit: 1,000 shares

	Opening balance	Placings	Increase/ Decrease				Sub-total	Ending balance
			Bonus	Capitalization of surplus reserves	IPO	Others		
1 Shares not listed								
(i) Promoter shares	47,742,561	—	—	—	—	11,143,000	11,143,000	58,885,561
Of which: State-owned shares	47,742,561	—	—	—	—	11,143,000	11,143,000	58,885,561
(ii) Others	19,379,390	—	—	—	—	(11,143,000)	(11,143,000)	8,236,390
Total number of shares not in circulation	67,121,951	—	—	—	—	—	—	67,121,951
2 Shares listed and in circulation								
(i) Publicly listed domestic shares ("A Shares")	2,800,000	—	—	—	—	—	—	2,800,000
(ii) Overseas listed foreign shares ("H Shares")	16,780,488	—	—	—	—	—	—	16,780,488
Total number of shares listed and in circulation	19,580,488	—	—	—	—	—	—	19,580,488
3 Total number of shares	86,702,439	—	—	—	—	—	—	86,702,439

### 2 SHAREHOLDINGS OF PRINCIPAL SHAREHOLDERS

Number of shareholders of Sinopec Corp. as at 31 December 2004: 282,724, including 272,125 holders of A Shares and 10,599 holders of H Shares.

#### (1) Top ten shareholders

Name of shareholders	Increase/ Decrease during the reporting period (1,000 shares)	Number of shares held at the end of the reporting period (1,000 shares)	Percentage at the end of reporting period		Nature of shareholders	Type of shares held	Number of pledges, lock-ups or trusts (1,000 shares)
			Among total shares held (%)	Among the type of shareholdings (%)			
China Petrochemical Corporation	11,143,000	58,885,561	67.92	87.73	State-owned shares	Non tradable	0
HKSCC (Nominees) Limited	5,039,172	16,678,790	19.24	99.39	H Shares	Tradable	Unknown
China Cinda Asset Management Corp.	(5,000,000)	3,720,650	4.29	5.54	State-owned shares	Non tradable	0
China Development Bank	(6,143,000)	2,632,570	3.04	3.92	State-owned shares	Non tradable	0
China Orient Asset Management Corp.	0	1,296,410	1.50	1.93	State-owned shares	Non tradable	0
Guo Tai Jun An Corp.	(10,428)*	586,760	0.68	0.87	State-owned legal person shares	Non tradable	293,380 (pledged)
EFUND 50 Securities Investment Fund	73,109	73,109	0.08	2.61	A Shares	Tradable	0
Xinghe Securities Investment Fund	2,439	64,387	0.07	2.30	A Shares	Tradable	0
Qingdao Port Authority	0	60,000	0.07	2.14	A Shares	Tradable	0
Harvest Service Sector Fund	59,745	59,749	0.07	2.13	A Shares	Tradable	0
Explanation for the relationships among the above shareholders or activities in concert	There are no connections among corporate shareholders. The Company is not aware of any connection or activities in concert among other holders of shares in circulation and is not aware of any pledges, lock-ups or trust of shareholdings of holders of H Shares						

\* The shares sold by Guo Tai Jun An Corp. were tradable A shares previously purchased on the secondary market by Guo Tai Jun An Corp..

## CHANGES IN SHARE CAPITAL AND SHAREHOLDINGS OF PRINCIPAL SHAREHOLDERS (CONTINUED)

### (2) Top ten shareholders with tradable shares

Name of shareholders	Number of shares held at the end of 2004 (1,000 shares)	Type of shares held
HKSCC (Nominees) Limited	16,678,790	H Shares
EFUND 50 Securities Investment Fund	73,109	A Shares
Xinghe Securities Investment Fund	64,387	A Shares
Qingdao Port (Group) Co., Ltd.	60,000	A Shares
Harvest Service Sector Fund	59,749	A Shares
CITIC Classic Securities Co., Ltd.	58,705	A Shares
Xinghua Securities Investment Fund	50,610	A Shares
China Southern Sustaining Growth Fund	43,000	A Shares
Haifutong Profits Securities	42,980	A Shares
Tai He Securities Investment Fund	41,000	A Shares
Explanation for the relationships among the above shareholders or activities in concert	Except for Xinghe Securities Investment Fund and Xinghua Securities Investment Fund, both of which belong to China Asset Management Co., Ltd., and Harvest Service Sector Fund and Tai He Fund, both of which belong to Harvest Fund Management Co., Ltd., Sinopec Corp. is not aware of any connections among the top 10 holders of shares in circulation. Sinopec Corp. is not aware of any connection or activities in concert among other holders of shares in circulation and is not aware of any pledges, lock-ups or trust of shareholdings of holders of H Shares.	

### (3) Information disclosed by the shareholders of H Shares according to the Securities and Futures Ordinance

Name of shareholders	Nature	Number of share interests held or regarded as held	Approximate percentage of Sinopec Corp.'s interests (H Share) (%)
Exxon Mobil Corporation	Corporate	3,168,529,000(L)	18.88(L)
Exxonmobil Far East Holdings Ltd.	Beneficial owner	3,168,529,000(L)	18.88(L)
Exxonmobil International Holdings Inc.	Corporate	3,168,529,000(L)	18.88(L)
J.P. Morgan Chase & Co.	Beneficial owner	62,821,250(L)	0.37(L)
	Investment manager	425,568,905(L)	2.54(L)
	Custodian	614,188,138(P)	3.66(P)
J.P. Morgan Chase & Co.	Beneficial owner	46,454,000(L)	0.28(L)
	Investment manager	634,707,194(L)	3.78(L)
	Others	347,184,277(P)	2.07(P)
Wellington Management Company, LLP	Corporate	845,269,200(L)	5.04(L)

Note 1: (L): Long position, (S): Short position, (P): Lending pool

Note 2: On 1 March 2005, Exxonmobil sold out all the shares of Sinopec Corp. it held.

### 3 CHANGES IN THE CONTROLLING SHAREHOLDERS AND THE EFFECTIVE CONTROLLER

There was no change in the controlling shareholders or the effective controller during the reporting period.

#### (1) Controlling shareholder

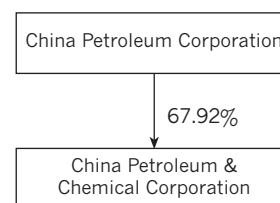
The controlling shareholder of Sinopec Corp. is China Petrochemical Corporation ("Sinopec Group Company"). Established in July 1998, Sinopec Group Company is a State authorized investment organization and a principally State-owned company. Its registered capital is RMB 104.9 billion, and the legal representative is Mr. Chen Tonghai. Through reorganization in 2000, Sinopec Group Company injected its principal petroleum and petrochemical operations into Sinopec Corp. and retained certain petrochemical facilities and small-scale refineries. It provides well-drilling services, oil testing services, downhole operation services, services in connection with manufacturing and maintenance of production equipment, engineering construction, utility services and social services.

(2) Basic information of other legal person shareholders holding 10% or more of shares of Sinopec Corp. other than HKSCC (Nominees) Limited  
Not Applicable.

(3) Basic information of the effective controller

China Petroleum Corporation is the effective controller of Sinopec Corp.

(4) Diagram of the equity and controlling relationship between Sinopec Corp. and its effective controller



## CHAIRMAN'S STATEMENT



Mr. Chen Tonghai, Chairman

### To all shareholders,

On behalf of the Board of Directors of Sinopec Corp., I would like to extend my sincere gratitude for your continuous attention and support for the Company.

The year 2004 witnessed impressive progress in Sinopec Corp.'s reform and development. Looking back at 2004, the Company adjusted its operating strategy and carefully organized its production operations in response to the complex and ever-changing domestic and international market situations. In addition, by means of reform, structural adjustment and restructuring, the Company improved its internal management

system and optimized its asset structure. These measures have laid a solid foundation for the Company's sustainable and effective growth. The Company's total production volume, profit and asset efficiency all increased significantly in 2004. According to the PRC Accounting Rules and Regulations, the Company's net profit was RMB 32.275 billion in 2004, up by 69.8% compared with that in 2003. According to International Financial Reporting Standards (IFRS), the Company's net profit was RMB 36.019 billion, representing an increase of 60.6% compared with that in 2003, and the return on capital employed rose to 12.84% after years of successive increases, up by 383 basis points over that in

2003. Looking at the Company's integrated operations, all business segments experienced growth scenario. The Chemical Segment has, in particular, achieved record high results. Such results were achieved through facility expansion and structural adjustments during the trough of the business cycle in the past few years and capturing the increase of margin in the global chemical business during the last year. This achievement has made the overall advantage of having an integrated operation more prominent.

The rapid growth of the Chinese economy and the recovery of the market have contributed to our sound performance. It was also a result of our persistence in adhering to our development strategy, our ability to accurately evaluate market trends and conditions, our responsiveness in capturing growth opportunities and our perseverance in carrying out the policy of "reform, adjustment, innovation and advancement". The hard-working, pioneering and innovative spirits of the Company's management and all staff have no doubt contributed towards our achievements. On behalf of the Board of Directors, I would like to extend our sincere thanks to them for their consistent efforts.

Considering the Company's earnings in 2004 and the need for longer-term sustainable development, the Board of Directors proposed a dividend distribution of RMB 0.12 per share for the full year of 2004. After deducting the interim dividend of RMB 0.04 per share that had been distributed, the final dividend for the year 2004 will be RMB 0.08 per share, which is equivalent to RMB 8.00 per ADS.

In 2004, Sinopec Corp. further strengthened its corporate governance. Pursuant to the regulatory requirements and the Company's management practice, the Company promptly made necessary amendments to the relevant provisions of its Articles of Association with an aim to minimise operational risks and ensure proper operation of the Company. In addition, the Company amended and improved its internal control system after a year of trial operation. The internal control system has been approved by the Board of Directors and will be officially rolled out across the entire organisation in 2005.

In 2004, the Company steadily implemented various reforms. By continuing to reduce the size of its work force through reassignments,

flattening managerial hierarchies, simplifying management systems and restructuring the organisations, the Company has downsized its worked force by 11,000 persons including 1,200 mid-level management personnel. To consolidate the value chain, achieve integrated management and increase efficiency in resource allocation, we have implemented a buy-back program for the Mao Lian Convertible Bonds. The Board of Directors has approved the privatisation of Beijing Yanhua. The privatization was also approved by the shareholders of Beijing Yanhua. Moreover, the Company undertook to further reform its marketing system. Following the formation of Acrylic Fibre Sales Company and Lubricate Oil Company, another two professional companies for asphalt and catalysts were established, making a good preparation for future larger reforms in the chemical marketing system.

In 2004, structural adjustment of the Company was intensified. On the one hand, in response to the changes in the market demand and considering the Company's long-term development goals, the Company has promptly invested more capital in the Refining and Marketing Segments. As a result, our market shares have increased, and our ability to sustain risks and maintain sustainable growth has been significantly enhanced. Such initiative has obtained recognition and support from our shareholders. On the other hand, based on the principle of "giving prominence to the core business", the Company has acquired certain assets consisting of petrochemicals, catalysts and petrol stations from its controlling shareholder, Sinopec Group Company and its subsidiaries (excluding the Company) ("Sinopec Group"), and has disposed of the downhole operation assets of the Company. Furthermore, the Company has disposed of, or made provisions for impairment to losses on certain less competitive and efficient assets and as a result, the Company's overall asset quality has improved.

In 2004, the Company made great efforts on promoting the overall "Sinopec" corporate image. By landing the exclusive naming right of F1 Sinopec Chinese Grand Prix race and acting as the petrochemical partner of Beijing 2008 Olympic Games, the Company has greatly promoted the value of the Sinopec brand.

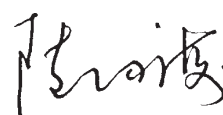
Whilst upholding the operation tenet of "maximizing profits of the company as well as returns to shareholders", the Company also attached great importance to the fulfillment of its social responsibilities, including saving resources and protecting environment. By upgrading existing production facilities, the Company has improved the quality of its products. In addition, the Company took great initiative to participate in public welfare undertakings by sponsoring educational projects financing the education of girls in the areas of poverty, and by providing support for constructions in those disaster-stricken areas such as those Southeastern Asia countries affected by the recent tsunami and Xinjiang Autonomy Region struck by the snow storm.

Talents are the primary resource for corporate development. Sinopec Corp. has made great efforts to develop a talented work force and has established long-term incentive measures to bring out the vigor, creativity and loyalty of its talents. The Company has also introduced a market-rate mechanism in order to further its compensation system reform to motivate staff's initiative spirit and creativity.

Looking to the future in 2005, Sinopec Corp. will still be at its strategic development stage, facing precious opportunities as well as huge challenges and hardships for its effective development. Guided by its belief in pursuing a practical and scientific development approach and adhering to the Company's principle of "Reform, Adjustment, Innovation and Advancement", the Company strives to assess its market environment accurately and make scientifically sound decisions. Great efforts will be put into the following action items: first of all, reinforce safe production and keep up with the growth trend of its production and operation; second, further and deepen the reforms in various areas, including accelerating the reform of the chemicals marketing system to capture the growth opportunities in the chemical industry, advancing the integration of the Company's various operations, improving of the refined oil product marketing system and the foreign trade system, flattening the management hierarchy, downsizing the workforce and optimizing of the internal compensation system; third, reinforce structure

adjustment starting from the investment structure and use new investments to optimise the existing assets structure; fourth, better the internal control system to improve corporate governance and safeguard the Company's and shareholders' interests; finally, build up a capable workforce consisting of management personnel, professional personnel of various types and technicians of various types, and encourage their initiative spirit and creativity.

In 2005, the Board of Directors, corporate management and all the staff, despite of potential difficulties, are determined to capture various opportunities, act in unity and be endeavored to achieve more splendid results in order to reward our shareholders, employees, customers and the society with the long-term and sustainable growth of the Company.



**Chen Tonghai**  
Chairman

Beijing, PRC 25 March 2005

## BUSINESS REVIEW

The global economy witnessed sound growth in 2004. Stable and rapid growth was also experienced in the domestic economy. In 2004, international oil prices continued its climb, the domestic demand for petrochemical products increased significantly, the petrochemical industry was on the rising trend in a new cycle. All of these factors provided favourable conditions for the Company to increase its market shares and profitability. The controlled prices of refined oil products set by the government as a result of the macro-economy control measures, however, posed higher requirements on our efforts and abilities to enhance operating profit. Facing the complex and ever-changing market situations, the Company closely monitored the changes to the international and domestic markets, adjusted its production and operation strategies accordingly, reinforced safety in production, carefully organized and arranged for production and operation, increased production efficiency and expanded market shares. Meanwhile, the Company reinforced its internal management, pushed forward reform implementations and accelerated structural adjustments. With the joint efforts made by all the staff, the operating results once again reached a new high level.

### 1 Review of Market Environment

#### (1) Crude oil market

In 2004, the international crude oil prices continued its climb to a higher level, and the price spread between sweet and sour crude oil widened. The Platts Global Brent spot price averaged USD 38.27 per barrel, up by 32.73% over 2003. The trend of domestic crude oil prices basically followed the trend in the international market. However, as the increase in international benchmark prices for some of the Company's self-produced oil was not significant, in 2004, the average realized price of crude oil produced by the Company was USD 33.28 per barrel, up by 20.74% over 2003.

#### (2) Refined oil products market

In 2004, domestic demand for refined oil products surged dramatically as a result of China's rapid economic growth, increase in the number of automobiles and power supply shortage in certain parts of the country. According to the Company's estimation, the apparent domestic consumption of refined oil products (inclusive of gasoline, diesel and kerosene) in 2004 was 157.06 million tonnes, up by 19.0% over last year. The trend of domestic refined oil product prices in principle followed the rising trend of international refined oil product prices, however, due to the control imposed by the government over

prices of refined oil products as a result of the macro-economy control measures, the increase in domestic prices was less than the international prices.

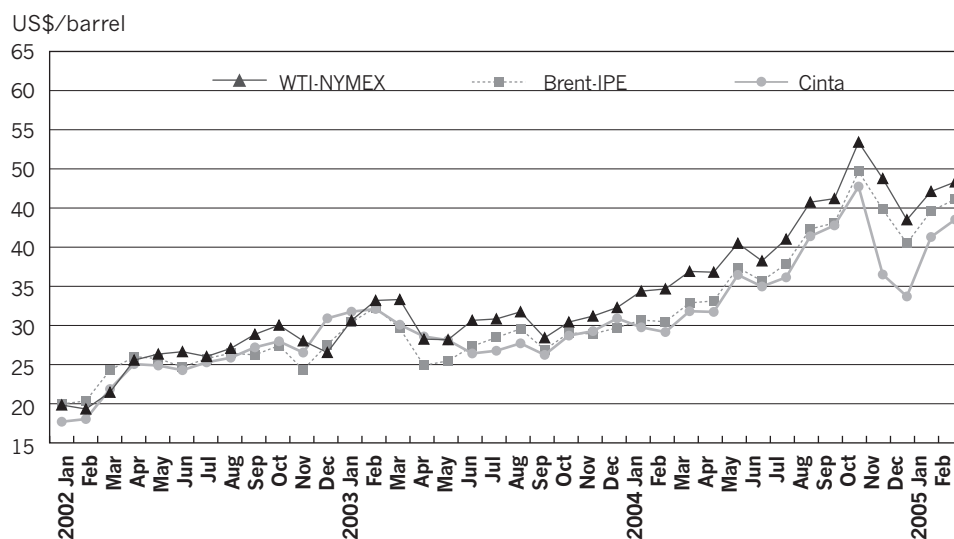
#### (3) Chemicals market

In 2004, China's domestic demands for chemical products continued to grow significantly. The total apparent consumption of synthetic resins, synthetic fibres and synthetic rubber was 48.24 million tonnes, representing an increase of 11% over 2003. Domestic consumption of ethylene equivalent was 16.38 million tones, up by 5.8% over 2003. With the gradual recovery of the



Mr. Wang Jiming, Vice Chairman and President





Price Trend of International Crude Oil

global chemical industry, the margin of chemical production increased remarkably and new price records of most chemical products were repeatedly achieved.

## 2 Production and Operation

### (1) Exploration and Production Segment

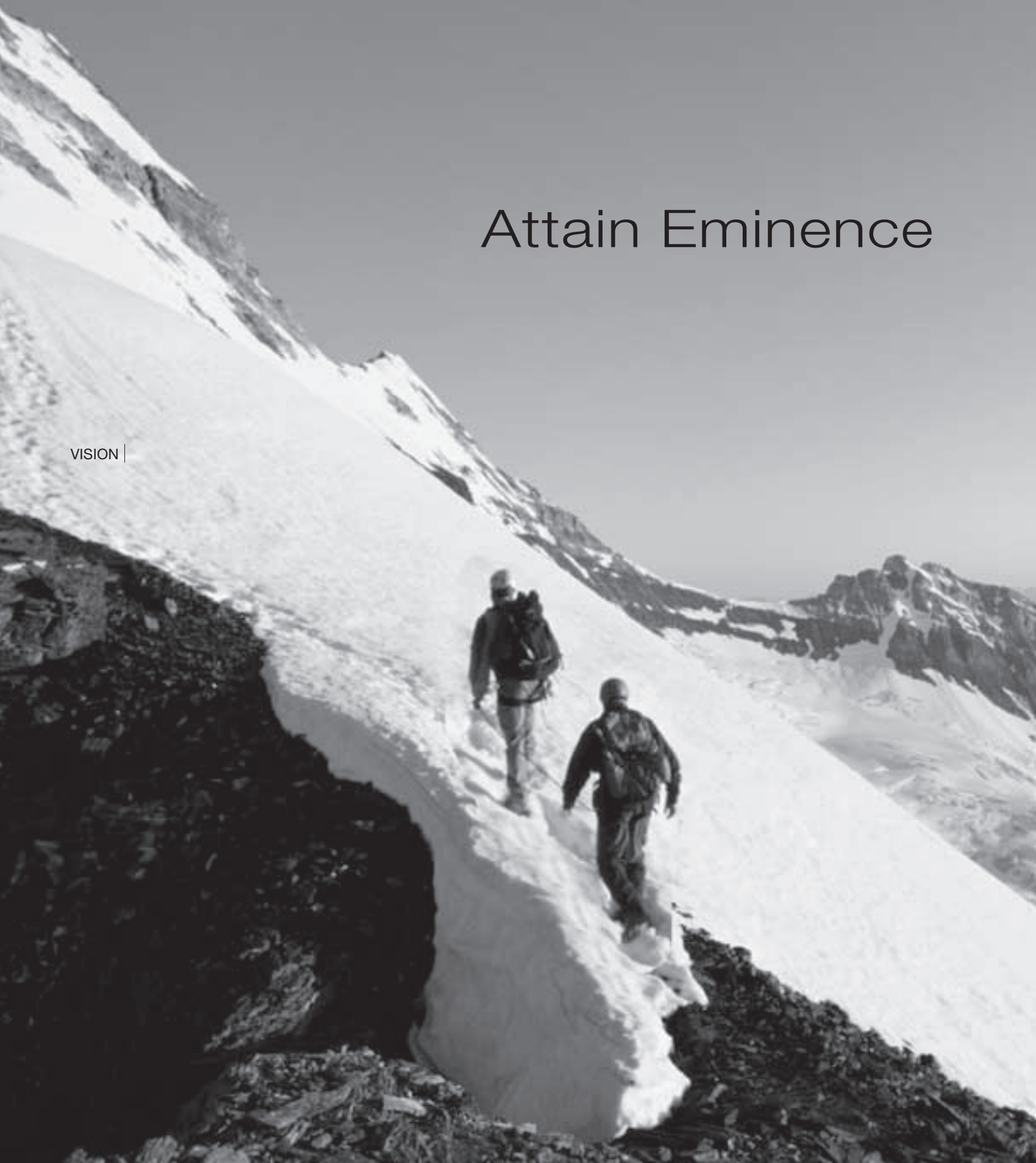
In 2004, by seizing the opportunity of high oil prices, the Company made great efforts in exploration and achieved relatively good results in exploration, development and production of crude oil and natural gas.

In connection with exploration activities, the Company completed a two dimensional seismic study of 31,750 kilometers, a three-dimensional seismic study of 7,030 square kilometers and drilled 590 test wells with a drilling footage of 1,484 kilometers. The proved oil and gas reserves in new exploration blocks in western China increased significantly, a breakthrough was made

in southern marine phase sedimentary blocks and remarkable results were attained in terms of exploration in mature blocks and new areas in eastern China. At the end of 2004, the Company's proved reserves of crude oil were 3,267 million barrels and natural gas were 3,033 billion cubic feet, up by 0.31% and 5.04%, respectively, compared with 2003. In terms of development, the Company continually reinforced the comprehensive management in mature oil fields and development in new blocks in western China. In 2004, the Company drilled 2,365 development wells, with a drilling footage of 5,125.2 kilometers and newly built crude oil and natural gas production capacity were 6.09 million tonnes per year and 1.015 billion cubic meters per year, respectively. In 2004, the Company's production of crude oil and natural gas reached 274.15 million barrels and 207.0 billion cubic feet, respectively, representing an increase of 1.18% and 10.29%, respectively, over 2003.

# Attain Eminence

VISION |



# Creation of a brilliant future



By looking for opportunities to rationalize our business model, improve our operating efficiency, and expand our business, Sinopec Corp. hopes to bring energy, convenience and a cleaner environment to its customers and help make the world a better place for all.

| FUTURE



## Summary of Operations of the Exploration and Production Segment

	2004	2003	2002	Changes from 2003 to 2004 (%)
Crude oil production (mmbbls)	274.15	270.96	269.80	1.18
Natural gas production (bcf)	207.0	187.7	178.8	10.29
Newly added proved reserves of crude oil (mmbbls)	284	208	375	36.54
Newly added proved reserves of natural gas (bcf)	352.0	(254.3)	20.2	N/A
Year end proved reserves of crude oil (mmbbls)	3,267	3,257	3,320	0.31
Year end proved reserves of natural gas (bcf)	3,033.0	2,887.6	3,329.4	5.04
Year end proved reserves of crude oil and natural gas (mmboe)	3,773	3,738	3,875	0.94

## Summary of Production and Operations of Shengli Oil Field

	2004	2003	2002	Changes from 2003 to 2004 (%)
Crude oil production (mmbbls)	189.88	189.25	189.68	0.33
Natural gas production (bcf)	31.8	28.6	26.5	11.19
Newly added proved reserves of crude oil (mmbbls)	225	196	240	14.80
Newly added proved reserves of natural gas (bcf)	79.9	70.1	(5.1)	13.98
Year end proved reserves of crude oil (mmbbls)	2,306	2,271	2,264	1.54
Year end proved reserves of natural gas (bcf)	357.1	308.9	267.4	15.60
Year end proved reserves of crude oil and natural gas (mmboe)	2,366	2,322	2,308	1.89

**(2) Refining Segment**

In 2004, according to the international market condition of widened price spread between sweet and sour crude oil, the Company strived to reduce crude oil procurement costs by raising sour crude processing volume and optimising crude oil mix and transportation costs. Meanwhile, the Company enhanced operational performance of its facilities and brought their production capacity into full play, thus setting a new throughput record of crude oil and production record of refined oil products and light chemical feedstock. The Company processed 132.95 million tonnes of crude oil in 2004, an increase of 14.36% over 2003. The Company actively adjusted its product mix, increased the production of diesel and high value-added products to

meet market demands. The Company put emphasis on market analysis and marketing management and, as a result, both the prices and volume of refined petroleum products sold by this segment had risen. The Company made efforts to revamp its existing oil refining facilities and improve product quality so that the production of high-grade gasoline amounted to 12.39 million tonnes, up by 34.2% over 2003. In addition, with enhanced management and scientific and technological advancement, all major economic and technical indicators of the Refining Segment were improved. The light products yield reached 74.02%, up by 0.22 percentage point over 2003, and the refining yield reached 93.09%, up by 0.46 percentage point over 2003.

## Sources of Crude oil

Unit: million tonnes

	2004	2003	2002	Changes from 2003 to 2004 (%)
Self-supply	28.14	28.20	28.90	(0.21)
PetroChina Company Ltd.	10.31	13.08	14.57	(21.18)
CNOOC	6.69	5.57	6.22	20.11
Imported	89.03	71.14	56.68	25.15
Total	134.17	117.99	106.37	13.71

## Summary of Production of the Refining Segment

Except for 2004, the following operation data for 2003 and 2002 do not include those of Xi'an Petrochemical and Tahe Petrochemical.

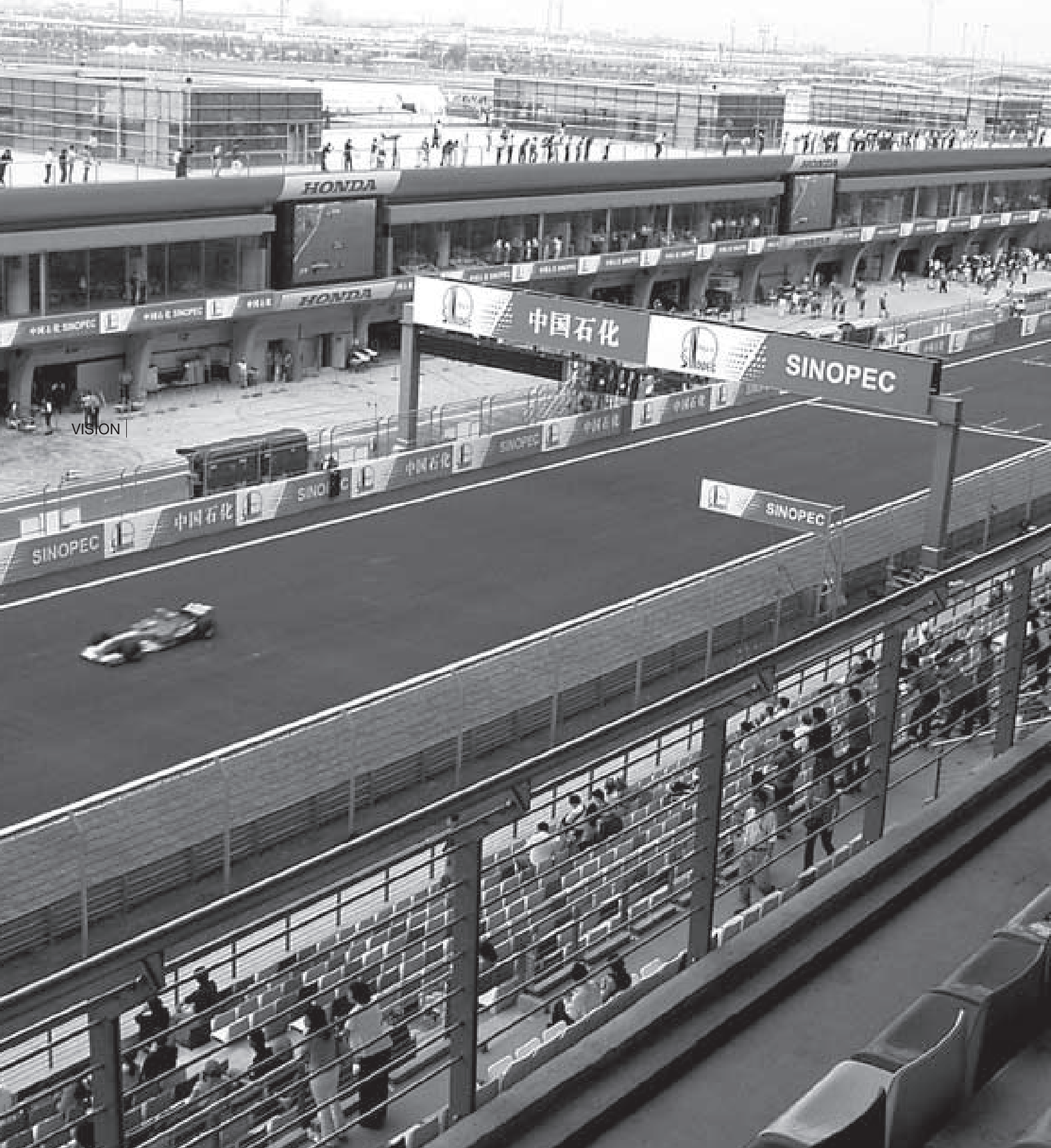
	2004	2003	2002	Changes from 2003 to 2004 (%)
Crude throughput (mbbls/day)	2,677.2	2,341.0	2,114.6	14.36
of which: sour crude throughput (mbbls/day)	551.1	478.7	402.8	15.12
Refining utilization rate (%)	93.43	87.8	79.3	5.63 percentage points
Gasoline, diesel and kerosene (million tonnes)	80.83	68.72	62.42	17.62
of which: Gasoline (million tonnes)	23.58	21.74	19.62	8.46
Diesel (million tonnes)	50.89	41.67	37.74	22.13
Kerosene including jet fuel (million tonnes)	6.36	5.31	5.06	19.77
Light chemical feedstock (million tonnes)	17.70	16.46	15.04	7.53
Light products yield (%)	74.02	73.80	73.22	0.22 percentage point
Refining yield (%)	93.09	92.63	92.50	0.46 percentage point

Except for 2002, the following operation data for 2003 and 2004 include those of Xi'an Petrochemical and Tahe Petrochemical.

	2004	2003	2002	Changes from 2003 to 2004 (%)
Crude throughput (mbbls/day)	2,677.2	2,350.0	2,114.6	13.92
of which: sour crude throughput (mbbls/day)	551.1	478.7	402.8	15.12
Refining utilization rate (%)	93.43	88.10	79.3	5.33 percentage points
Gasoline, diesel and kerosene (million tonnes)	80.83	69.01	62.42	17.13
of which: Gasoline (million tonnes)	23.58	21.79	19.62	8.21
Diesel (million tonnes)	50.89	41.91	37.74	21.43
Kerosene including jet fuel (million tonnes)	6.36	5.31	5.06	19.77
Light chemical feedstock (million tonnes)	17.70	16.46	15.04	7.53
Light products yield (%)	74.02	73.80	73.22	0.22 percentage point
Refining yield (%)	93.09	92.63	92.50	0.46 percentage point

Notes: Crude oil processing volume is converted at 1 tonne = 7.35 barrels.

# Unhampered Impetus



VISION |

# Fostering compelling growth



China's unprecedented economic boom has created enormous market opportunities. Sinopec Corp. has capitalized on this favorable circumstance and will seek continued growth in this productive environment. As the Chinese economy further develops, the Company aims to become an integrated energy and chemical company with global competitiveness.

| FUTURE



**(3) Marketing and Distribution Segment**

In 2004, the Company paid close attention to the changes of the market, balanced resources allocation, reinforced and improved construction of marketing network. The net increase in the number of company-owned and company-operated (COCO) petrol stations in 2004 was 2,075, of which, we have won the bid to establish 5 petrol stations in Hong Kong Special Administrative Region. The Company strengthened service awareness and

improved service quality to expand both retail and direct sales volume, which had resulted in an increase in sales volume, and optimised structure of refined oil products. In 2004, the total domestic sales volume of refined oil products reached 94.59 million tonnes, representing an increase of 24.59% over 2003, of which the retail volume achieved an increase of 37.07% over the previous year. The efficiency of petrol stations continued to improve with the annual throughput per petrol station

exceeding 2,000 tonnes, up by 18.8% compared with that in the previous year. The retail sales volume together with direct distribution volume of refined oil products accounted for 77.07% of the total domestic sales volume, up by 5.67 percentage points over 2003. In 2004, the Company reasonably adjusted its export volume to keep in line with market demand with a total export volume of 3.5156 million tonnes of refined oil products, down by 12% compared with that in 2003.

**Summary of Operations of Marketing and Distribution Segment**

	2004	2003	2002	Changes from 2003 to 2004 (%)
Total domestic sales of refined oil products (million tonnes)	94.59	75.92	70.09	24.59
of which:				
Retail volume (million tonnes)	53.25	38.85	34.73	37.07
Direct sales volume (million tonnes)	19.65	15.33	12.63	28.18
Wholesale volume (million tonnes)	21.69	21.74	22.73	(0.23)
Average annual throughput per petrol station (tonne/station)	2,003	1,686	1,560	18.80
Total number of petrol stations under SINOPEC brand	30,063	30,242	28,127	(0.59)
Of which:				
Number of COCO petrol stations	26,581	24,506	24,000	8.47
Number of franchised petrol stations	3,482	5,736	4,127	(39.30)
Retail volume/total domestic sales volume (%)	56.3	51.2	49.6	5.1 percentage points



#### (4) Chemicals Segment

In 2004, the Company strengthened the management of its chemicals operation to ensure safe, stable, sustained, full-load and optimal operations. It also optimised allocation of resources, such as chemical feedstock resources, to ensure the timely supply of raw materials and increased utilisation rate. As a result, the production of most chemical products increased significantly. In 2004, the Company

produced 3.637 million tones of ethylene, up by 14.77% over 2003. The production of major chemical products, such as synthetic resins, synthetic fibres, monomers and polymers for synthetic fibres and synthetic rubbers, all increased significantly. As a result of the Company's endeavors to improve product mix and increase the production of market-adapted and high value-added products, ratio of performance compound of synthetic resin and differential fibre were increased significantly.

Furthermore, the Company actively tapped the market and accomplished the targeted production and sales volumes. In addition, the Company achieved remarkable results in improving the marketing network of acrylic fibre, optimising allocation of resources and customers, improving the quality of customer services and unifying marketing mode. This enabled the Company to collect valuable experiences for the future reform of its chemical marketing system.

##### Production of Major Chemicals

The operation data of 2002 and 2003 listed below exclude the data of Maoming Ethylene; the operation data of 2004 include those of Maoming Ethylene but exclude those of chemical assets acquired from Sinopec Group in 2004.

Unit: 1,000 tonnes

	2004	2003	2002	Changes from 2003 to 2004 (%)
Ethylene	3,637	3,169	2,716	14.77
Synthetic resins	5,534	4,691	4,005	17.97
of which: performance compound resins	2,894	2,305	1,847	25.55
Synthetic rubbers	561	502	458	11.75
Monomers and polymers for Synthetic fibres	5,049	4,418	3,834	14.28
Synthetic fibres	1,295	1,280	1,153	1.17
of which: differential fibres	589	477	402	23.48
Urea	2,630	2,028	2,666	29.68

The operation data of 2003 and 2004 listed in the table below include the data of Maoming Ethylene and the chemical assets acquired from Sinopec Group in 2004, while those of 2002 do not.

Unit: 1,000 tonnes

	2004	2003	2002	Changes from 2003 to 2004 (%)
Ethylene	4,074	3,982	2,716	2.31
Synthetic resins	6,221	5,805	4,005	7.17
of which: performance compound resins	3,034	2,707	1,847	12.08
Synthetic rubbers	561	553	458	1.45
Monomers and polymers for Synthetic fibres	6,021	5,633	3,834	6.89
Synthetic fibres	1,654	1,659	1,153	(0.30)
of which: differential fibres	753	623	402	20.87
Urea	2,630	2,028	2,666	29.68

#### (5) Research and development

In 2004, the Company proactively developed core technology and proprietary technology for its principal operations and achieved fruitful results of 639 domestic patents and 48 foreign patents being authorised. Breakthrough was achieved in exploration in marine phase sedimentary structure in southern China. Additionally, the Company

successfully developed technologies to improve recovery rate in oil fields with complex faultage, flexible and diversified FCC technology (FDFCC), sulfur removal and olefin content reduction technology through selective hydrofining of catalytic gasoline (RIDOS), and 150 thousand tonnes per year three-reactor PET technology.

New progress was made in the construction of information system. The ERP system was deployed at 23 entities and its integrated advantage became more prominent. The comprehensive oil field management system and the Ningbo-Shanghai-Nanjing crude oil pipeline transportation and distribution management system were

# Visionary Perspective

VISION |



# Strive for excellence

Sinopec Corp. is the largest producer of refined oil and chemical products in China. The Company owns and operates more than 30,000 retail gas stations. Sinopec Corp. is ideally situated to capitalize on the fastest growing segments of the economy, and more importantly, will play a key role in furthering China's economic development.

| FUTURE



completed and put into operation. Moreover, the application of IC cards at petrol stations achieved remarkable progress with total number of customers exceeded 2 million. Over 10,000 COCO petrol stations have been equipped with IC card facilities and the vision of "One card in hand, fueling nationwide" becomes more accessible.

**(6) Cost saving**

In 2004, the Company adopted a series of measures to reduce costs: optimising the allocation of resources and logistics system to reduce the transportation costs, increasing processing volume of sour crude to reduce procurement cost of crude oil and optimising the operation of facilities to cut down material and energy consumption. In 2004, the Company's cost reduction totalled RMB 2.951 billion, which is RMB 451 million more than the original target of RMB 2.5 billion. The breakdown is as follows: RMB 660 million from the Exploration and Production Segment, RMB 660 million from the Refining Segment, RMB 731 million from the Chemicals Segment and RMB 900 million from the Marketing and Distribution Segment.

**(7) Capital expenditure**

In 2004, according to the prevailing market conditions and our continued focus on our development strategies and core business, the Company adjusted and improved its investment structure, strictly followed investment decision making procedures and management methods and strengthened management of key construction projects. As a result of the above efforts, projects construction was accelerated. In 2004, the Company's total capital expenditure was RMB 64.759 billion, among which the capital expenditure of the Exploration and Production Segment was RMB 21.234 billion. The Company enhanced oil reserves as well as production of crude oil and natural gas, and further improved its profile of the possible, probable and proved reserves. As a result, remarkable achievements were made in the exploration and development projects in the matured fields in eastern China, newly developed

fields in western China and marine phase blocks in southern China. In addition, the Company's proved reserves of crude oil increased by 284 million barrels, and natural gas increased by 352 billion cubic feet. The capital expenditure of the Refining Segment was RMB 14.272 billion. The newly added primary refining capacity was 8.3 million tonnes/year, the newly added hydro-refining capacity was 4 million tonnes/year, and the newly added delayed coking capacity was 3.9 million tonnes/year. The upgrading projects for improving oil product quality were progressing smoothly and the Ningbo-Shanghai-Nanjing crude oil pipeline was completed and put into operation. The capital expenditure of the Marketing and Distribution Segment was RMB16.678 billion, which was principally used for the construction of pipelines for refined oil products and further optimising marketing networks for refined oil products by acquiring, building and upgrading petrol stations. As a result, in 2004, the number of COCO petrol stations was up by 2,075, securing the Company's leading position in its principal market and raising brand awareness and customer loyalty. The capital expenditure of the Chemicals Segment was RMB 11.025 billion. With the investment, our ethylene capacity was increased by 270,000 tonnes/year, synthetic resin capacity increased by 700,000 tonnes/year, and capacity of monomers and polymers for synthetic fibres increased by 360,000 tonnes/year. The coal gasification projects for chemical fertiliser facilities progressed smoothly. The capital expenditure of the Company's headquarters and others totalled RMB 1.55 billion, with which the construction of information system achieved new progress.

In addition, such joint venture projects as Shanghai Secco progressed smoothly, capital expenditure was RMB 6.5 billion in total.

**(8) Cooperation with foreign partners**

In 2004, the Company's major joint ventures progressed smoothly. The ethylene joint venture with BP in Shanghai has been

successfully commissioned, and that with BASF in Nanjing is currently in the commissioning phase. The joint venture with Shell for coal gasification in Hunan province is under construction and estimated to be completed by the end of 2005. The joint venture with ExxonMobil and Saudi Aromco for an integrated oil refining and chemical project in Fujian is under preparation. The joint ventures for the retail of refined oil products with BP and Shell in Jiangsu and Zhejiang, respectively, were formally put into operation.

**BUSINESS PROSPECT**

**1 Market Outlook**

In 2005, it is estimated that the global economy will remain in stable growth. International crude oil prices will remain high and is expected to be at a fluctuating state, and the global chemical industry will still stay at a cyclical upturn. China's economy is expected to continue to grow rapidly, which will in turn drive the growth of the domestic demands for refined oil products and petrochemical products, creating rooms for the development of petroleum and petrochemical industries. Meanwhile, the openness of domestic retail market for refined oil products and the decrease of the import duty for chemical products will give rise to competitions in the domestic market.

**2 Production and Operation**

Faced with the opportunities and challenges in 2005, the Company intends to adopt a flexible operating strategy and focus on the following areas:

**Exploration and Production Segment** The Company will make further efforts in exploration and development and increasing types of supplemental resources to ensure the stable growth of oil and gas production. Moreover, the Company will strive hard to increase production and efficiency by enhancing the recovery rate and commodity rate of oil and gas. In 2005, the Company plans to produce 39 million tonnes of crude oil and 6.07 billion cubic meters of natural

gas. The Company also intends to increase its production capacity of crude oil by 6.05 million tonnes per year and natural gas by 2.3 billion cubic meters per year.

**Refining Segment** The Company will reinforce management and ensure safe, stable, sustained, full-load and optimal operation of its facilities. The projected processing volume of crude oil in 2005 is 143 million tonnes. The Company will strive to increase production of refined oil products and light chemical feedstock. Optimisation of resource allocation, adjustment to structure and improvement of quality will be our main focus in 2005. The Company also proposes to raise production of LPG, propylene, aromatics and high-grade road asphalt. The Company will further increase the major techno-economic indicators of oil refining with target for light products yield at 74.1% and refining yield at 92.9%.

**Marketing and Distribution Segment** The Company will further improve marketing networks and optimise marketing structure. Meanwhile, the Company will adjust its marketing strategies, make efforts to expand its total sales volume based on the market demands, and optimise resource allocation and logistics network. In 2005, the Company plans to achieve a total domestic sales of refined oil products of 102 million tonnes, including retail sales of 57.50 million tonnes and direct distribution of 22.50 million tonnes.

**Chemicals Segment** Efforts will be made to ensure safe, stable, sustained, full-load and optimal operation of facilities and put the two ethylene joint venture projects into operation. The Company will speed up the reform of the chemical marketing system to improve the competitiveness of chemical products. The Company will resort to scientific and technological advancement to increase the production of high value-added products, performance compound resins and differential fibres. In 2005, the Company plans to produce 5.19 million tonnes of ethylene, 7.47 million tonnes of synthetic resins, 0.55 million tonnes of synthetic rubbers, 1.61 million tonnes of synthetic fibre

and 6.69 million tonnes of synthetic fibre monomers and polymers.

#### **Scientific and Technological Development**

The Company will accelerate the development of core technology and proprietary technology and further build up technological advantages for core businesses development. The Company will carefully arrange for the development of key technologies, involving increase in reserves and stable production in oil fields in eastern China, exploration and development of new oil fields, natural gas development in Ordos and Sichuan, upgrading of oil product quality, construction of Qingdao Refinery and the second round revamping of Maoming Ethylene. In addition, the Company will attach great importance to the development of new high value-added products and the promotion of scientific and technological research results to serve as the technological support for reduction of costs and sharpening of products competitive edge.

**Cost Saving** In 2005, the Company will, depending on scientific and technological advancement, reinforce management practices, deepen reforms and enhance operating efficiency. It plans to achieve a cost saving of RMB 2.5 billion, among which Exploration and Production Segment plans to achieve a cost saving by RMB 600 million, Refining Segment RMB 600 million, Chemicals Segment RMB 700 million, and Marketing and Distribution Segment RMB 600 million.

**Capital Expenditure** In 2005, the Company's capital expenditure is planned to be RMB 62 billion. The projected expenditure for Exploration and Production Segment is RMB 22.9 billion, Refining Segment is RMB 16.127 billion, Chemicals Segment is RMB 10.373 billion, Marketing and Distribution Segment is RMB 11 billion, Corporate and Others is RMB 1.6 billion. In 2005, capital expenditure will be engaged in the following areas: In Exploration and Production Segment, the Company will carry out the operation notion of oil reserves and strive to expand qualified resources, improve the profile of oil and gas reserves and increase

production of oil and gas. In Refining Segment, the Company intends to complete the second-phase of Ningbo-Shanghai-Nanjing crude oil pipeline, construct the crude oil pipeline along the Yangtze River, and speed up the revamping of selected refining projects. In Chemicals Segment, the Company will focus on the revamping and construction of large-scale ethylene, aromatics and PTA facilities and accelerate the coal gasification projects. In Marketing and Distribution Segment, the Company will improve the marketing networks continually, build, acquire and upgrade petrol stations, optimise layout of depots, promote pipeline transportation, improve operating efficiency, and put the southwest refined oil product pipeline into operation in the first half of 2005. Moreover, the Company will speed up the application of petrol IC cards to increase marketing level based on information technologies.

**Workforce downsizing** The company plans to reduce the number of employees by more than 15,000 in 2005 (including the downhole operation workers). By the end of 2005, the workforce size is expected to be around 370,000. In this case, the accumulative number of persons laid-off by the end of 2005 will amount to 140,000.

In addition, the Company will continue to improve foreign cooperation. The two ethylene joint ventures with BASF and BP will be put into commercial operation in the first half of 2005 and progress of Fujian integrated project will be accelerated. The Company will, according to the schedule and scale of construction determined by the board of directors of the two joint ventures and the Company's percentage of shareholdings in the joint ventures, inject investment in a timely manner. These investments will be accounted for as the Company's investment in associates as appropriate.

With the practical and down-to-earth efforts made by our employees, we are confident that, in the forthcoming year, the Company will improve its production and operating results, deepen corporate reform, strengthen structural adjustment and realize the sustained and effective development.

# Protection of the environment

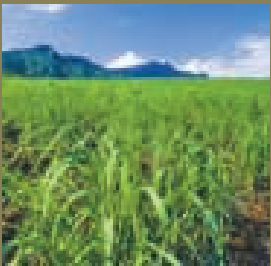
VISION |



# Contributing to a harmonious society

Sinopec Corp. is devoted to maintaining safe and stable production standards, and to provide the public with reliable and high-quality products that are friendly to the environment. Extensive strides have been made to promote environmental, health and safety issues and the Company plans to continue to build on these efforts.

| FUTURE



Sinopec Corp. has been long dedicated to achieving a coordinated development between Health, Safety and Environment (HSE) and economic growth, and establishing a mechanism for long-term safe operations. The Company has strictly adhere to its social responsibilities, and solemnly carried out its operating motto featuring "safety first, preventative measures, full participation, comprehensive governance, environment improvement, health protection, scientific management, and sustainable development". In 2004, the Company continued to maintain its safe and stable production, endeavored to provide the society with safe, reliable, high-quality and environment-friendly products, protected the environment, cared for the health of its employees, continuously improved its relationship with the community, established a good social image, and achieved even better performance in HSE.

#### **1 Steady improvement of HSE management**

Since the announcement of HSE management system in 2001, the Company has proactively promoted HSE management system in its subsidiaries. By the end of 2004, each branch company and subsidiary of the Company has established and put into operation a relatively complete HSE management system.

#### **2 Implementation of a precaution-oriented policy and safety evaluation for new projects**

In 2004, the Company completed safety evaluations for a number of new revamping projects, such as the construction of crude oil pipeline along the Yangtz River and refined oil product pipeline in Zhujiang River Delta, and the expansion of MTBE Unit in Sinopec Zhenhai Refining and Chemical Co., Ltd. It also evaluated the risks, on a regular basis, arising from those existing facilities and utilities systems. Moreover, core facilities and critical parts were subject to dynamic monitoring and management by designated operators. For any potential problems found during the evaluation, the Company would monitor the entire trouble shooting process to ensure the full elimination of problems and safe production.

#### **3 Active promotion of clean production to save water and reduce effluents**

In 2004, on the basis of the clean production pilot program and in accordance with the Standard of Clean Production for Enterprises, the branch companies and subsidiaries of Sinopec Corp. carried out full-scale "clean" production and further standardized environmental management practices in line with the HSE management system so that effluents discharged were continuously reduced. Besides, the Company reinforced its control of water consumption, conducted a more intensive assessment on the use of water, and actively developed practical water-saving techniques. Compared with the year 2003, despite of a large increase in the production volume, the water consumption for industrial purpose was still reduced by 2% in 2004.

#### **4 Providing cleaner fuel for the society**

Since 1 July 2002, the Company fully complied with the new national standard for light diesel. Under the new standard, sulphur content was reduced from 1.0% to 0.2% (m/m). Since 1 July 2003, the Company has fully complied with the new national standard of gasoline for motor vehicles and sulphur content was reduced from 0.1% to 0.08% (m/m). Since 1 October 2004, the Company started to supply gasoline and diesel which are in compliant with the Euro II standard to the Beijing market.

The Company will fully apply the upcoming national standard of gasoline and diesel for motor vehicles (equivalent to Euro II standard), which will be effective from 1 July 2005. According to this standard, sulphur content in gasoline for motor vehicles will be further reduced from 0.08% to 0.05% (m/m), and sulphur content in diesel for motor vehicles will be further reduced from 0.2% to 0.05% (m/m). At the same time, the Company will supply gasoline and diesel products which are in compliant with Euro III standard to the Beijing market.



## MANAGEMENT'S DISCUSSION AND ANALYSIS

THE FOLLOWING DISCUSSION AND ANALYSIS SHOULD BE READ IN CONJUNCTION WITH THE COMPANY'S AUDITED FINANCIAL STATEMENTS AND THE ACCOMPANYING NOTES. PART OF THE FINANCIAL INFORMATION PRESENTED IN THIS SECTION IS DERIVED FROM THE COMPANY'S AUDITED FINANCIAL STATEMENTS THAT HAVE BEEN PREPARED IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS").

### 1 CONSOLIDATED RESULTS OF OPERATIONS

In 2004, the Company's turnover and other operating revenues were RMB 619.8 billion and the operating profit was RMB 63.1 billion, representing an increase of 38.0% and 62.2% over those in the previous year respectively. These results are largely attributable to a number of factors. First, the international crude oil prices continued to be volatile and remained at a high level, the chemical industry was on the up trend cycle, and the

domestic economy consistently maintained fast growth, all of which resulted in strong demand for chemical products and high prices of chemical products, which, in turn, provided favorable conditions for the Company to maximise its returns. Second, by taking the advantage of the favorable opportunities, the Company proactively developed the market, increased the sales of refined oil products, maintained steady growth in oil and gas production and increased the throughput of

crude oil and production of chemical products. In addition, the Company continued to strive for better operating results through strengthening internal management, furthering corporate reforms and improving asset structure.

The following table sets forth the major items in the consolidated income statement of the Company for the indicated periods.

	Years ended 31 December		
	2004	2003	Changes
	RMB millions		(%)
<b>Turnover and other operating revenues</b>	<b>619,783</b>	<b>449,001</b>	<b>38.0</b>
Of which: Turnover	597,197	429,949	38.9
Other operating revenues	22,586	19,052	18.5
<b>Operating expenses</b>	<b>(556,714)</b>	<b>(410,118)</b>	<b>35.7</b>
Of which:			
Purchased crude oil, products and operating supplies and expenses	(443,590)	(313,238)	41.6
Selling, general and administrative expenses	(31,843)	(27,228)	16.9
Depreciation, depletion and amortization	(32,342)	(27,951)	15.7
Exploration expenses (including dry holes)	(6,396)	(6,133)	4.3
Personnel expenses	(18,634)	(16,972)	9.8
Employee reduction expenses	(919)	(1,040)	(11.6)
Taxes other than income tax	(16,324)	(13,581)	20.2
Other operating expenses, net	(6,666)	(3,975)	67.7
<b>Operating profit</b>	<b>63,069</b>	<b>38,883</b>	<b>62.2</b>
Net finance costs	(4,371)	(4,463)	(2.1)
Investment income, share of profit less losses from associates and gain from issuance of shares by a subsidiary	908	621	46.2
<b>Profit from ordinary activities before taxation</b>	<b>59,606</b>	<b>35,041</b>	<b>70.1</b>
Taxation	(17,815)	(10,645)	67.4
<b>Profit from ordinary activities after taxation</b>	<b>41,791</b>	<b>24,396</b>	<b>71.3</b>
Minority interests	(5,772)	(1,972)	192.7
<b>Profit attributable to shareholders</b>	<b>36,019</b>	<b>22,424</b>	<b>60.6</b>

**(1) Turnover and other operating revenues**

In 2004, the Company's turnover and other operating revenues were RMB 619.8 billion, of which, the turnover was RMB 597.2 billion, representing an increase of 38.9% compared with 2003. In 2004, the Company captured the opportunity of the increased prices of crude oil and petrochemical products in the

international market, expanded the sales volume of its major petrochemical products and optimized marketing structure. In 2004, the Company's other operating revenues went up to RMB 22.6 billion, representing an increase of 18.5% compared with 2003. The increase in "other operating revenues" were mainly due to the increase in sales revenue from

its sale of raw and auxiliary materials to Sinopec Group Company and third parties.

The following table sets forth the Company's external sales volume, average realized prices and their changes in percentage from 2003 to 2004.

	Sales volume (thousand tonnes)			Averaged realized prices (RMB/tonne)		
	2004	2003	Changes (%)	2004	2003	Changes (%)
Crude oil	6,012	7,219	(16.7)	1,872	1,493	25.4
Natural gas (million cubic meters) (RMB/thousand cubic meters)	3,775	3,405	10.9	609	591	3.0
Gasoline	27,353	23,356	17.1	3,765	3,298	14.2
Diesel	60,419	47,290	27.8	3,221	2,794	15.3
Kerosene	5,680	4,810	18.1	2,923	2,361	23.8
Basic chemical feedstock	6,664	5,712	16.7	4,429	3,642	21.6
Synthetic resin	5,401	5,097	6.0	7,986	6,017	32.7
Synthetic rubber	556	555	0.2	10,238	8,513	20.3
Synthetic fibre	1,741	1,720	1.2	10,818	9,300	16.3
Monomers and polymers for synthetic fibre	2,704	2,622	3.1	8,022	5,791	38.5
Chemical fertilizer	2,622	2,001	31.0	1,355	1,165	16.3

Most of the crude oil and a small portion of the natural gas produced by the Company were internally used for refining and chemicals production. The remaining was sold to the refineries of Sinopec Group Company and other customers. In 2004, the turnover from crude oil and natural gas that were sold externally amounted to RMB 16.0 billion, accounting for 2.6% of the Company's turnover and other operating revenues, representing an increase of 6.9% compared with that in 2003. The increase was mainly due to the increase in crude oil price and expansion of natural gas business.

The Company's Refining Segment and Marketing and Distribution Segment sell petroleum products (mainly consisting of gasoline, diesel, jet fuel, kerosene and other refined petroleum products) to third parties. In 2004, the external sales revenue of petroleum products by these two segments were RMB 406.2 billion, accounting for 65.5% of the Company's

turnover and other operating revenues, representing an increase of 40.2% compared with that in 2003. The increase was mainly due to the rise of gasoline and diesel prices and also due to the Company's proactive efforts in increasing sales volume, optimising marketing structure and expanding the market of other refined petroleum products. The sales revenue of gasoline, diesel and kerosene was RMB 314.2 billion, accounting for 77.4% of the total sales revenue of petroleum products, representing an increase of 42.5% over that in 2003. The sales revenue of other refined petroleum products was RMB 92 billion, accounting for 22.6% of the total sales revenue of petroleum products, representing an increase of 33.2% compared with 2003.

The Company's external sales revenue of chemical products was RMB 126 billion, accounting for 20.3% of its turnover and other operating revenues, representing an

increase of 37% compared with that in 2003. The increase was mainly due to the fact that the Company captured the opportunity of the significant increase of chemical product prices and the increase of sales volume by the Company.

**(2) Operating expenses**

In 2004, the Company's operating expenses amounted to RMB 556.7 billion, representing an increase of 35.7% compared with 2003. The operating expenses mainly consisted of the following:

*Purchased Crude Oil, Products, and Operating Supplies and Expenses*

In 2004, the Company's costs for purchased crude oil, products and operating supplies and expenses were RMB 443.6 billion, accounting for 79.7% of the total operating expenses, representing an increase of 41.6% compared with 2003. The costs of

purchased crude oil was RMB 232.6 billion, accounting for 41.8% of the total operating expenses, representing an increase of 41.5% compared with 2003. To meet the increasing demands in the market associated with the rapid growth of the Chinese economy, the Company increased its throughput of crude oil purchased from third parties. In 2004, the throughput of the Company's crude oil purchased externally was RMB 100.62 million tonnes (excluding amounts processed for third parties), representing an increase of 13.6% compared with 2003. Average cost for crude oil purchased externally in 2004 was RMB 2,312 per tonne, representing an increase of 24.6% compared with 2003.

In 2004, the Company's other purchase expenses were RMB 211 billion, accounting for 37.9% of the total operating expenses, up by 41.7% compared with 2003. This increase was mainly due to the increase in costs of refined oil products and chemical feedstock purchased externally.

#### *Selling, general and administrative expenses*

In 2004, the Company's selling, general and administrative expenses totalled RMB 31.8 billion, representing an increase of 16.9% compared with 2003. Such an increase was largely due to:

- An increase in the total sales volume of refined oil products and an increase of sales through retail and direct distribution. The increase in sales volume resulted in an increase of selling expenses, such as transportation cost, by RMB 1.9 billion compared with 2003.
- An increase in repairing and maintenance expenses by RMB 1.1 billion compared with 2003 due to the additions of property, plant and equipment and the increase in maintenance activities related to petrol stations.
- An increase in operating lease rentals by RMB 700 million compared with that in 2003. The increase was mainly due to the increase in rental of operating

facilities such as petrol stations from third parties and rental of land and buildings from related parties.

- Active promotion of Sinopec's overall image, which resulted in increased advertising expenses by RMB 700 million compared with 2003.

#### *Depreciation, depletion and amortization*

In 2004, the Company's depreciation, depletion and amortization were RMB 32.3 billion, up by 15.7% over 2003. The increase was mainly because of the additions of property, plant and equipment as a result of capital expenditure.

#### *Exploration expenses*

In 2004, the Company's exploration expenses were RMB 6.4 billion, representing an increase of 4.3% compared with 2003. The increase was principally due to the increase by the Company of its investment in exploration activities in major new blocks in the western and southern parts of China.

#### *Personnel expenses*

In 2004, the Company's personnel expenses were RMB 18.6 billion, representing an increase of 9.8% compared with 2003. The increase was largely due to the implementing by the Company of the market-rate based employee compensation system resulting in increased employee wages and salaries. The new compensation system also resulted in an increase of contribution to staff retirement plans accordingly.

#### *Employee reduction expenses*

In 2004, in accordance with the Company's voluntary employee reduction plan, and in connection with the acquisition of petrochemical and catalyst assets from and the disposal of downhole assets to Sinopec Group Company, the Company recorded employee reduction expenses of approximately RMB 0.9 billion relating to the reduction of approximately 24,000 employees, down by RMB 0.1 billion compared with that in 2003.

#### *Taxes other than income tax*

In 2004, the Company's taxes other than income tax were RMB 16.3 billion, representing an increase of 20.2% compared with 2003. The increase was largely due to the increase of consumption tax and associated city construction taxes and education surcharges as a result of the increased sales volume of gasoline and diesel of the Company.

#### *Other operating expenses, net*

In 2004, the Company's other operating expenses, net were RMB 6.7 billion, representing an increase of 67.7% compared with 2003. The increase was largely due to the following reason: In order to allocate its internal resources more efficiently, the Company revised the production plans in 2004, and accordingly made a provision for impairment loss on certain less efficient chemical facilities, petrol stations and depots on the difference between the estimated recoverable value and the net book value of these assets amounting RMB 3.9 billion, representing an increase of RMB 3 billion compared with 2003. Meanwhile, disposals of assets decreased in 2004.

### **(3) Operating profit**

In 2004, the Company's operating profit was RMB 63.1 billion, representing an increase of 62.2% compared with 2003.

### **(4) Net finance costs**

In 2004, the Company's net finance costs were RMB 4.4 billion, down by 2.1% compared with 2003.

### **(5) Profit from ordinary activities before taxation**

In 2004, the Company's profit from ordinary activities before taxation was RMB 59.6 billion, representing an increase of 70.1% compared with 2003.

### **(6) Taxation**

In 2004, the Company's taxation was RMB 17.8 billion, representing an increase of 67.4% compared with 2003.

## MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

### (7) Minority interests

In 2004, the Company's minority interests were RMB 5.8 billion, representing an increase of 192.7% compared with 2003. The increase was mainly due to the return of the subsidiaries of the Company increased as compared with 2003.

### (8) Profit attributable to shareholders

In 2004, the Company's profit attributable to shareholders was RMB 36 billion, representing an increase of 60.6% compared with 2003.

## 2 DISCUSSIONS ON RESULTS OF SEGMENT OPERATIONS

The Company divides its operations into four business segments (Exploration and Production Segment, Refining Segment, Marketing and Distribution Segment and Chemicals Segment) and Corporate and Others. Unless otherwise specified, the financial data discussed in this section have not eliminated the inter-segment transactions. In addition, the operating revenue data of each segment have included the "other operating revenues" of the segment.

The following table shows the operating revenues by each segment, the contribution of external sales and inter-segment sales as a percentage of operating revenues before elimination of inter-segment sales, and the contribution of external sales as a percentage of consolidated operating revenues (i.e. after elimination of inter-segment sales) for the periods indicated.

	Years ended 31 December		As a percentage of consolidated operating revenues before elimination of inter-segment sales		As a percentage of consolidated operating revenues after elimination of inter-segment sales	
	2004	2003	2004	2003	2004	2003
	RMB millions		%	%	%	%
<b>Exploration and Production Segment</b>						
External sales <sup>(1)</sup>	25,253	22,975	2.5	3.0	4.1	5.1
Inter-segment sales	60,053	47,287	5.9	6.3		
<b>Operating revenues</b>	<b>85,306</b>	<b>70,262</b>	<b>8.4</b>	<b>9.3</b>		
<b>Refining Segment</b>						
External sales <sup>(1)</sup>	68,574	56,018	6.7	7.4	11.1	12.5
Inter-segment sales	289,699	217,755	28.5	28.9		
<b>Operating revenues</b>	<b>358,273</b>	<b>273,773</b>	<b>35.2</b>	<b>36.3</b>		
<b>Marketing and Distribution Segment</b>						
External sales <sup>(1)</sup>	343,595	238,758	33.8	31.7	55.4	53.2
Inter-segment sales	2,831	2,602	0.3	0.3		
<b>Operating revenues</b>	<b>346,426</b>	<b>241,360</b>	<b>34.1</b>	<b>32.0</b>		
<b>Chemicals Segment</b>						
External sales <sup>(1)</sup>	132,183	96,425	13.0	12.8	21.3	21.5
Inter-segment sales	12,510	7,415	1.2	1.0		
<b>Operating revenues</b>	<b>144,693</b>	<b>103,840</b>	<b>14.2</b>	<b>13.8</b>		
<b>Corporate and others</b>						
External sales <sup>(1)</sup>	50,178	34,825	4.9	4.6	8.1	7.7
Inter-segment sales	32,046	30,371	3.2	4.0		
<b>Operating revenues</b>	<b>82,224</b>	<b>65,196</b>	<b>8.1</b>	<b>8.6</b>		
<b>Operating revenues before elimination of inter-segment sales</b>	<b>1,016,922</b>	<b>754,431</b>	<b>100.0</b>	<b>100.0</b>		
<b>Elimination of inter-segment sale</b>	<b>(397,139)</b>	<b>(305,430)</b>				
<b>Consolidated operating revenues</b>	<b>619,783</b>	<b>449,001</b>			<b>100.0</b>	<b>100.0</b>

Notes: (1) including other operating revenues.

The following table shows the operating revenues, operating expenses and operating profit by each segment before elimination of the inter-segment transactions for the periods indicated, and the percentage change from 2003 to 2004.

	Years ended 31 December		Changes (%)
	2004	2003	
	RMB millions		
<b>Exploration and Production Segment</b>			
Operating revenues	85,306	70,262	21.4
Operating expenses	59,692	51,102	16.8
<b>Operating profit</b>	<b>25,614</b>	<b>19,160</b>	<b>33.7</b>
<b>Refining Segment</b>			
Operating revenues	358,273	273,773	30.9
Operating expenses	352,330	267,700	31.6
<b>Operating profit</b>	<b>5,943</b>	<b>6,073</b>	<b>(2.1)</b>
<b>Marketing and Distribution Segment</b>			
Operating revenues	346,426	241,360	43.5
Operating expenses	331,710	229,417	44.6
<b>Operating profit</b>	<b>14,716</b>	<b>11,943</b>	<b>23.2</b>
<b>Chemicals Segment</b>			
Operating revenues	144,693	103,840	39.3
Operating expenses	125,972	100,297	25.6
<b>Operating profit</b>	<b>18,721</b>	<b>3,543</b>	<b>428.4</b>
<b>Corporate and others</b>			
Operating revenues	82,224	65,196	26.1
Operating expenses	84,149	67,032	25.5
<b>Operating profit</b>	<b>(1,925)</b>	<b>(1,836)</b>	<b>4.8</b>

#### (1) Exploration and Production Segment

Most of the crude oil and a small portion of the natural gas produced by Exploration and Production Segment were used for the Company's refining and chemical operations. Most of the natural gas and a small portion of crude oil produced were sold to refineries owned by Sinopec Group Company and third party customers.

In 2004, the operating revenues of this segment were RMB 85.3 billion, up by 21.4% over 2003, largely due to the increase in sales volume and the sales price of crude oil compared with those in 2003.

In 2004, this segment sold 36.26 million tonnes of crude oil, representing an increase of 1.4% compared with 2003; 3.9 billion cubic meters of natural gas were sold, up by 11.6% compared with that in 2003. The average realized price of crude oil was RMB1,956 per tonne (approximately USD 33.3/barrel), representing an increase of 20.7% compared with that in 2003; the average realized price of natural gas was RMB 616 per thousand cubic meters, up by 3.3% compared with that in 2003.

In 2004, the operating expenses of this segment were RMB 59.7 billion, up by 16.8% compared with that in 2003. This increase was mainly due to the following reasons:

- The depreciation, depletion and amortization of the segment increased by RMB 2.6 billion compared with 2003. This change was caused by the additions of oil and gas properties as a result of an increase in capital expenditure incurred in this segment;
- The rise of fuel cost as a result of the increase in oil and gas production and fuel prices, resulting in an increase of the operating expenses by approximately RMB 1 billion compared with 2003;
- Other operating expenses including expenses related to the sales of materials were up by RMB 1.3 billion compared with 2003;
- Exploration expenses (including dry holes) were up by RMB 0.3 billion compared with 2003;
- Due to the increase of sales revenues of crude oil, the natural resources compensation fee increased accordingly. Land and building rental increased due to the increase of leased land and buildings. In addition, safety insurance fund also increased. The total of these items was up by RMB 0.5 billion compared with 2003.

In 2004, in light of the high crude oil price, this segment increased its workload of certain downhole operation. As a result, the lifting cost of crude oil and natural gas increased by 3.9% from USD 6.47 per barrel in 2003 to USD 6.72 per barrel in 2004.

In 2004, this segment's operating profit was approximately RMB 25.6 billion, representing an increase of 33.7% compared with that in 2003.

**(2) Refining Segment**

The business activities of the Refining Segment consist of purchasing crude oil from the Exploration and Production Segment and third parties, processing crude oil into refined petroleum products, selling gasoline, diesel and kerosene to the Marketing and Distribution Segment, and selling other

refined petroleum products to domestic and overseas customers.

In 2004, the segment's operating revenues were RMB 358.3 billion, up by 30.9% compared with 2003. The increase was mainly due to the increase in the sales prices and

sales volumes of various refined petroleum products.

The following table shows the sales volumes, average realized prices and the percentage changes of various kinds of refined petroleum products of the segment from 2003 to 2004.

	Sales volume (thousand tonnes)			Average realized prices (RMB per tonne)		
	2004	2003	Changes (%)	2004	2003	Changes (%)
Gasoline	21,420	21,255	0.8	2,977	2,624	13.5
Diesel	50,271	41,461	21.2	2,890	2,404	20.2
Chemical feedstock	23,165	21,914	5.7	2,682	2,277	17.8
Other refined petroleum products	31,710	29,639	7.0	2,583	2,155	19.9

In 2004, the sales revenues of gasoline realized by the segment were RMB 63.8 billion, representing an increase of 14.4% compared with 2003, accounting for 17.8% of this segment's operating revenues, down by 2.6 percentage points compared with 2003.

In 2004, the sales revenues of diesel realized by the segment were RMB 145.3 billion, representing an increase of 45.7% compared with 2003, accounting for 40.5% of this segment's operating revenues, up by 4.0 percentage points compared with 2003.

In 2004, the sales revenues of chemical feedstock realized by the segment were RMB 62.1 billion, representing an increase of 24.5% compared with 2003, accounting for 17.3% of this segment's operating revenues, down by 0.9 percentage points compared with 2003.

In 2004, the sales revenues of refined petroleum products other than gasoline, diesel and chemical feedstock were RMB 81.9 billion, representing an increase of 28.3% compared with 2003, accounting for 22.8% of this segment's operating revenues, down by 0.5 percentage points compared with 2003.

In 2004, the operating expenses of the segment were RMB 352.3 billion, representing an increase of 31.6% compared with 2003.

The increase was principally due to the increase of processing volume and price of crude oil.

In 2004, the average cost of crude oil was RMB 2,261 per tonne, representing an increase by 24.0% compared with 2003. Refining throughput was 128.84 million tonnes (excluding amounts processed for third parties), representing an increase of 10.4% compared with 2003. In 2004, the total crude oil costs were RMB 291.3 billion, representing an increase of 36.9% compared with 2003, accounting for 82.7% of the segment's operating expenses, up by 3.2 percentage points compared with 2003.

In 2004, with oil prices remaining at a high level, the Company strived to minimize purchase cost of crude oil and transportation cost and increase the revenue of refined oil products, and expanded the sales market of refined petroleum products other than gasoline, diesel and kerosene. However, the increase of refined oil price was less than that of crude oil. The refining margin was USD 3.86 per barrel (defined as the sales revenues less the crude oil costs and refining feedstock costs and taxes other than income tax divided by the throughput of crude oil and refining feedstock), down by USD 0.23 per barrel compared with USD 4.09 per barrel in 2003, representing a decrease of 5.6%.

In 2004, the refining cash operating cost (defined as operating expenses less the purchasing costs of crude oil and refining feedstock, depreciation and amortization, taxes other than income tax, other business expenses and adjustments; and divided by the throughput of crude oil and refining feedstock) was USD 1.98 per barrel, down by USD 0.02 per barrel compared to 2003, representing a decrease of 1%. This change was mainly due to the continued reduction in costs and increased throughput in this segment.

In 2004, the operating profit of the Refining Segment was RMB 5.9 billion, similar to that in 2003.

**(3) Marketing and Distribution Segment**

The business activities of Marketing and Distribution Segment include purchasing refined products from the Refining Segment and third parties, wholesale of petroleum products to domestic customers, directly selling and distributing the petroleum products through the retail network owned by this segment and provision of related services.

In 2004, the operating revenues of this segment were RMB 346.4 billion, up by 43.5% compared with 2003. The increase was due to the increase in sales volume and prices of refined oil products and the sustained optimization of marketing structure, which further increased the retail and distribution ratios of gasoline and diesel.

In 2004, the operating revenues from retail of gasoline and diesel were RMB 299.9 billion, accounting for 86.6% of the operating revenues of this segment. In 2004, the percentage of retail sales in the total sales volume of gasoline and diesel increased from 48.9% in 2003 to 54.6% in 2004, representing an increase of 5.7 percentage

points. The percentage of sales of gasoline and diesel by distribution in the total sales volume increased from 13.3% in 2003 to 20.3% in 2004, up by 7 percentage points. The percentage of wholesale sales in the total sales volume of gasoline and diesel decreased from 37.8% in 2003 to 25.1% in 2004, down by 12.7 percentage points.

The following table shows the sales volumes, average realized prices and respective percentage changes of the four product categories in 2003 and 2004 including breakdown information of different sales channels for gasoline and diesel.

	Sales Volume (thousand tonnes)			Average realized prices (RMB per tonne)		
	2004	2003	Changes (%)	2004	2003	Changes (%)
<b>Gasoline</b>	<b>27,508</b>	<b>23,533</b>	<b>16.9</b>	<b>3,762</b>	<b>3,295</b>	<b>14.2</b>
Of which: Retail	18,416	14,676	25.5	3,911	3,450	13.4
Distribution	2,890	1,621	78.3	3,536	3,152	12.2
Wholesale	6,202	7,236	(14.3)	3,426	3,011	13.8
<b>Diesel</b>	<b>61,097</b>	<b>47,921</b>	<b>27.5</b>	<b>3,215</b>	<b>2,789</b>	<b>15.3</b>
Of which: Retail	29,997	20,291	47.8	3,351	2,954	13.4
Distribution	15,123	7,880	91.9	3,211	2,772	15.8
Wholesale	15,978	19,750	(19.1)	2,963	2,626	12.8
<b>Kerosene</b>	<b>5,623</b>	<b>4,573</b>	<b>23.0</b>	<b>2,923</b>	<b>2,350</b>	<b>24.4</b>
<b>Fuel oil</b>	<b>9,685</b>	<b>6,370</b>	<b>52.0</b>	<b>1,793</b>	<b>1,670</b>	<b>7.4</b>

In 2004, this segment's operating expenses were RMB 331.7 billion, up by 44.6% compared with 2003. The increase was mainly due to the increase in procurement expenses, of which, purchase costs for gasoline and diesel were RMB 260.9 billion, representing an increase of 44.3% compared with 2003, accounting for 78.7% of the segment's operating expenses. In 2004, average purchased prices of gasoline and diesel went up by 12.1% and 18.8% respectively compared with 2003, to RMB 3,019 per tonne and RMB 2,910 per tonne. The purchase volume of gasoline and diesel went up by 16.9% and 27.5% respectively compared with

2003, to 27.51 million tonnes and 61.10 million tonnes.

In 2004, the unit segment's cash operating cost of petroleum products (defined as the operating expenses less the purchasing costs, taxes other than income tax, depreciation and amortization, and divided by the sales volume) was RMB 167.11 per tonne, down by 4.48% compared with 2003. This decrease was primarily due to the effect of increase in sales volume and decrease in costs.

In 2004, the Marketing and Distribution Segment's operating profit was RMB 14.7 billion, up by 23.2% compared with 2003.

#### (4) Chemicals Segment

The business activities of the Chemicals Segment include purchasing chemical feedstock from the Refining Segment and third parties, producing, marketing and distribution of petrochemical products and inorganic chemical products.

In 2004, the operating revenues of the Chemicals Segment were RMB 144.7 billion, up by 39.3% compared with 2003. The increase was mainly due to an increase in prices and sales volume of major chemical products.

In 2004, the sales revenues of the Company's six major chemical products (i.e. basic organic chemicals, synthetic resin, synthetic rubber synthetic fibre, synthetic fibre monomers and polymers and chemical fertilizer) totalled

approximately RMB 124.7 billion, up by 33.7% compared with 2003, accounting for 86.2% of the total operating revenues of this segment.

The following table set forth the sales volume, average realized price and percentage of changes for each of these six categories of chemical products of this segment from 2003 to 2004.

	Sales volumes (thousand tonnes)			Average realized prices (RMB per tonne)		
	2004	2003	Changes %	2004	2003	Changes %
Basic organic chemicals	7,384	7,208	2.4	4,292	3,377	27.1
Synthetic resin	5,402	5,097	6.0	7,986	6,017	32.7
Synthetic rubber	563	555	1.4	10,247	8,513	20.4
Synthetic fibre	1,741	1,720	1.2	10,818	9,300	16.3
Synthetic fibre monomer and polymer	2,704	2,622	3.1	8,022	5,791	38.5
Chemical fertilizer	2,659	2,034	30.7	1,355	1,165	16.3

In 2004, the operating expenses of the segment were RMB 126 billion, up by 25.6% compared with 2003. This change was primarily caused by the price increase of various raw materials, the increased consumption of various raw materials and auxiliary materials with the increase in the production of this segment, as well as the increased variable expenses and fixed costs. More specifically, the increase was due to the following reasons:

- Affected by the increase in the consumption of raw materials and auxiliary materials and the increase in their unit prices, the purchasing costs for raw materials, operating supplies and other related expenses increased by approximately RMB 21.9 billion compared with 2003.
- Materials sales and other business expenses were up by RMB 1.8 billion compared with 2003.

- Provision for impairment losses on low efficient facilities for fertilizer and caprolactam was RMB 2.0 billion, representing an increase of RMB 1.6 billion.

In 2004, operating profit for the Chemicals Segment was RMB 18.7 billion, representing an increase of RMB 15.2 billion compared with 2003. The percentage of operating profit of the Chemicals Segment in the Company's total operating profit increased from 9% in 2003 to 29.6% in 2004, representing an increase of 20.6 percentage points.

**(5) Corporate and others**

The business activities of Corporate and Others mainly consist of import and export business of the subsidiaries, research and development activities of the Company and managerial activities of its headquarters.

In 2004, the operating revenues of Corporate and Others were RMB 82.2 billion, representing an increase of 26.1% compared with 2003. The increase was largely due to the fact that China Petrochemical International Co., Ltd. and its subsidiaries increased their trading volume in importing and exporting crude oil and refined oil products and other business transactions.

In 2004, the operating expenses were about RMB 84.1 billion, representing an increase of 25.5% compared with 2003. This increase was largely due to the fact that the purchase costs of China Petrochemical International Co., Ltd and its subsidiaries have increased to keep up with the increased operating revenues.

The operating losses were about RMB 1.9 billion, representing an increase of RMB 0.1 billion compared with 2003.



### 3 ASSETS, LIABILITIES, SHAREHOLDERS' FUNDS, AND WORKING CAPITAL

The Company's primary sources of funding were operating activities, short-term and long-term borrowings, and primary uses of funds were for operating expenses, capital expenditures and repayments for short-term and long-term loans.

#### (1) Assets, liabilities and shareholders' funds

Unit: RMB millions

	As at 31 December		Changes
	2004	2003	
Total assets	474,594	420,184	54,410
Current assets	120,271	103,039	17,232
Non-current assets	354,323	317,145	37,178
Total liabilities	250,508	222,618	27,890
Current liabilities	146,277	129,272	17,005
Non-current liabilities	104,231	93,346	10,885
Minority interests	31,046	26,051	4,995
Net assets	193,040	171,515	21,525
Shareholders' fund	193,040	171,515	21,525
Share capital	86,702	86,702	—
Reserves	106,338	84,813	21,525

The Company's total assets were RMB 474.594 billion, up by RMB 54.41 billion compared with those at the end of 2003, of which the current assets were RMB 120.271 billion, up by RMB 17.232 billion compared with those at the end of 2003. The change was mainly due to the increase in inventories as a result of price and volume increase of crude oil and petrochemical products. The Company's non-current assets were RMB 354.323 billion, up by RMB 37.178 billion compared with those at the end of 2003. The change was primarily attributable to the additions of property, plant and equipment which were up by RMB 13.392 billion in value, while the construction in progress were up by RMB 16.831 billion in value.

Total liabilities were RMB 250.508 billion, up by RMB 27.89 billion compared with those at the end of 2003, of which the

current liabilities were RMB 146.277 billion, up by RMB 17.005 billion compared with those at the end of 2003. The change was mainly due to the increase in accounts payable and bills payable in total by RMB 7.003 billion to cope with increased production volume, and the increase of the Company's short-term debt by RMB 6.975 billion. Non-current liabilities were RMB 104.231 billion at the end of 2004, up by RMB 10.885 billion compared with those at the end of 2003. The change was mainly due to the fact that long-term loans of the Company were up by RMB 10.291 billion compared with those at the end of 2003.

Shareholders' funds were RMB 193.04 billion at the end of 2004, up by RMB 21.525 billion compared with that at the end of 2003, representing an increase in the reserves by RMB 21.525 billion.

**(2) Cash flow**

In 2004, net increase in cash and cash equivalent was RMB 117 million (i.e. an increase from RMB 16.263 billion as at December 31, 2003 to RMB 16.381 billion as at December 31, 2004).

The following table shows the major items on the consolidated cash flow statements.

(Unit: RMB millions)

Major items of cash flows	Years ended 31 December	
	2004	2003
Net cash flow from operating activities	69,081	62,097
Net cash flow from investing activities	(73,992)	(50,690)
Net cash flow from financing activities	5,028	(14,473)
Net increase/(decrease) in cash and cash equivalents	117	(3,066)

- Net cash flow from operating activities was RMB 69.081 billion.

In 2004, profit from ordinary activities before taxation was RMB 59.606 billion; depreciation, depletion and amortization were RMB 32.342 billion; after adjusting the non-cash expense items, the adjusted cash flow from operating activities was RMB 100.529 billion. Major non-cash expense items were: costs of dry holes of RMB 2.976 billion, losses from disposals of properties, plants and equipment of RMB 1.686 billion, and impairment losses on long-lived assets of RMB 3.919 billion.

The changes in operating-related account receivable and payable items reduced cash inflow by RMB 14.565 billion. In order to meet the market demand, the Company expanded production and operation, as a result, the working capital required by the ordinary business increased, of which, the increase of inventory led to a decreased cash inflow of RMB 16.526 billion, the increase of bill receivable, accounts receivable and other current assets contributed to a decreased cash inflow of RMB 7.855 billion. Due to the expanded business activities and increased purchasing costs, cash inflow of accounts payable and bill payable increased by RMB 7.129 billion, and other operating-related account receivables and payables increased the cash inflow by RMB 2.687 billion.

After adjusting the non-cash expense items and account receivable and payable items with regard to the profit from ordinary activities before taxation, and deducting the cash outflow for payment of income tax totaling RMB 16.883 billion, the net cash flow from operating activities was RMB 69.081 billion.

- Net cash flow for investing activities was RMB 73.992 billion.

The net cash outflow for investing activities mainly represented the cash outflow for capital expenditure by the Company of RMB 67.583 billion and by the Company's joint ventures of RMB 6.035 billion.

- Net cash flow from financing activities was RMB 5.028 billion.

The net cash inflow from financing activities increased because the amount of newly added bank loans and other loans by the Company and its joint ventures was larger than the amount of repayments of bank loans and other loans, resulting in a cash inflow of RMB 13.645 billion. However, the effect was partly offset by the final dividend for 2003 and interim dividend for 2004 distributed by the Company, which resulted in a cash outflow of RMB 8.67 billion.

During 2004 the Company captured the opportunity of robust market demand resulting in such a remarkable increase in cash flow from operating activities. At the same time, in order to enhance its market-leading position, the Company increased its capital expenditure. In addition, the Company tightened its control on cash management and strictly controlled the scale of cash and cash equivalent, as a result, the overall efficiency of the Company improved.

**(3) Contingent liabilities**

Refer to the descriptions under Major Guarantees and Performance in the section entitled Disclosure of Significant Events.

**(4) Capital expenditure**

Refer to the descriptions under Capital Expenditure in the section entitled Business Review and Prospects.

**(5) Research and development expenses and environmental expenses**

Research and development expenses refer to the expenses that have been recognized during the period in which they incurred. In 2004, the Company's research and development expenses were RMB 1.518 billion.

Environmental expenses refer to the normal routine pollutant discharge fees paid by the Company, excluding any capitalised costs of pollutant discharge facilities. In 2004, the Company's environmental expenses were RMB 248 million.

**(6) Analysis of financial statements prepared under the PRC Accounting Rules and Regulations**

The major differences between the Company's financial statements prepared under the PRC Accounting Rules and Regulations and those under IFRS are set out in Section C of the financial statements of the Company on page 159 to page 160 of this report.

The following table sets forth each of its segments' income and profit from principal operations, costs of principal operations, taxes and surcharges, as prepared under the PRC Accounting Rules and Regulations.

	Years ended 31 December	
	2004	2003
	RMB millions	RMB millions
<b>Income from principal operations</b>		
Exploration and Production Segment	76,023	62,223
Refining Segment	352,548	266,253
Marketing and Distribution Segment	345,671	240,812
Chemicals Segment	122,118	82,334
Corporate and Others	79,145	60,600
Elimination of inter-segment sales	(384,873)	(295,031)
Income from principal operations	<b>590,632</b>	<b>417,191</b>
<b>Cost of sales, sales taxes and surcharges</b>		
Exploration and Production Segment	36,073	31,596
Refining Segment	340,360	254,360
Marketing and Distribution Segment	306,309	210,456
Chemicals Segment	96,994	73,116
Corporate and Others	78,410	59,984
Elimination of the cost of inter-segment sales	(382,736)	(293,037)
Cost of sales, sales taxes and surcharges	<b>475,410</b>	<b>336,475</b>
<b>Profit from principal operations</b>		
Exploration and Production Segment	37,997	28,785
Refining Segment	12,005	11,741
Marketing and Distribution Segment	39,362	30,356
Chemicals Segment	25,123	9,218
Corporate and Others	735	616
Profit from principal operations	<b>115,222</b>	<b>80,716</b>

Financial data prepared under the PRC Accounting Rules and Regulations:

Unit: RMB millions

	As at 31 December/Years ended 31 December		
	2004	2003	Changes %
Total assets	460,081	390,213	17.91
Long-term liabilities	98,407	80,109	22.84
Shareholders' fund	186,350	162,946	14.36
Profit from principal operations	115,222	80,716	42.75
Net profit	32,275	19,011	69.77

Total assets: At the end of 2004, the Company's total assets were RMB 460.081 billion, up by RMB 69.868 billion compared with 2003. This change was mainly due to the increase of investments in fixed assets by the Company during 2004 in order to meet the market demands. As a result, fixed assets increased by RMB 40.81 billion. Current assets were up by RMB 20.138 billion, which was mainly due to the increased prices and quantity of crude oil and petrochemical products which, in turn, contributed to the increase in the value of inventory of RMB 19.003 billion. Other non-current assets were up by RMB 8.92 billion, which was mainly due to the increase in deferred tax assets and long-term deferred expenses.

Long-term liabilities: At the end of 2004, the Company's long-term liabilities were RMB 98.407 billion, up by RMB 18.298 billion compared with 2003. This change was largely due to the issuance of RMB 3.5 billion corporate bonds and the increase of RMB 14.866 billion in long-term loans pursuant to the Company's investment plans for various projects.

Shareholders' funds: At the end of 2004, shareholders' funds of the Company was RMB 186.35 billion, up by RMB 23.404 billion compared with 2003. This increase was principally due to: firstly, the realized net profit in 2004 reached RMB 32.275 billion; secondly, in 2004 the distribution

of its final dividend for the second half of 2003 amounted to RMB 5.202 billion and the interim dividend for 2004 totalled RMB 3.468 billion.

Profit from principal operations: In 2004, the realised profit from principal operations was RMB 115.222 billion, up by RMB 34.506 billion, representing a growth of 42.75% compared with 2003. This increase was mainly because in 2004, with the robust market demand and the rising prices of crude oil and petrochemical products, the Company captured market opportunities, expanded the total volume of production and sales, optimized marketing structure and managed to improve its operating results at a steady pace.

Net profit: In 2004, the net profit realized by the Company was RMB 32.275 billion, up by RMB 13.264 billion, representing a growth of 69.77% compared with 2003. The increase was mainly due to the increase in the Company's profit from its principal operations.

**(7) Significant differences between the financial statements prepared under IFRS and U.S. GAAP**

The major differences between the Company's financial statements prepared under IFRS and US GAAP are set out in Section D of the financial statements of the Company on page 161 to page 163 of this report.

## DISCLOSURE OF SIGNIFICANT EVENTS

### 1 PERFORMANCE OF THE COMMITMENTS BY SINOPEC CORP. AND ITS SHAREHOLDER HOLDING 5% OR MORE OF THE TOTAL ISSUED SHARE CAPITAL, NAMELY, SINOPEC GROUP COMPANY

#### (1) At the end of the reporting period, the undertakings made by Sinopec Corp. include:

- i Carrying out the reorganization of its three wholly-owned subsidiaries, namely, Sinopec Shengli Oilfield Company Limited, Sinopec Sales Company Limited and China Petrochemical International Company Limited in accordance with the PRC Company Law within a specified period of time;
- ii Changing the logo currently used by the petrol stations within a specified period of time;
- iii Setting up separate office buildings for Sinopec Group Company and Sinopec Corp. within a specified period of time; and
- iv Complying with the relevant applicable provisions and rules of the Stock Exchange of Hong Kong Limited (the "Hong Kong Stock Exchange") regarding the waiver of continuing connected transactions.

#### (2) At the end of the reporting period, the major undertakings given by Sinopec Group Company to the Company include:

- i Complying with the agreements concerning continuing connected transactions;
- ii Solving the issues arising from the land use rights certificates and property ownership rights certificates within a specified period of time;
- iii Implementing the Reorganization Agreement (as defined in the Prospectus for the Issuance of H Shares);

- iv Granting licenses for intellectual property rights;
- v Avoiding competition within the industry; and
- vi Withdrawing from the business competition and conflict of interests with Sinopec Corp.

Details of the above commitments were included in the Prospectus for the Issuance of A Shares published by Sinopec Corp. in China Securities, Shanghai Securities and Securities Times on 22 June 2001.

During the reporting period, Sinopec Corp. was not aware of any breach of above commitments by itself or the above principal shareholder.

### 2 PRELIMINARY PLAN FOR PROFIT APPROPRIATION FOR 2004

According to the consolidated income statement prepared pursuant to the PRC Accounting Rules and Regulations and the consolidated income statement prepared pursuant to IFRS, the Company's audited net profit in 2004 was RMB 32.275 billion and RMB 36.019 billion respectively. In accordance with the provisions of the Sinopec Corp.'s Articles of Association, the appropriation of the profit after tax for the relevant fiscal year would be conducted on the basis of the net profit as determined in accordance with the PRC Accounting Rules and Regulations or under IFRS, whichever is lower. Thus, on the basis of the net profit of Sinopec Corp. of RMB 32.275 billion, after the transfer of 10% to the statutory surplus reserve (RMB 3.228 billion) and 10% to the statutory public welfare fund (RMB 3.228 billion) from Sinopec Corp.'s net profit, adding the undistributed profit brought forward from the preceding year from and the deduction of the final dividend for year 2003 (RMB 5.202

billion) and the interim dividend for 2004 (RMB 3.468 billion) distributed in 2004, the amount of distributable profit of Sinopec Corp. of 2004 was RMB 37.124 billion. On the basis of the total number of 86,702,439,000 issued shares at the end of 2004, the proposed dividends to be distributed in cash would be RMB 0.12 per share (including tax) or RMB 10.404 billion in total. After the deduction of the cash dividends of RMB 0.04 per share distributed in the interim of 2004 (totalled RMB 3.468 billion), the final cash dividends for year 2004, declared after the balance sheet date, would be RMB 0.08 per share (totalled RMB 6.936 billion). This preliminary plan for profit appropriation will be subject to the consideration and approval at the Annual General Meeting of Shareholders for year 2004 to be convened on Wednesday, 18 May 2005.

### 3 USE OF PROCEEDS FROM ISSUANCE OF A SHARES

In 2001, the proceeds from the issuance of A shares of Sinopec Corp. amounted to RMB 11.816 billion. Excluding issuance expenses, the net proceeds from the issuance of A shares amounted to RMB 11.648 billion, of which RMB 7.766 billion was used in 2001, mainly to acquire National Star from Sinopec Group and to supplement the Company's working capital. In 2002, RMB 696 million was used mainly to cover the initial preparation costs of the southwest oil products pipeline project and to build the Ningbo-Shanghai-Nanjing crude oil pipeline. In 2003, RMB 1.514 billion was used, of which RMB 700 million was used for building the southwest oil products pipeline project and RMB 814 million was used for building the Ningbo-Shanghai-Nanjing crude oil pipeline. In 2004, RMB 1.061 billion was used for building the southwest oil products pipeline project. Up to 31 December 2004, the remaining balance of the proceeds from the issuance of A shares was RMB 611 million.

## DISCLOSURE OF SIGNIFICANT EVENTS (CONTINUED)

### 4 ISSUANCE AND LISTING OF CORPORATE BONDS

On 8 March 2004, Sinopec Corp. successfully issued domestic 10-year term corporate bonds which amounted to RMB 3.5 billion with a fixed coupon rate of 4.61%. On 28 September 2004, the said corporate bonds were listed on the Shanghai Stock Exchange. For further details, please refer to Sinopec Corp.'s announcement published in China Securities, Shanghai Securities, and Securities Times in Mainland China, and South China Morning Post and Hong Kong Economic Times in Hong Kong on 24 February 2004 and 28 September 2004. As of 31 December 2004, the outstanding principal balance of the said corporate bonds was RMB 3.5 billion. On 24 February 2005, Sinopec Corp. repaid coupon interests for the first year in full.

### 5 MAJOR COOPERATION PROJECTS

#### (1) Qingdao Refining Project

On 22 June 2004, the National Development and Reform Commission (NDRC) approved the feasibility study report with respect to the Qingdao Refining Project which is to be funded by Sinopec Corp., Shandong International Trust Investment Company and Qingdao International Trust Investment Company. The capacity of the refinery is expected to be 10 million tonnes per year and the total investment in the project is RMB 9.7 billion, of which the said parties contributed 85%, 10% and 5% respectively. The project is expected to commence production in 2007. Sinopec Qingdao Refining and Chemical Company Limited ("Qingdao Oil Refinery") was established in Qingdao on 18 November 2004.

#### (2) Establishment of Sinopec-Shell (Jiangsu) Petroleum Marketing Co., Ltd.

On 13 July 2004, the Ministry of Commerce approved the establishment of

Sinopec-Shell (Jiangsu) Petroleum Sales Co., Ltd., a Sino-foreign joint venture by Sinopec Corp., Royal Dutch/Shell (China) Holding BV and Shell (China) Ltd. The total investment in the said joint venture was RMB 1.55 billion and the registered capital was RMB 830 million. The parties contributed to the registered capital of the said joint venture in the proportion of 60%, 30% and 10% respectively. On 28 August 2004, Sinopec Shell (Jiangsu) Petroleum Marketing Co., Ltd was officially established in Nanjing.

#### (3) Establishment of BP Sinopec (Zhejiang) Petroleum Co., Ltd.

On 3 September 2004, the Ministry of Commerce approved the establishment of a Sino-foreign joint venture, Sinopec BP (Zhejiang) Petroleum Co. Ltd., by Sinopec Corp. and BP Global Investments Limited. The total investments of the said joint venture amounted to RMB 2.188 billion and its registered capital was RMB 800 million. Sinopec Corp. and BP Global Investments Limited contributed 60% and 40% of the registered capital of the said joint venture respectively. Sinopec BP (Zhejiang) Petroleum Co., Ltd. was officially established on 4 November 2004.

#### (4) Foreign Partners Exited the Natural Gas Project in East China Sea

On 19 August 2003, Sinopec Corp., CNOOC, Shell and Unocal reached an agreement to jointly explore for, develop and sales natural gas, oil and condensate in the East China Sea. Pursuant to the terms of the agreement, the foreign partners were required to reach a formal decision on whether to continue to participate in the said project after 12 months from the date of signing of the

agreement. On 24 September 2004, Shell and Unocal made an announcement of their decision to end their involvement in the exploration, production and sales of products in five different areas of the Xihu district and to exit the said project based on commercial reasons.

#### (5) Launch of FEL Design for Fujian Refinery Integrated Project

An agreement was reached on 26 August 2004 among Fujian Refinery Company Limited ("Fujian Refinery"), a joint venture equally funded by Sinopec Corp. and Fujian Province, ExxonMobil China Petroleum and Chemical Company Limited and Aramco Overseas Company BV to commence the Front End Loading (FEL) facility design for Fujian Refinery Integrated Project. The FEL design includes completion of preliminary engineering, selection of contractors, confirmation of budget and ordering equipment which have a long-lead time. At the conclusion of the FEL design, the parties will reach a final decision regarding the establishment of a joint venture and construction of the FEL facility.

The Fujian Refinery Integrated Project will increase the production capacity of Fujian Refinery from 4 million tonnes per year to 12 million tonnes per year. In addition, the said project involves the construction of a 800,000 tonnes-per-year ethylene cracker, polyethylene and polypropylene units, and a 700,000 tonnes-per-year paraxylene unit. The said project is expected to commence production in the first half of 2008.

## **6 THE TRANSFER OF STATE-OWNED LEGAL PERSON SHARES OF CHINA PHOENIX HELD BY SINOPEC CORP.**

At the ninth meeting of the Second Session of the Board of Directors of Sinopec Corp. held on 6 July 2004, the proposal to transfer 211,423,651 state-owned legal person shares held by Sinopec Corp. in Sinopec Wuhan Phoenix Company Limited (“China Phoenix”) (representing 40.72% of the total issued share capital of China Phoenix) to Hubei Qingjiang Water Power Investment Limited (“Qingjiang Investment”) and China Guodian (Group) Corporation (“Guodian Group”) was approved. The total consideration for the said transfer was approximately RMB 621 million. The proposed acquisition of petrochemicals assets of China Phoenix (including production facilities, inventories and corresponding accounts receivables) from Qingjiang Investment and Guodian Group which they would acquire through asset swaps with China Phoenix was also approved by the Board of Directors of Sinopec Corp. at the same meeting. The total consideration payable for the acquisition was RMB 548 million. Please refer to Sinopec Corp.’s announcement published in China Securities, Shanghai Securities, and Securities Times in Mainland China, and South China Morning Post and Hong Kong Economic Times in Hong Kong on 7 July 2004 for further details. The proposed asset swaps are pending the approval of China Securities Regulatory Commission (CSRC) and such acquisition and asset swaps are being modified to satisfy the requirements of CSRC.

## **7 PAYMENT OF INTEREST, REDEMPTION AND DELISTING OF MAO LIAN CONVERTIBLE BONDS IN 2004**

Pursuant to the approval of CSRC (Document [1999] No.90), Sinopec Mao Ming Refining and Chemical Company Limited (“Maoming Oil Refinery”), a subsidiary of Sinopec Corp., issued convertible bonds (“Mao Lian Convertible Bonds”) in the total sum of RMB

1.5 billion with a 5-year term through the Shenzhen Stock Exchange on 28 July 1999 and the Mao Lian Convertible Bonds were listed on the Shenzhen Stock Exchange on 17 August 1999. In accordance with the Provisional Rules on the Management of Convertible Corporate Bonds and the Convertible Corporate Bonds Prospectus prepared by Maoming Oil Refinery, its shareholders approved the cessation of the trading and delisting of Mao Lian Convertible Bonds commencing from 28 July 2004 at the general meeting held on 23 March 2004. Maoming Oil Refinery has redeemed all convertible bonds which it had not repurchased by the expiration date, at the price of RMB 118.5/piece (tax exempted).

## **8 THE TRANSFER OF STATE-OWNED SHARES FROM CDB AND CINDA TO SINOPEC GROUP COMPANY**

Former shareholders of Sinopec Corp., namely China Development Bank (“CDB”) and China Cinda Asset Management Corporation (“Cinda”), entered into a share transfer agreement with Sinopec Group Company pursuant to which Cinda transferred 5 billion state-owned shares of Sinopec Corp. (representing 5.767% of the total issued shares of Sinopec Corp.) to Sinopec Group Company and CDB transferred 6.143 billion state-owned shares of Sinopec Corp. (representing 7.085% of the total issued shares of Sinopec Corp.) to Sinopec Group Company. The total cash considerations of RMB 9 billion and RMB 11.0574 billion were paid to Cinda and CDB respectively by Sinopec Group Company. The said share transfers were completed on 29 December 2004. Please refer to the announcement published in China Securities, Shanghai Securities, and Securities Times in Mainland China, and South China Morning Post and Hong Kong Economic Times in Hong Kong on 15 October 2004 for further details.

## **9 ACQUISITIONS AND DISPOSALS OF ASSETS (1) Acquisition of shares in Jinzhi**

At the seventh meeting of the Second Session of the Board of Directors of Sinopec Corp. held on 26 March 2004, the Board of Sinopec Corp. approved the use of internal funding to acquire 100% shares of Yanhua Group Tianjin Lubricant & Grease Company Limited (Jinzhi Company) from Sinopec Group Beijing Yanshan Petrochemical Company Limited (a wholly-owned subsidiary of Sinopec Group Company) for a cash consideration of RMB 230 million. The parties entered into an acquisition agreement. Please refer to Sinopec Corp.’s announcement published in China Securities, Shanghai Securities and Securities Times in Mainland China and South China Morning Post and Hong Kong Economic Times in Hong Kong on 29 March 2004 for further details.

## **(2) Acquisition of petrochemicals, catalyst, petrol station assets from Sinopec Group and disposal of downhole operation assets**

The proposals of the acquisition of petrochemical assets, catalyst assets and petrol station assets from Sinopec Group and disposal of downhole operation assets to Sinopec Group were approved by the shareholders of Sinopec Corp. at the extraordinary general meeting held on 21 December 2004. The appraised aggregate value of the assets to be acquired was RMB 17.154 billion, total liabilities was RMB 12.734 billion, and after the deduction of minority interests of RMB 205 million, the net asset value amounted to RMB 4.215 billion. The appraised aggregate value of the assets to be disposed of was RMB 2.147 billion, total liabilities was RMB 399 million, and the

## DISCLOSURE OF SIGNIFICANT EVENTS (CONTINUED)

net asset value was RMB 1.748 billion. The consideration for the acquired assets was RMB 4.578 billion and that for the disposed assets was RMB 1.748 billion. After the offset of the two items, the Company shall pay RMB 2.83 billion to Sinopec Group. In accordance with the agreement, the Company shall also pay RMB 782 million, which represents the profits/losses of such assets for the period between the valuation date and completion date.

Please refer to Sinopec Corp.'s announcement published in China Securities, Shanghai Securities and Securities Times in Mainland China and South China Morning Post and Hong Kong Economic Times in Hong Kong on 1 November 2004 and the circular to shareholders dispatched on 6 November 2004 for further details.

### (3) Acquisition of 40.5% shares held by Hong Kong Huarun in Qingdao Qirun

Qingdao Qirun Petrochemical Company Limited (Qingdao Qirun) is a Sino-foreign joint venture established by Qingdao Petroleum General Company Limited, Qilu Petrochemical Company Limited and Hong Kong Huarun Petrochemical (Group) Company Limited (Hong Kong Huarun) on 27 April 1993. The parties contributed 21%, 38.5% and 40.5% respectively to the total registered capital of USD 27.38 million. Qingdao Qirun is mainly engaged in storing, transporting and transferring crude oil and refined oil and is equipped with 500,000 cubic meters of crude/refined oil storage tanks, four pipelines linking to Qingdao oil terminal, dedicated railways connecting to the Jiaoji railway

and road delivery and transport system for crude/refined oil.

To facilitate oil products storage and transportation for Qingdao Refining Project, Sinopec Corp. and Hong Kong Huarun entered into a share transfer agreement on 17 November 2004, pursuant to which Sinopec Corp. acquired 30% interest in Qingdao Qirun from Hong Kong Huarun. On 21 January 2005, the parties entered into another share transfer agreement, pursuant to which Sinopec Corp. acquired the remaining 10.5% interest in Qingdao Qirun from Hong Kong Huarun. The shares transfer represented an aggregate of 40.5% interest in Qingdao Qirun and the total consideration for the transfer amounted to RMB 480 million.

### 10 PURCHASING STAKE IN CHINA GAS

Sinopec Corp. and China Gas Holdings Ltd. ("China Gas") entered into a strategic cooperation agreement on 1 November 2004. Pursuant to the agreement, Sinopec Corp. subscribed for 210 million newly issued shares of China Gas at the price of HK\$ 0.61 per share. Sinopec Corp. undertook not to sell the shares within 12 months since the completion date of such shares subscription.

### 11 MERGER BY ABSORPTION OF BEIJING YANHUA

Sinopec Corp. plans to privatise Beijing Yanhua Petrochemical Company Limited (Beijing Yanhua) by way of merger by absorption through Beijing Feitian Petrochemical Company Limited (Beijing Feitian), a wholly-owned subsidiary of Sinopec Corp., established for the purpose of such merger. Pursuant to the agreement entered into between Beijing Feitian and Beijing Yanhua on 29 December 2004, Beijing Feitian

will purchase the listed shares of Beijing Yanhua from shareholders at a unit price of HK\$ 3.80 per share in cash, the total consideration involved amounts to approximately HK\$ 3.846 billion. The proposed merger has been approved by relevant shareholders or independent shareholders at the general meeting of independent shareholders of Beijing Yanhua and the general meeting of shareholders of Beijing Feitian, but is subject to the approvals of domestic and overseas regulators. Please refer to Sinopec Corp.'s announcement published in China Securities, Shanghai Securities and Securities Times in Mainland China and South China Morning Post and Hong Kong Economic Times in Hong Kong on 30 December 2004 and 7 March 2005 for details.

### 12 REDUCTION OF EMPLOYEES

Sinopec Corp. plans to reduce the number of employees by 100,000 persons through retirement, voluntary resignation and/or dismissal within the period of 5 years from 2001 to 2005 to enhance its efficiency and operating profit. By the end of 2004, the accumulative net reduction during the past four years had amounted to 119,000 persons. In 2004, the Company has recorded employees reduction expenses of approximately RMB 920 million for about 24,000 employees (including 13,000 downhole operation staff to be reduced in 2005). The net reduction of number of employees in 2004 was 11,000.

### 13 MATERIAL LITIGATION AND ARBITRATION EVENTS

The Company was not involved in any material litigation or arbitration during the reporting period.



## 14 MATERIAL GUARANTEE CONTRACTS AND THEIR PERFORMANCE

### Guarantees provided by the Company (excluding the guarantees provided for subsidiaries)

Obligors	Date of occurrence (date of execution of agreement)	Guaranteed amount (RMB million)	Type	Term	Whether completed or not	Whether for a connected party (Yes or No)
Shanghai Secco Petrochemical Co., Ltd.	2002.2.9	2,930	Joint and several liability guarantee	2002.2.9 –2021.12.20	No	Yes
Shanghai Secco Petrochemical Co., Ltd.	2002.2.9	4,062	Joint and several liability guarantee	2002.2.9 –2013.12.20	No	Yes
BASF-YPC Co., Ltd.	2003.3.7	4,680	Joint and several liability guarantee	2003.3.7 –2008.12.31	No	Yes
Yueyang Sinopec Shell Coal Gasification Co., Ltd.	2003.12.10	377	Joint and several liability guarantee	2003.12.10 –2017.12.10	No	Yes
Fujian Zhangzhao Expressway Service Company Limited	2003.1.21	10	Joint and several liability guarantee	2003.1.21 –2007.10.31	No	Yes
Others <sup>2</sup>		84				
Total amount of guarantee provided during the reporting period <sup>3</sup>						RMB 29 million
Total amount of guarantee outstanding at the end of the reporting period <sup>3</sup>						RMB 12,143 million

### Guarantees for subsidiaries

Total amount of guarantee provided for subsidiaries during the reporting period	RMB 2,483 million
Total amount of guarantee for subsidiaries outstanding at the end of the reporting period	RMB 2,656 million

### Total amount of guarantee (including those provided for subsidiaries)

Total guarantee amount <sup>4</sup>	RMB 14,799 million
Total amount of guarantee as a percentage of the Sinopec Corp. net assets	7.9%

### Guarantees not in compliance with the requirements of Document Zheng Jian Fa [2003] No. 56 <sup>5</sup>

Amount of guarantee provided for the holding shareholder or the other connected parties of which less than 50% (not include 50%) shares are owned by Sinopec Corp.	None
Amount of debt guarantee provided for the companies with liabilities to assets ratio of over 70%	RMB 184 million
Whether the total guaranteed amount is over 50% of the net assets	No
Total amount of guarantee not in compliance with the requirements of Document Zheng Jian Fa [2003] No. 56	RMB 184 million

Note 1: All the guarantees listed above fulfilled the specified review procedures.

Note 2: It is the guarantee sum provided by the Company's subsidiaries in the indicated period multiplying the shareholdings held by Sinopec Corp. in the respective subsidiaries.

Note 3: Total amount of guarantee provided during the reporting period and total amount of guarantee outstanding at the end of the reporting period include the external guarantees provided by the subsidiaries and associates. The amount of the guarantee provided by these subsidiaries and associates is the aggregate of guaranteed amount provided by these subsidiaries and associates multiplied by the respective shareholdings held by Sinopec Corp.

Note 4: Total guarantee amount is the sum of the amount of guarantee outstanding at the end of the reporting period (excluding the guarantee provided for subsidiaries) and the total amount of guarantee for subsidiaries outstanding at the end of the reporting period.

Note 5: It refers to Notice on Certain Issues Relating to Regulating Fund Transfers between a Listed Company and Connected Parties and the External Guarantees of Listed Company (Zheng Jian Fa [2003] No.56) promulgated by CSRC and SASAC.

## DISCLOSURE OF SIGNIFICANT EVENTS (CONTINUED)

### Performing Material Guarantees

At the fourteenth meeting of the First Session of the Board of Directors of Sinopec Corp., the Board approved Sinopec Corp. to provide conditional guarantee in both domestic and foreign currency for the Shanghai Secco project loan, and the amount of guarantee equals to RMB 6.992 billion. For further details, please refer to Sinopec Corp.'s announcement published in China Securities, Shanghai Securities and Securities Times in Mainland China on 2 April 2002 and the results announcement for the year 2001 published in South China Morning Post and Hong Kong Economic Times in Hong Kong.

At the fourteenth meeting of the First Session of the Board of Directors of Sinopec Corp., the Board approved the proposal regarding Sinopec Corp.'s provision of guarantee for the BASF-YPC projects. On 7 March 2003, Sinopec Corp. entered into guarantee agreements for the completion of construction of the BASF-YPC project with domestic and foreign banks, whereby it guaranteed 40% of a domestic and foreign currencies denominated loan equivalent to around RMB 11.7 billion provided by these banks to BASF-YPC Co., Ltd. for completion of construction.

At the twenty-second meeting of the First Session of the Board of Directors of Sinopec Corp., the Board approved the proposal regarding Sinopec Corp.'s provision of equity pledge for the BASF-YPC project loan on the condition that BASF should provide equity pledge on the same terms. On 12 August 2004, Sinopec Corp. officially entered into the equity pledge agreement.

At the twenty-second meeting of the First Session of the Board of Directors of Sinopec Corp., the Board also approved the proposal regarding Sinopec Corp.'s provision of guarantee for Yueyang Sinopec Shell Coal Gasification Co., Ltd., in the amount of RMB 377 million.

At the thirteenth meeting of the Second Session of the Board of Directors of Sinopec Corp., the Board approved Sinopec Corp. in providing China International United Petroleum & Chemical Co., Ltd. with credit line guarantee equivalent to RMB 2.483 billion.

### 15 ADDITION OF MEMBER TO THE SECOND SESSION OF THE BOARD OF DIRECTORS

Since Mr. Liu Kegou, an ex-director of Sinopec Corp., resigned from the Board of Directors of Sinopec Corp., the China Development Bank nominated Mr. Gao Jian as a candidate to the Board on 29 April 2004. At the Annual General Meeting for the year 2003 held on 18 May 2004, Mr. Gao Jian was elected as a member of the Second Session of the Board of Directors of Sinopec Corp.

### 16 CHANGES IN SENIOR MANAGEMENT

At the sixteenth meeting of the Second Session of the Board of Directors of Sinopec Corp., the Board approved the resignation applications of Mr. Wang Jiming from the President position and Mr. Mou Shuling from the Senior Vice President position. The Board of Directors also approved the appointment of Mr. Wang Tianpu as President and Mr. Zhang Jianhua and Mr. Wang Zhigang as Senior Vice President of Sinopec Corp.

### 17 AMENDMENTS TO THE ARTICLES OF ASSOCIATION

Please refer to the section headed "Summary of Shareholders' Meetings" on page 62 of this Annual Report.

### 18 TRUSTEESHIP, SUB-CONTRACT AND LEASE

During this reporting period, Sinopec Corp. did not have any omission in disclosure for significant trusteeship, sub-contract or lease of any other company's assets, nor placed its assets to or under any other company's trusteeship, sub-contract or lease that is subject to disclosure.

### 19 OTHER SIGNIFICANT CONTRACTS

During this reporting period, Sinopec Corp. did not have any omission in disclosure for any significant contract that is subject to disclosure.

### 20 ENTRUSTED MONEY MANAGEMENT

During this reporting period, Sinopec Corp. did not entrust or continuously entrust any outside party to carry out cash assets management on its behalf.

## 21 ASSET SECURED

Details regarding the Company's secured assets as at 31 December 2004 are disclosed in Note 28 to the financial statements prepared under IFRS in this Annual Report.

## 22 AUDITORS

At the Annual General Meeting of Sinopec Corp. for the year 2003 held on 18 May 2004, KPMG Huazhen and KPMG were re-appointed as the domestic and international auditors of Sinopec Corp. for the year 2004, respectively, and the Board of Directors was authorized to determine their remunerations. As approved at the twelfth meeting of the Second Session of

the Board of Directors of Sinopec Corp., the audit fees for 2004 was HK\$ 50 million. The financial statements for the year 2004 have been audited by KPMG Huazhen and KPMG. The auditors' report on the financial statements issued by KPMG Huazhen was signed by Wu Wei and Song Chenyang, Certified Public Accountants registered in the People's Republic of China.

KPMG Huazhen and KPMG have provided auditing services to Sinopec Corp. for a consecutive period of 4.5 years, since the second half of 2000.

Auditor appointed	KPMG Huazhen (Domestic)	KPMG (Overseas)
Audit fees of Sinopec Corp. for year 2004	HK\$ 1,500,000 (unpaid)	HK\$ 21,500,000 (unpaid)
	HK\$ 1,500,000 (paid)	HK\$ 25,500,000 (paid)
Audit fees of Sinopec Corp. for year 2003	HK\$ 3,000,000 (paid)	HK\$ 52,000,000 (paid)
Other fees and other audit fees for year 2003*	HK\$ 3,000,000 (paid)	HK\$ 2,000,000 (paid)
Audit fees of Sinopec Corp. for year 2002	HK\$ 3,000,000 (paid)	HK\$ 52,000,000 (paid)
Travel and other expenses	Borne by the firm	Borne by the firm

### Notes:

Most domestic and overseas listed subsidiaries of the Company appointed KPMG Huazhen and KPMG as their auditors, and a few domestic listed subsidiaries selected other firms as their auditors. Please refer to their respective annual reports for details about such subsidiaries' appointments and dismissals of auditing firms.

\* In the opinion of the Board, the other fees and other audit fees for year 2003 would not affect independence of the auditors.

### **23 INTERESTS OF DIRECTORS, SUPERVISORS AND OTHER MEMBERS OF THE SENIOR MANAGEMENT IN THE SHARE CAPITAL**

In 2004, none of the directors, supervisors or executive presidents or senior management or any of their respective associates had any interests and short positions in any shares or debentures or related shares of Sinopec Corp. or its associated corporations (as defined in Part XV of the Securities and Futures Ordinance) which are required to notify Sinopec Corp. and the Hong Kong Stock Exchange pursuant to Division 7 and 8 of Part XV of the Securities and Futures Ordinance or which are required pursuant to section 352 of the Securities and Futures Ordinance to be entered in the register referred to therein, or which are required to notify Sinopec Corp. and the Hong Kong Stock Exchange pursuant to the Model Code for Securities Transactions Entered by Directors of Listed Companies as specified in the Listing Rules of the Hong Kong Stock Exchange (including those interests and short positions that are deemed to be such, or are regarded to be owned in accordance with the relative provisions under the Securities and Futures Ordinance).

### **24 APPLICATION OF THE MODEL CODE**

During this reporting period, none of the directors had breached the requirements set out in the Model Code for Securities Transactions by Directors of Listed Issuers, Appendix 10 to the Listing Rules stipulated by the Hong Kong Stock Exchange. .

### **25 PURCHASE, SALES AND REDEMPTION OF SHARES**

Save as disclosed above, during this reporting period, the Company has not purchased, sold redeemed any listed securities of Sinopec Corp. or any of its subsidiaries.

### **26 OTHER SIGNIFICANT EVENTS**

During this reporting period, neither Sinopec Corp., the Board of Directors of Sinopec Corp., nor the directors were subject to any investigation from the CSRC, nor was there any administrative penalty or circular of criticism issued by the CSRC, the Securities and Futures Commission of Hong Kong and the Securities and Exchange Committee of the United States, nor any reprimand published by the Shanghai Stock Exchange, the Hong Kong Stock Exchange, the New York Stock Exchange or the London Stock Exchange.

## CONNECTED TRANSACTIONS

### 1 AGREEMENTS CONCERNING CONNECTED TRANSACTIONS BETWEEN THE COMPANY AND SINOPEC GROUP COMPANY

In order to ensure continuous normal operation of production and businesses between the Company and Sinopec Group Company, the parties entered into a number of agreements on connected transactions prior to Sinopec Corp.'s overseas listings. Particulars of the connected transactions are set out below:

- (1) Agreement for mutual supply of ancillary services for products, production and construction services ("Mutual Supply Agreement").
- (2) Sinopec Group Company provides trademarks, patents and computer software to the Company for use free of charge.
- (3) Sinopec Group Company provides cultural and educational, hygienic and community services to the Company.
- (4) Sinopec Group Company provides leasing of land and certain properties to the Company.
- (5) Sinopec Group Company provides consolidated insurance to the Company.
- (6) Sinopec Group Company provides shareholders' loan to the Company.
- (7) The Company provides agency marketing services on products to Sinopec Group Company.
- (8) The Company provides petrol stations franchisee licenses to Sinopec Group Company.

### 2 WAIVER OF THE CONNECTED TRANSACTIONS BETWEEN THE COMPANY AND SINOPEC GROUP COMPANY GRANTED BY THE HONG KONG STOCK EXCHANGE

Pursuant to the Listing Rules of the Hong Kong Stock Exchange, the above connected transactions are subject to full disclosure, reporting and, depending on their nature and value of transaction, with prior approvals from independent directors and the Hong Kong Stock Exchange. At the time of listing, Sinopec Corp. applied for waivers from the Hong Kong Stock Exchange to exempt it from full compliance with the Listing Rules for the transactions mentioned above. The Hong Kong Stock Exchange conditionally exempted Sinopec Corp. from undertaking the obligations of continuous disclosure.

At the Extraordinary General Meeting of Sinopec Corp. held on 24 August 2001, the Connected Transaction Adjustment Agreement was approved, and the ongoing connected transactions were adjusted accordingly. On 29 June 2001, the Hong Kong Stock Exchange conditionally agreed to grant new waivers of continuous disclosure obligations to Sinopec Corp. and granted Sinopec Corp. a waiver for a period of three financial years ended on 31 December 2003. Within such period of time, Sinopec Corp. is not required to comply with the relevant Listing Rules of the Hong Kong Stock Exchange, providing that it must satisfy the conditions for waivers on continuous disclosure obligations which were set out in the eighth paragraph of the letter from the Chairman incorporated in the circular concerning connected transactions and ongoing connected transactions which was dispatched to the holders of H shares on 30

June 2001, and published in Annex 3 to the announcement of the Sinopec Corp.'s Extraordinary General Meeting of Shareholders of the year 2001 in China Securities News, Shanghai Securities News, and Securities Times on 10 July 2001.

At the end of 2003, the above waiver conditionally granted by Hong Kong Stock Exchange for disclosure requirements of ongoing connected transactions, which had a term of three years (from 2001 to 2003), expired. Sinopec Corp. readjusted the cap amount for waiver from disclosure requirements of ongoing connected transactions, and re-applied for a new 3-year waiver from disclosure requirements of ongoing connected transactions (from 2004 to 2006) with regard to the relevant major ongoing connected transactions and the cap amount of ongoing connected transactions (as defined in the announcement dated 28 October 2003) in accordance with the Listing Rules of the Hong Kong Stock Exchange, which exempts Sinopec Corp from strict compliance with the relevant disclosure requirements and approval by shareholders with regard to the major ongoing connected transactions and exempts Sinopec Corp. from strict compliance with rules of relevant disclosure with regard to the cap amount of ongoing connected transactions. Those major ongoing connected transactions and the cap amount of ongoing connected transactions have been approved by the shareholders in the General Meeting of Shareholders. On 16 January 2004, the Hong Kong Stock Exchange conditionally agreed to grant the new waivers from ongoing disclosure obligations to Sinopec Corp. and granted Sinopec Corp. a waiver for a period of three financial years expiring on 31 December

2006. Within such period of time, Sinopec Corp. is not required to comply with the relative requirements of connected transactions under the Listing Rules, but Sinopec Corp. must satisfy the conditions of waiver set out in the letter from the Chairman incorporated in the circular concerning connected transactions and ongoing connected transactions which was dispatched to the holders of H shares by Sinopec Corp. on 29 October 2003, and were published in the announcement of the Third Extraordinary General Meeting of Shareholders for the year 2003 in China Securities News, Shanghai Securities News, and Securities Times on 29 October 2003.

The above mentioned cap amount of land use rights rent of ongoing connected transactions has been readjusted during the reporting period. At the twelfth meeting of the Second Session of the Board of Directors of Sinopec Corp. held on 31 October 2004, the Board approved the Proposal on Acquisition and Disposal of Assets to China Sinopec Group Company (refer to item 9 (2) in Disclosure of Significant Events) and the Proposal on Adjusting Items of Connected Transaction of Sinopec Group Company. After the completion of above transaction, Sinopec Group Company approved the lease of the land use rights by Sinopec Corp. of an area 8,888,498 square meters at an annual rent of RMB 110 million (equivalent to HK\$104 million) and approved the Proposal Regarding the Adjustment of the Cap Amount of Annual Land Rent according to the Agreement on Lease of Land Use Rights. The board agreed to adjust the cap amount of annual rent payable for the leasing of the land use rights from Sinopec Group Company by Sinopec Corp from RMB 2.15 billion (equivalent to HK\$2.028 billion) to RMB 2.45 billion (equivalent to HK\$2.311 billion) or according to the cap amount agreed by the Hong Kong Stock Exchange which approval was conditional upon completion of the transaction. The Hong Kong Stock Exchange agreed the above cap amount of annual rent for the leasing of land use rights to be adjusted to RMB 2.45 billion.

**3 THE PROVISIONS ON WAIVER OF DISCLOSURE AND APPROVAL OF CONNECTED TRANSACTIONS BETWEEN THE COMPANY AND SINOPEC GROUP COMPANY UNDER THE LISTING RULES OF THE SHANGHAI STOCK EXCHANGE**

In the prospectus for the issue of A shares of Sinopec Corp., the above connected transactions together with the agreements and arrangements between the Company and Sinopec Group Company were fully disclosed. During the reporting period, there was no significant change to the agreements governing the above mentioned connected transactions. The reasonable estimates of the amount of the accumulated connected transactions for the year 2005 of Sinopec Corp. comply with the relative requirements under the Listing Rules of the Shanghai Stock Exchange.

**4 CONNECTED TRANSACTIONS ENTERED INTO BY THE COMPANY DURING THE YEAR**

The aggregate amount of connected transactions actually occurred in relation to the Company during the year was RMB 131.589 billion, of which, incoming trade amounted to RMB 67.982 billion, and outgoing trade amounted to RMB 63.603 billion (including, RMB 63.507 billion of sales of products and services, RMB 59 million of interest earned, RMB 41 million of income from agency fee). All of these transactions satisfied the conditions of waiver imposed by the Hong Kong Stock Exchange. In 2004, the products and services provided by Sinopec Group Company (purchase, storage and transportation, exploration and production services and production-related services) to the Company amounted to RMB 62.313 billion, representing 11.19% of the Company's annual operating expenses, a decrease of 2.42% compared with those in 2003, which were within the cap of 18% for waiver. The auxiliary and community services provided by Sinopec Group Company to the Company amounted to RMB 1.740 billion, representing 0.31% of operating expenses,

with a slight decrease compared with 0.43% in the preceding year, which were within the cap of 2% for waiver. In 2004, the product sales from the Company to Sinopec Group Company amounted to RMB 63.507 billion, representing 10.25% of the Company's operating revenue, which were within the cap of 14% for waiver. With regard to the Leasing Agreement of Land Use Rights, the amount of rent paid by the Company for the year ended 31 December 2004 was approximately RMB 2.146 billion. With regard to the premium payable under the SPI Fund Document, the amount of fund paid by the Company in 2004 was not less than the amount specified in the SPI Fund Document.

Please refer to Note 33 to the financial statements prepared pursuant to the IFRS in this annual report for details of the connected transactions actually occurred during the year.

The above mentioned connected transactions in 2004 have been approved at the fifteenth meeting of the Second Session of the Board of Directors of Sinopec Corp.

The auditors of Sinopec Corp. have confirmed to the Board of Directors in writing that:

- (a) The transactions have been approved by the Board of Directors;
- (b) The transactions have been entered into at considerations consistent with the pricing policies as stated in the relevant agreements;
- (c) The transactions have been entered into in accordance with the terms of the respective agreements and documents governing the respective transactions; and
- (d) The relevant amount has not exceeded the relevant cap for waiver.

After reviewing the above relevant transactions, the independent directors of Sinopec Corp. have confirmed that:

- (a) The transactions have been entered into by Sinopec Corp. in its ordinary course of business;
- (b) The transactions have been concluded on any one of the following terms:
  - i on normal commercial terms;
  - ii on terms not less favorable than those available from/to independent third parties; or
  - iii on terms that are fair and reasonable as to the shareholders of Sinopec Corp., where there is no available comparison to determine whether item i or ii is satisfied; and
- (c) The aggregate values of the transactions have not exceeded the respective cap amounts.

## 5 OTHER MATERIAL CONNECTED TRANSACTIONS DURING THE YEAR

### (1) Connected transactions for new leasing of Sinopec Group Company's land use rights

At the third meeting of the Second Session of the Board of Directors of

Sinopec Corp., the Board approved the Proposal Regarding the New Leasing of Land Use Rights from Sinopec Group Company, and approved the lease of the land use rights by Sinopec Corp. of an area of 51.71 million square meters from Sinopec Group Company. The parties entered into an Agreement on Lease of Land Use Rights in August 2003. The amount of rent under the leasing agreement incurred in this reporting period was approximately RMB 300 million.

The auditors of Sinopec Corp. have confirmed to the Board of Directors in writing that:

- (a) The above leasing agreements have been approved by the Board of Directors;
- (b) The above leasing agreements have been entered according to relevant terms; and
- (c) The amounts of rent paid in accordance with the above leasing agreements have not exceeded the cap amount.

After reviewing the connected transactions above, the independent directors of Sinopec Corp. confirmed the following:

(a) The above leasing agreement:

- i have been concluded by Sinopec Corp. or its subsidiaries in the ordinary course of business;
  - ii have been concluded (a) on normal commercial terms (the terminology shall be applied in reference to transactions of similar nature, and shall be made by similar Chinese entities) or (b) (where there is no available comparison) on terms that are fair and reasonable to the independent shareholders; and
  - iii have been concluded in accordance with the provisions of the standard leasing agreement;
- (b) The total amount of rent incurred in the fiscal year of Sinopec Corp. under the above leasing agreements have not exceeded the cap amount for the relevant fiscal year.

### (2) Acquisition of shares of Jinzhi Company

Please refer to item 9(1) in Disclosure of Significant Events.

### (3) Acquisition of petrochemical, catalyst and gas stations assets from parent company and the disposal of downhole operation assets

Please refer to item 9(2) in Disclosure of Significant Events.

## CONNECTED TRANSACTIONS (CONTINUED)

### 6 THE PRINCIPAL OPERATIONS CATEGORIZED BY BUSINESS SEGMENTS AND THE STATUS OF THE CONNECTED TRANSACTIONS

The following data are extracted from the financial statements prepared under the PRC Accounting Rules and Regulations.

Categorized by business segments	Income from principal operations (RMB millions)	Cost of principal operations (RMB millions)	Gross profit (%) *	Increase/decrease of income from principal operations compared with the same period of preceding year (%)	Increase/decrease of cost from principal operations compared with the same period of preceding year (%)	Increase/decrease of gross profit margin ratio compared with the same period of preceding year (percentage points)
				22.18%	14.05%	3.72
Exploration and production	76,023	34,929	49.98%	22.18%	14.05%	3.72
Refining	352,548	326,590	3.41%	32.41%	34.44%	(1.00)
Marketing and distribution	345,671	305,690	11.39%	43.54%	45.60%	(1.22)
Chemicals	122,118	96,339	20.57%	48.32%	32.55%	9.37
Others	79,145	78,395	0.93%	30.60%	30.72%	(0.09)
Elimination of inter-segment sales	(384,873)	(382,736)	N/A	N/A	N/A	N/A
Total	590,632	459,207	19.51%	41.57%	42.12%	0.16
Of which: Connected transactions	58,732	54,197	7.35%	85.58%	92.91%	(3.32)
Details of connected transactions	Refer to the section 4 of Connected Transactions					
Principle of pricing for connected transactions	(1) Government-prescribed prices and government-guided prices are adopted for products or projects if such prices are available; (2) Where there is no government-prescribed price or government-guided price for products or projects, the market price (inclusive of bidding price) will apply; (3) Where none of the above is applicable, the price will be decided based on the cost incurred plus a reasonable profit of not more than 6% of the price					

\* Gross profit = Profit from principal operations/income from principal operations

### 7 FUNDS PROVIDED BETWEEN CONNECTED PARTIES

Unit: RMB millions

Connected party	Funds provided to connected party		Funds provided to the Company by connected party	
	Occurrence amount	Balance	Occurrence amount	Balance
Sinopec Group Company and its subsidiaries	(2,759)	6,135	(4,836)	9,679
Other connected parties	(23)	308	—	—
Total	(2,782)	6,443	(4,836)	9,679



**1 IMPROVEMENT ON CORPORATE GOVERNANCE**

In 2004, Sinopec Corp. continued to make effort to improve its corporate operations and strengthen its corporate governance.

- (1) In accordance with the Notice on Certain Issues Relating to Regulating Fund Transfers between a Listed Company and Connected Parties and the External Guarantees of Listed Company (Zheng Jian Fa [2003] No.56) promulgated by CSRC and the State-owned Assets Supervision and Administration Commission of the State Council (SASAC) and the new Listing Rules introduced by Hong Kong Stock Exchange, the Company has made prompt amendments to its corporate governance documents such as Articles of Association, Rules and Procedures for the General Meeting of Shareholders and Rules and Procedures for Board of Directors Meeting and in particular, revised various provisions related to corporate guarantee, voting on connected transactions and nomination of directors.
- (2) Based on the evaluation results in respect to the operation of the internal control system during its implementation phase, the Company revised and optimized the system by introducing two new procedures, namely, Procedure for Importing Ordinary Equipment and Materials as an Agent and Intangible Assets Management Procedure. The revised internal control system comprises 13 broad categories which are sub-divided into 43 individual procedures regarding production, operation and management of the Company. The proposal of the revision of the system was approved at the twelfth meeting of the Second Session of the Board of Directors held on 31 October 2004, and the revised system has been implemented in all operation and management areas of the Company since January 2005.
- (3) Pursuant to relevant domestic and overseas regulatory requirements and Rules on Corporate Information Disclosure System and Rules on the Work of

Corporate Investor Relations of Sinopec Corp., the Company is committed to enhancing information disclosure and to improving investor relations.

In 2004, Sinopec Corp. was awarded the “Best Petrochemical Company in Asia” by Euro Money and was selected by the sell-side analysts as “the Best Investor Relations in the Oil and Natural Gas Industry” and “the Best Investor Relations in China (Hong Kong Inclusive)” according to the magazine Institutional Investor.

**2 INDEPENDENT DIRECTORS' PERFORMANCE OF THEIR DUTIES**

During the reporting period, the independent directors were very committed to carrying out their duties and fulfilling the fiduciary obligations as specified in the relevant laws, regulations and the Articles of Association. They attended meetings of both the Board of Directors (please refer to the following table) and professional committees, and put forth many constructive comments and suggestions relating to the Company's development strategy, corporate governance, internal reform and production and operation. They were particularly concerned with the interests of individual shareholders and minority shareholders. They reviewed material connected transactions of the Company, including assets acquisition and disposal from/to Sinopec Group Company and came up with valuable independent suggestions. The independent directors also gave unbiased comments on other major issues such as appointment or dismissal of directors and significant guarantees provided by Sinopec Corp.. Their valuable input effectively ensured fairness and protection to Sinopec Corp. and its shareholders as a whole.

As required by Hong Kong Stock Exchange, the Company makes the following affirmation statement concerning its independent directors: The Company has received annual confirmations from all the independent non-executive directors, acknowledging full compliance with the relevant requirements in respect of their independence pursuant to Rule 3.13 of the Listing Rules. The Company considers all independent non-executive directors independent.

## Presence of Independent Directors at Board of Directors Meetings

Names of the independent directors	Number of meetings held during the reporting period	Counts of presence (times)	Counts of commissioned presence (times)
Chen Qingtai	9	9	0
Ho Tsu Kwok Charles	9	6	3
Shi Wanpeng	9	8	1
Zhang Youcai	9	8	1

**3 SEPARATION BETWEEN SINOPEC CORP. AND ITS CONTROLLING SHAREHOLDER**

Sinopec Corp. is independent from its controlling shareholder, Sinopec Group Company, in respect of business, personnel, asset, organisational structure and finance and has its own independent and comprehensive business operations and management capability.

**4 SENIOR MANAGEMENT EVALUATION AND INCENTIVE SCHEMES**

Sinopec Corp. has established and is continuously improving the fairness and transparency of its performance evaluation and incentive schemes for the directors, supervisors and other senior management officers. Incentive policies such as Performance Evaluation and Salary Incentive

Plan for the Senior Management of Sinopec Corp., Plan of Share Appreciation Rights for the Senior Management of Sinopec Corp. and Measures on the First Granting of Share Appreciation Rights to the Senior Management of Sinopec Corp. were approved at the Fourth Extraordinary General Meeting of Shareholders held on 7 September 2000, as well as Implementing Measures of Salary for Senior Management of Sinopec Corp. (Tentative) and Supplementary Implementing Measures of Salary for Senior Management of Sinopec Corp. (Tentative).

During the period of this report, the provision for the share appreciation rights has been made according to the Measures on the First Granting of Stock Appreciation Rights for the Senior Management of Sinopec Corp.

## 5 COMPARISON OF NEW YORK STOCK EXCHANGE CORPORATE GOVERNANCE RULES AND CHINA CORPORATE GOVERNANCE RULES FOR LISTED COMPANIES

Under the amended Corporate Governance Rules of New York Stock Exchange (NYSE), foreign issuers (including Sinopec Corp.) listed on the NYSE are required to disclose a summary of the significant differences between their domestic corporate governance rules and NYSE corporate governance rules that would apply to a U.S. domestic issuer. A summary of such differences is listed below:

NYSE corporate governance rules	Corporate governance rules applicable to the domestically listed companies in China and the Company's governance practices
<p><b>Director Independence</b></p> <p>A listed company must have a majority of independent directors on its board of directors. No director qualifies as "independent" unless the board of directors affirmatively determines that the director has no material relationship with the listed company (either directly or as a partner, shareholder or officer of an organization that has a relationship with the company). In addition, a director must meet certain standards to be deemed independent. For example, a director is not independent if the director is, or has been within the last three years, an employee of the listed company, or if the director has received, during any twelve-month period within the last three years, more than US\$100,000 in direct compensation from the listed company.</p> <p>To empower non-management directors to serve as a more effective check on management, the non-management directors of each listed company must meet at regularly scheduled executive sessions without management.</p>	<p>It is required in China that any listed company must establish an independent director system and set forth specific requirements for the qualification of independent directors. For example, an independent director shall not hold any other position in the listed company other than being a director and shall not be influenced by the main shareholders or the controlling persons of the listed company, or by any other entities or persons with whom the listed company has a significant relationship. The Company has complied with the relevant Chinese corporate governance rules and has implemented internal rules governing the independence and responsibilities of independent directors. The Company determines the independence of independent directors every year.</p> <p>No similar requirements.</p>
<p><b>Nominating/Corporate Governance Committee</b></p> <p>Listed companies must have a nominating/corporate governance committee composed entirely of independent directors.</p> <p>The nominating/corporate governance committee must have a written charter that addresses the committee's purposes and responsibilities which, at minimum, must be to: search for eligible people for the board of directors, select and nominate directors for the next session of the shareholders' annual meeting, study and propose corporate governance guidelines, supervise the evaluation of the board of directors and management, and evaluate the performance of the committee every year.</p>	<p>The board of directors of a listed company may, through the resolution of the shareholders' meeting, establish a nominating committee composed entirely of directors, of which the independent directors shall be the majority and the convener. Up to now, the Company has not set up any nominating committee.</p> <p>Relevant responsibilities of the nominating/corporate governance committee are similar to those stipulated by the NYSE rules, but the main responsibilities do not include the research and recommendation of corporate governance guidelines, the supervision of the evaluation of the board of directors and management, or the annual evaluation of the committee.</p>

## NYSE corporate governance rules

## Corporate governance rules applicable to the domestically listed companies in China and the Company's governance practices

**Compensation Committee**

Listed companies must have a compensation committee composed entirely of independent directors.

The written charter of the compensation committee must state, at least, the following purposes and responsibilities:

- (1) review and approve the corporate goals associated with CEO's compensation, evaluate the performance of the CEO in fulfilling these goals, and based on such evaluation determine and approve the CEO's compensation level;
- (2) make recommendations to the board with respect to non-CEO executive officer compensation, and incentive-compensation and equity-based plans that are subject to board approval;
- (3) produce a committee report on executive compensation as required by the SEC to be included in the annual proxy statement or annual report filed with the SEC.

The charter must also include the requirement for an annual performance evaluation of the compensation committee.

The board of directors of a listed company can, through the resolution of shareholders' meeting, have a compensation and assessment committee composed entirely of directors, of whom the independent directors are the majority and act as the convener.

The responsibilities are similar to those stipulated by the NYSE rules, but the committee is not required to produce a report on the executive compensation or make an annual performance evaluation of the committee. The board of directors of the Company has established a compensation and assessment committee composed mainly of independent directors who act as the convener, and the committee has a written charter.

**Audit Committee**

Listed companies must have an audit committee that satisfies the requirements of Rule 10A-3 of Securities Exchange Act of 1934 (the "Exchange Act"). It must have a minimum of three members, and all audit committee members must satisfy the requirements for independence set forth in Section 303A.02 of NYSE Corporate Governance Rules as well as the requirements of Rule 10A-3b (1) of the Exchange Act.

The written charter of the audit committee must specify that the purpose of the audit committee is to assist the board oversight of the integrity of financial statements, the company's compliance with legal and regulatory requirements, qualifications and independence of independent auditors and the performance of the listed company's internal audit function and independent auditors.

The written charter must also require the audit committee to prepare an audit committee report as required by the SEC to be included in the listed company's annual proxy statement as well as an annual performance evaluation of the audit committee.

The board of directors of a listed company can, through the resolution of the shareholders' meeting, establish an audit committee composed entirely of directors, of which the independent directors are the majority and act as the convener, and, at minimum, one independent director is an accounting professional.

The responsibilities of the audit committee are similar to those stipulated by the NYSE rules, but according to the domestic practices, the company is not required to make an annual performance evaluation of the audit committee, and the audit committee is not required to prepare an audit report to be included in the company's annual proxy statement. The Board of Directors of the Company has established an audit committee that satisfies relevant domestic requirements and the audit committee has a written charter.

NYSE corporate governance rules	Corporate governance rules applicable to the domestically listed companies in China and the Company's governance practices
<p><b>Audit Committee</b> <i>(Continued)</i></p> <p>Each listed company must have an internal audit department.</p> <p>Shareholders must be given the opportunity to vote on equity-compensation plans and material revisions thereto, except for employment incentive plans, certain awards and plans in the context of mergers and acquisitions.</p>	<p>China has a similar regulatory provision, and the Company has an internal audit department.</p> <p>The relevant regulations of China require the board of directors propose plans on the amount and types of director compensation for the shareholders' meeting to approve. The compensation plan of executive officers shall be approved by the board and announced at the shareholders' meeting and disclosed to the public upon the approval of the board of directors.</p>
<p><b>Corporate governance guidelines</b></p> <p>Listed companies must adopt and disclose corporate governance guidelines, involving director qualification standards, director compensation, director continuing education, annual performance evaluation of the board of directors, etc.</p>	<p>CSRS has issued the Corporate Governance Rules, to which the Company has complied.</p>
<p><b>Code of ethics for directors, officers and employees</b></p> <p>Listed companies must adopt and disclose a code of business conduct and ethics for directors, officers and employees, and promptly disclose any waivers of the code for directors or executive officers.</p> <p>Each listed company CEO must certify to the NYSE each year that he or she is not aware of any violation by the company of NYSE corporate governance listing standards and he or she must promptly notify the NYSE on writing of any material non-compliance with any applicable provisions of Section 303A.</p>	<p>China does not have such requirement for a code for ethics. But, since the directors and officers of the Company have all signed the Director Service Agreement, they are bound by their fiduciary duties to the Company. In addition, the directors and officers must perform their legal responsibilities in accordance with the Company Law of PRC, relative requirements of CSRS and Mandatory Provisions to the Charter of Companies Listed Overseas.</p> <p>No similar requirements.</p>

## SUMMARY OF SHAREHOLDERS' MEETINGS

During the reporting period, Sinopec Corp. held two shareholders' general meetings in strict compliance with the procedures of notification, convening and holding as stipulated in the relevant laws, rules and regulations and the Articles of Association of Sinopec Corp. The details are as follows:

- 1 The General Meeting of Shareholders of Sinopec Corp for the year 2004 was held at the International Meeting Center of Beijing Continental Grand Hotel on 18 May 2004, at which the following resolutions were considered and approved:

### Ordinary Resolutions:

- a. The Work Report of the Board of Directors of Sinopec Corp. for the year ended 31 December 2003.
- b. The Work Report of the Supervisory Committee of Sinopec Corp. for the year ended 31 December 2003.
- c. The audited financial report and consolidated financial statement of Sinopec Corp. for the year ended 31 December 2003.
- d. Sinopec Corp.'s profit distribution plan and the appropriation of final dividend for the year ended 31 December 2003.
- e. Approved the re-appointment of KPMG Huazhen and KPMG respectively as Sinopec Corp.'s domestic and international

auditors in 2004, and authorized the Board of Directors to decide their remunerations.

- f. Elected Mr. Gao Jian as a member of the Second Session of the Board of Directors of Sinopec Corp.

### Special Resolutions:

- a. The general mandate on authorizing the Board of Directors to appropriate and issue new overseas listed shares.
- b. The proposal on revising the Articles of Association of Sinopec Corp. and its appendices.

For further details regarding the General Meeting of Shareholders for the year 2003, please refer to the announcements of Sinopec Corp. published in China Securities News, Shanghai Securities News and Securities Times in Mainland China and Hong Kong Economic Times and South China Morning Post in Hong Kong on 19 May 2004.

- 2 The Extraordinary General Meeting of Shareholders for Year 2004 of Sinopec Corp was held at Beijing Crowne Plaza Park View Wuzhou on 21 Dec 2004, at which the following resolutions were considered and approved:

- a. The proposal regarding the acquisition of certain petrochemical assets from Sinopec Group Company.

- b. The proposal regarding the acquisition of certain catalyst assets from Sinopec Group Company.

- c. The proposal regarding the acquisition of certain petrol stations assets from Sinopec Group Company.

- d. The proposal regarding the disposal of certain downhole operation assets to Sinopec Group Company.

- e. The proposal for the general meeting of Sinopec Corp to authorize the board to perform all relevant matters in relation to the acquisition and disposal.

- f. The proposal regarding the adjustment to the capital expenditure plan for the year 2004.

For further details regarding the Extraordinary General Meeting of Shareholder for year 2004, see the relevant announcements of Sinopec Corp. published in China Securities News, Shanghai Securities News and Securities Times in mainland China and Hong Kong Economic Times and South China Morning Post in Hong Kong on 22 December 2004.

## REPORT OF THE BOARD OF DIRECTORS

The Board of Directors of Sinopec Corp. is pleased to present their report for the year ended 31 December 2004 for review.

### 1 THE MEETINGS OF THE BOARD OF DIRECTORS

During the period of this report, nine Board meetings were held, details of which are as follows:

- (1) The sixth meeting of the Second Session of the Board of Directors was held on 23 February 2004 by way of written resolutions. The Board passed the resolution on Debenture Issuance Regulations of China Petroleum & Chemical Corporation for 2004.
- (2) The seventh meeting of the Second Session of the Board of Directors was held on 26 March 2004 at the headquarters of Sinopec Corp. At the meeting, the Board of Directors considered and approved the Report of the Board of Directors for 2003, the Report of 2003 Operation Performance and the 2004 Operation Plan, the resolution on eight provisions for assets impairment losses in 2003 and the resolution on ongoing connected transactions in 2003 and the resolution on audit expenditure paid to KPMG Huazhen and KPMG in 2003. The Board also approved the re-appointment of KPMG Huazhen and KPMG respectively as the domestic and overseas auditors of Sinopec Corp. for the year 2004 and submitted to the Annual General Meeting for the year 2003 the proposal that the Board of Directors be authorized to determine their remunerations. In addition, the Board approved the Financial Statements for the year 2003 audited by KPMG Huazhen and KPMG, the profit appropriation solution of 2003, the 2003 Annual Report, the summary of the Annual Report and Form 20-F, it also submitted to the 2003 Annual General Meeting the proposal to unconditionally mandate the Board of Directors to decide on allotment and issuance of new foreign shares listed overseas, the resolution on amending the Articles of Association and its appendices,

the resolution on acquiring shares issued by Tianjin Lubricant & Grease Company Limited from the Sinopec Group Company and the resolution on convening the 2003 Annual General Meeting.

- (3) The eighth meeting of the Second Session of the Board of Directors was held on 29 April 2004 by way of written resolutions. The Board of Directors approved the First Quarterly Report of 2004, accepted the resignation of Mr. Liu Kegou from the director position with Sinopec Corp. and approved the submission to the 2003 Annual General Meeting the proposal made by China Development Bank (holding 10.12% shares of Sinopec Corp. at that time) to nominate Mr. Gao Jian as a candidate for directorship of Sinopec Corp.
- (4) The ninth meeting of the Second Session of the Board of Directors was held on 6 July 2004 by way of written resolutions, whereby the proposal for the transfer of the state-owned legal person shares in China Phoenix by Sinopec Corp. to Qingjiang Investment and Guodian Group and acquire petrochemical core business assets.
- (5) The tenth meeting of the Second Session of the Board of Directors was held on 27 August 2004 at the headquarters of Sinopec Corp. At the meeting, the Board considered and approved the Report of Operations for the First Half of 2004 and Operations Plans for the Second Half of 2004, the 2004 Interim Profit Distribution Plan, the Financial Statements of Sinopec Corp. for the First Half of 2004 audited by KPMG Huazhen and KPMG, the 2004 Interim Report of Sinopec Corp. and the resolution on adjusting the investment plan in 2004.
- (6) The eleventh meeting of the Second Session of the Board of Directors held on 28 October 2004 by way of written resolutions. The Board of Directors approved the Third Quarterly Report of 2004.
- (7) The twelfth meeting of the Second Session of the Board of Directors was held at Sinopec headquarters on 31 October 2004, whereby the following resolutions were considered and approved:
  - a. Acquiring chemicals assets from Sinopec Group Company.
  - b. Acquiring catalyst assets from Sinopec Group Company.
  - c. Acquiring petrol station assets from Sinopec Group Company.
  - d. Disposing of downhole operation assets to Sinopec Group Company.
  - e. The submission of the above proposals for approval at the extraordinary general meeting and the resolution for authorizing the Board to do all actions relating to the above four resolutions.
  - f. Adjusting connected transactions with Sinopec Group Company.
  - g. Adjusting the cap amount of the annual rent for leasing of land use rights with Sinopec Group Company.
  - h. Determining 2004 audit fees for KPMG Huazhen and KPMG.
  - i. Amending the internal control system of Sinopec Corp.
  - j. Adjusting 2004 capital expenditure plan.
  - k. Convening 2004 Extraordinary General Meeting of Shareholders.
- (8) The thirteenth meeting of the Second Session of the Board of Directors held on 8 December 2004 by way of written resolutions. The Board approved the resolution approving Sinopec to provide T/T payment credit line guarantee for its subsidiary China International United Petroleum & Chemicals Company Limited (Unionpec).

(9) The fourteenth meeting of the Second Session of the Board of Directors held on 29 December 2004 by way of written resolutions. The Board approved the resolution of privatizing Beijing Yanhua by way of merger by absorption.

**2 IMPLEMENTATION OF RESOLUTIONS PASSED AT SHAREHOLDERS' MEETING BY THE BOARD OF DIRECTORS**

During the period of this report, all members of the Board of Directors of Sinopec Corp. carried out their duties diligently and responsibly in accordance with the relevant laws and regulations and the Articles of Association, duly implemented the resolutions passed at the shareholders' meetings, and accomplished the various tasks entrusted to them at the shareholders' meetings.

**3 MEETINGS OF PROFESSIONAL COMMITTEES**

During the period of this report, the Audit Committee under the Second Session of the Board of Directors held two meetings.

(1) The first meeting of the Second Session of the Audit Committee was held on 25 March 2004 by way of written resolutions, whereby the Explanation on the Operating Business and Financial Position of Year 2003 and the Explanation on Audit by KPMG for Year 2003 were reviewed and the Opinions on the Reviewing of the Financial Statements for the Year 2003 was issued.

(2) The second meeting of the Second Session of the Audit Committee was held on 26 August 2004 by way of written resolutions, whereby the Explanation on the Operating Business and Financial Position of the First Half of Year 2004 and

the Explanation on Audit by KPMG for the First Half of Year 2004 were reviewed and the 2004 Interim Opinions on the Reviewing of the Financial Statements was issued.

**4 OTHER DISCLOSEABLE EVENTS**

**(1) Statement in relation to the use of funds by the controlling shareholder and other related parties**

Pursuant to the provisions in the Notice on Certain Issues Relating to Regulating Fund Transfers between a Listed Company and Connected Parties and the External Guarantees of Listed Company (Zheng Jian Fa [2003] No.56) issued by CSRC and SASAC, KPMG Huazhen has issued the Statement in relation to the Use of Funds of China Petroleum & Chemical Corporation by the Controlling Shareholder and Other Related Parties for Year 2004, the details of which are set out below:

To the Board of Directors of China Petroleum & Chemical Corporation:

We have accepted the appointment and audited the Company's consolidated balance sheet and balance sheet as at 31 December 2004, and the consolidated income statement and profit appropriation statement, income statement and profit appropriation statement, consolidated cash flow statement and cash flow statement for the year then ended (the "financial statements") in accordance with the China's Independent Auditing Standards of the Certified Public Accountants. We issued an auditors' report with an unqualified audit opinion on these financial statements on 25 March 2005.

Pursuant to Document Zheng Jian Fa [2003] No. 56, the Company has prepared the Summary of the Use of Funds of China Petroleum & Chemical Corporation by the Controlling Shareholder and Other Related Parties for year 2004 (the "Summary"), which is attached in the appendix to this statement.

The Company is responsible for preparing and disclosing the Summary and ensuring its truthfulness, legitimacy and completeness. We are not aware of any inconsistency, in all material respects, when comparing the information contained in the Summary with the financial information verified in the course of our audit and the related contents in the audited financial statements of the Company and its subsidiaries (the "Group") for the year 2004. Except for the audit procedures performed in the course of our audit of the financial statements for the year 2004 on the Group's related party transactions, we have not performed any additional audit and other procedures on the information contained in the Summary.

In order to have a better understanding on the use of funds by the Company's controlling shareholder and other related parties for the year 2004, the summary should be read together with the audited financial statements.

KPMG Huazhen	Certified Public Accountants Registered in the People's Republic of China
8/F, Office Tower E2, Oriental Plaza No.1, East Chang An Ave. Beijing, The People's Republic of China Postal Code: 100738	Wu Wei and Song Chenyang 25 March 2005



Appendix: Summary of the Use of Funds of China Petroleum & Chemical Corporation by the Controlling Shareholder and Other Related Parties for the year 2004

Unit: RMB millions

Nature of the use of funds	Name of the related party	Relationship	Account name	Beginning balance of the year	Increase during the year	Decrease during the year	Ending balance of the year
Borrowings	—	—	—	—	—	—	—
Entrusted loans	BASF-YPC Ethylene Company Limited	Other related party	Long-term investment	—	60	—	60
Entrusted investments	—	—	—	—	—	—	—
Issuing commercial bills without genuine business transactions							
Business bills	—	—	—	—	—	—	—
Settlement of liabilities on behalf of related parties	—	—	—	—	—	—	—
Accounts receivable and other receivables aged over one year as at 31 December 2004	China Petrochemical Corporation	Controlling shareholder	Other receivables	3,111	—	609	2,502
	Fellow subsidiaries controlled by China Petrochemical Corporation	Other related parties	Other receivables/ accounts receivable	3,706	1,517	3,527	1,696
<b>Total</b>				<b>6,817</b>	<b>1,577</b>	<b>4,136</b>	<b>4,258</b>

The summary was approved by the Board of Directors on 25 March 2005.

**(2) The independent directors presented itemised explanations and independent opinions on the Company's accumulated and current external guarantees for the year 2004:**

Pursuant to Document Zheng Jian Fa [2003] No. 56, as independent directors of Sinopec Corp., we have carefully reviewed the accumulative and current external guarantees provided by Sinopec Corp. in current year, which are described as below:

By 31 December 2004, the accumulated amount of external guarantees provided by Sinopec Corp. was approximately RMB 14.799 billion, and the current amount of external guarantees provided by Sinopec Corp. in 2004 was approximately RMB 2.512 billion. Among the guarantees, the T/T payment credit line guarantee offered to Unionpec whose 70% shares are owned by Sinopec Corp. accounted for a significant portion, which amounted to an

equivalent of RMB 2.483 billion. The external guarantees occurring prior of 2004 had been disclosed in detail in the 2003 Annual Report.

We present our opinions as follows:

The net guarantee amount of Sinopec Corp. in 2004 was RMB 2.392 billion compared with that in 2003, of which T/T payment credit line guarantee Sinopec Corp. provided for Unionpec accounted for a major portion. This guarantee concerned the payment mode in the course of transactions, which benefits Sinopec Corp. in cutting costs, increasing efficiency with no risks of suffering from losses. In strict compliance with Articles of Association and the internal control procedures in respect of guarantees, Sinopec Corp. performed relevant review procedures and obtained approval from the thirteenth meeting of the Second Session of the Board of Directors on 8 December 2004.

**5 FINANCIAL PERFORMANCE**

The financial results of the Company for the year ended 31 December 2004 prepared in accordance with IFRS and its financial position as at that date and its analysis are set out from page 127 to page 158 in this Annual Report.

**6 DIVIDEND**

At the fifteenth meeting of the Second Session of the Board of Directors of Sinopec Corp., the Board approved the proposal to declare a final dividend of RMB 0.12 per share (including tax) in cash. After deducting the interim cash dividend, the final cash dividend per share for distribution would be RMB 0.08, and the total cash dividend for the full year would amount to RMB 10.404 billion. The distribution proposal will be effective after it is submitted and approved at the 2004 Annual General Meeting of Sinopec Corp. The proposed final dividend will be distributed on or before Monday, 27 June 2005 to those shareholders whose names appear on the register of members of Sinopec Corp. at the

close of business on Friday, 3 June 2005. The register of members of Sinopec Corp.'s H shares will be closed from Monday, 30 May 2005 to Friday 3 June 2005 (both dates are inclusive). In order to qualify for the year end dividend for H shares, the shareholders must lodge all share certificates accompanied by the transfer materials with Hong Kong Registrars Limited, at Shops 1712 to 1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong before 4:00 p.m. on Friday, 27 May 2005 for registration.

Dividend will be denominated and declared in Renminbi. The dividend for holders of domestic shares will be paid in Renminbi and the dividend for holders of foreign shares will be paid in Hong Kong dollars. The exchange rate for the dividend to be paid in Hong Kong dollars will be the mean of the exchange rates of Hong Kong dollars to Renminbi as announced by the People's Bank of China during the week prior to the date of declaration of dividend.

Generally, an individual shareholder of H shares or an individual holder of American Depository Receipts (ADRs) who is resident and domiciled in the UK will (subject to any available allowances or reliefs) be liable to UK income tax on the dividend received from Sinopec Corp. Where an individual shareholder of H shares receives a dividend from Sinopec Corp. without any deduction of tax, the amount included as income for the purposes of computing his or her UK tax liability is the gross amount of the dividend and this is taxed at the appropriate rate (currently 10 % in the case of a taxpayer subject to a basic rate or a lower rate, and 32.5 % in the case of a taxpayer subject to a higher rate). Where tax is withheld from the dividend, credit may be claimed (under tax self-assessments) against UK income tax for any tax withheld from the dividend up to the amount of the UK income tax liability. If such a withholding is required, Sinopec Corp. will assume responsibility for withholding that tax regarding the income with a source within the PRC. The current Chinese-UK Double Taxation Agreement provides that the maximum

withholding tax on dividend payable by a Chinese-domiciled company to UK residents is generally limited to 10% of the gross dividend.

For individual holders of H Shares or holders of ADRs who are UK resident but are not domiciled in the UK (and have submitted a claim to that effect to the UK Inland Revenue, they will generally only be liable to income tax on any dividend received from Sinopec Corp. to the extent that it is received in the UK.

Generally, a shareholder of H shares or a holder of ADRs which is a UK tax resident and UK domiciled will be liable to UK income tax or corporation tax (as appropriate and at the rates of tax applicable to the shareholder or holder) on any dividend received from Sinopec Corp., with double tax relief available for withholding tax imposed. In certain cases (not to be discussed here), a shareholder of H shares or a holder of ADRs which is a UK tax resident may be entitled to relief for "underlying" tax paid by Sinopec Corp. or its subsidiaries.

## 7 MAJOR SUPPLIERS AND CUSTOMERS

During this reporting period, the total amount of purchase from five largest suppliers represented 37.82% of the total amount of purchase of the Company, of which the purchase from the largest supplier represented 14.39% of the total purchase of the Company. The total amount of sales to the five largest customers of the Company represented 9.94% of the total annual sales of the Company.

During this reporting period, except for the connected transactions with the controlling shareholder Sinopec Group Company and its subsidiaries, as disclosed in Connected Transaction Section of this Annual Report, none of the directors, supervisors of Sinopec Corp. and their associates or any shareholders holding over 5% in Sinopec Corp. had any interest in any of the abovementioned major suppliers and customers.

#### **8 BANK LOANS AND OTHER BORROWINGS**

Details of bank loans and other borrowings of the Company as of 31 December 2004 are set out in Note 28 of the Financial Statements prepared in accordance with IFRS in this Annual Report.

#### **9 FIXED ASSETS**

During this reporting period, changes to the fixed assets of the Company are set out in Note 17 of the Financial Statements prepared in accordance with IFRS in this Annual Report.

#### **10 RESERVES**

During this reporting period, changes to the reserves of the Company are set out in the Consolidated Statement of Changes in Shareholders' Equity in the Financial Statements prepared in accordance with IFRS in this Annual Report.

#### **11 DONATIONS**

During this reporting period, donations made for charitable purposes amounted to approximately RMB 290 million (including Tianjin Ethylene, Zhongyuan Ethylene, Guangzhou Ethylene and Luoyang Chemical Fibre and Catalyst Company).

#### **12 PRE-EMPTIVE RIGHTS**

Pursuant to the Articles of Association of Sinopec Corp. and the laws of the PRC, Sinopec Corp. is not subject to any pre-emptive rights requiring it to offer new issue of its shares to its existing shareholders in proportion to their shareholdings.

#### **13 PURCHASE, SALES AND REDEMPTION OF SHARES**

Refer to Disclosure of Significant Events 25.

#### **14 COMPLIANCE WITH THE CODE OF BEST PRACTICE**

The Board of Directors of Sinopec Corp. is not aware of any information reasonably showing that Sinopec Corp. has breached the Code of Best Practice of the Hong Kong Stock Exchange at any time during the reporting period.

By Order of the Board

**Chen Tonghai**  
*Chairman*

Beijing, PRC, 25 March 2005

### To all shareholders:

During this reporting period, all members of the Supervisory Committee observed the principle of good faith and duly fulfilled their supervising duties in accordance with the Company Law of the PRC and the Articles of Association of Sinopec Corp. to safeguard the rights of the shareholders and the interest of the Company.

During this reporting period, the Supervisory Committee held two meetings.

At the third meeting of the Second Session of the Supervisory Committee held on 26 March 2004, the Committee heard the Report on the operating business and financial position of Sinopec Corp. for the year 2003 prepared by the Finance Department and the explanation note on the auditor's report prepared by KPMG. It also considered and approved the Annual Financial Report of Sinopec Corp. for the year 2003, the Annual Report of Sinopec Corp. for the year 2003 and its relevant summary, the Proposal on profit appropriation for the year 2003 and Resolutions on drawing and writing off eight impairment of assets for the year of 2003. The Committee discussed and approved the Annual Report of the Supervisory Committee for the year 2003 and the Working plan of the Supervisory Committee for the year 2004 and notified in writing to certain supervisors that they were to attend the premises of Guizhou Petroleum Company and Southwest pipeline for investigations and inspections. The relevant resolutions were passed in the meeting.

At the fourth meeting of the Second Session of the Supervisory Committee held on 27 August 2004, the Committee considered and approved the Interim Financial Report of Sinopec Corp. for the year 2004, the Interim Report of Sinopec Corp. for the year 2004 and the Interim Proposal on profit appropriation for the year 2004. The Committee also notified certain supervisors in writing to go overseas to investigate the internal management of the Company, and resolved that some of the supervisors to go to the Jinling branch company and Jiangsu Petroleum branch company for inspection of the development of ERP systems. The relevant resolutions were passed.



Mr. Wang Zuoran, Chairman of the Supervisory Committee

The Supervisory Committee, which has effectively performed its duties of investigation and examination in 2004, opined that Sinopec Corp. has abided by the principles of standardization, precision and integrity in its operation and the operations were carried out according to the law. In view of the rapid growth in the national economy of China, the robust market demand and the sustained high international oil price, the Company seized the opportunities and adopted a down-to-earth and flexible approach in its strategies, Sinopec Corp. overcame problems of sourcing difficulties, transportation shortage and controlled price of refined oil products. Basing

on the principle of scientific development, the Company insisted on the strategy of "increasing resources, expanding market, reducing costs and disciplining investment". Due to the above, the Company achieved a production and operating results of a historically high level, with the stable moving steps in reforms, the structural adjustment also progressed significantly. With the sustained development in science and technology, the Company's earnings increased significantly, and the Company has achieved the highest level of production and operation since the Company's establishment.

Firstly, the Board of Directors duly observed the rights and obligations stipulated by the Company Law of the PRC and the Articles of Association of Sinopec Corp. The Directors made decisions on important issues concerning capital operation, production and operating plans and development objectives in a timely manner, and implemented the resolutions passed at general meetings of Shareholders and meetings of the Board of Directors. The operation of the Company was carried out in a legitimate and standardized manner. The Internal Control Manual of Sinopec Corp (revised in 2004) was considered and approved by the Board of Directors in the twelfth meeting of the Second Session of the Board of Directors, and will be effective on 1 January 2005. The Directors, President and other officers of senior management of Sinopec Corp. adhered to the principles of diligence, integrity and good faith, and acted in the best interests of the Company. During the reporting period, there was no infringement by the above personnel of the relevant laws, regulations and the Articles of Association, or any action(s) harming the shareholders' interests in their discharge of duties.

Secondly, the financial statement for the year 2004 has been prepared in accordance with the PRC Accounting Rules and Regulations and the IFRS respectively. The principle of consistency has been adopted in preparing the financial reports, and the reported data truly and fairly reflect the Company's financial position and operating performance. According to the financial data prepared in accordance with the PRC Accounting Rules and Regulations, the income from the Company's principal operations and net profits were RMB 590.632 billion and RMB 32.275 billion respectively. According to the financial data prepared in accordance with the IFRS, the turnover and other operating

revenues, and profit attributable to shareholders were RMB 619.783 billion and RMB 36.019 billion respectively.

Thirdly, the Company utilized RMB 1.06 billion from funds of previous years' financing activities, this is in conformity with the Company's undertakings for projects. As of 31 December 2004, out of the RMB 11.648 billion aggregate of financing funds from the proceeds of A share issuance, RMB 11.037 billion was used. The balanced proceeds in the end of 2004 was RMB 611 million.

Fourthly, the Company's asset acquisition and swap transactions were in conformity with the relevant regulations and laws. During the reporting period, the Company acquired of chemical, catalyst and petrol stations assets from China Petrochemical Corp., 100% shareholding of Jinzhi Company, 40.5% shareholding of Qingdao Qirun and 10.61% shareholding of China Gas. Also, the Company sold its downhole operation assets. In relation to the above, there were no issues of insider dealings, and nothing in the transactions were found to be detrimental to the shareholders' interests and/or led to a loss of assets of the Company.

Fifthly, connected transactions were in conformity with the relevant regulations. All connected transactions between the Company and the Sinopec Group were in conformity with the relevant rules and regulations of the Hong Kong Stock Exchange and the Shanghai Stock Exchange. The connected transaction were conducted on the basis of fair and reasonable price and abided by the principle of "fair, justified and open". Nothing in these transactions were found to be detrimental to the non-connected shareholders and/or the Company's benefits.

Sixthly, according to the financial data prepared in accordance with the PRC Accounting Rules and Regulations, the aggregate profit was RMB 53.535 billion, there was an increase of 78.36% compared with RMB 30.015 billion in 2003. According to the financial data prepared in accordance with the IFRS, the profit before taxation was RMB 59.606 billion, there was an increase of 70.10% compared with RMB 35.041 billion in 2003. The principal reasons for the increase were the rapid growth of the economy of China, the rising cyclical trend in the industry in which the Company is operating, the robust demand in domestic market, the flexible adjustment of operating strategies, the expansion of capacity, strengthening of corporate governance, reduction of costs, and the efforts of implementing the policies of "Reform, Adjustment, Innovation, and Development" over the years.

In the year ahead, the Supervisory Committee will further develop its focus on operation, carry out scientific development comprehensively with a focus on the improvement and implementation of internal control rules. In addition, the Committee will work on aspects including the execution of the fixed asset investment plan, asset acquisition or swap connected transactions, and financial budget. The Committee will strengthen its supervision and investigation of the Company based on the principle of honesty and good faith. The Committee will perform its supervisory functions thoroughly to promote the growth of the Company's profit in 2005 and to safeguard the shareholders' interests.

**Wang Zuoran**

Chairman of the Supervisory Committee

Beijing, PRC, 25 March 2005

## 1 GENERAL INFORMATION ON DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT (1) Directors

**Chen Tonghai**, 56, Chairman of the Board of Directors of Sinopec Corp. Mr. Chen is also President of China Petrochemical Corporation. Mr. Chen graduated from Northeast Petroleum Institute in September 1976 specializing in petroleum production engineering. Mr. Chen is a professor level senior economist. He has extensive experience in petrochemical industry administration and macro-economic management. From March 1983 to December 1986, Mr. Chen was Deputy Head and then Head of Zhenhai Petroleum and Petrochemical Plant under former China Petrochemical Corporation. From December 1986 to July 1989, Mr. Chen served as Managing Deputy Mayor of Ningbo City, Zhejiang Province. From July 1989 to June 1991, Mr. Chen served as Managing Deputy Director of the Planning and Economic Committee of Zhejiang Province. From June 1991 to February 1992, Mr. Chen served as Acting Mayor of Ningbo City. From February 1992 to January 1994, Mr. Chen served as Mayor of Ningbo City. From January 1994 to April 1998, Mr. Chen served as Vice Minister of the State Planning Commission. Mr. Chen served as Vice President of China Petrochemical Corporation from April 1998 to March 2003. Mr. Chen has been President of China Petrochemical Corporation since March 2003. Mr. Chen served as Director and Vice Chairman of the first session of the Board of Directors of Sinopec Corp. from February 2000 to April 2003. Mr. Chen was elected as Director and Chairman of the Second Session of the Board of Directors of Sinopec Corp. in April 2003.

**Wang Jiming**, 62, Vice Chairman of the Board of Directors and President of Sinopec Corp. Mr. Wang graduated from East China Chemical Institute in September 1964 specialising in petroleum refining. Mr. Wang is a professor level senior engineer with over 30 years' management experience in China's petroleum and petrochemical industry. From November 1984 to June 1993, Mr. Wang served as Vice President, Acting President and President of Shanghai Petrochemical Plant under former China Petrochemical Corporation. Mr. Wang served as Chairman and President of Shanghai Petrochemical Company Limited from June 1993 to February 1994. He served as Vice President of China Petrochemical Corporation (before reorganization) and Chairman of Shanghai Petrochemical Company from February 1994 to April 1998. Mr. Wang served as Vice President of China Petrochemical Corporation from April 1998 to February 2000. Mr. Wang has also served as Chairman of Shanghai SECCO Petrochemical Company Limited from December 2001 to July 2003. Mr. Wang served as Director of the first session of the Board of Directors and President of Sinopec Corp. from February 2000 to April 2003. In April 2003, Mr. Wang was elected as Director and Vice Chairman of the Second Session of the Board of Directors of Sinopec Corp. and was appointed as President of Sinopec Corp.

**Mou Shuling**, 60, Director and Senior Vice President of Sinopec Corp. Mr. Mou graduated from Beijing Petroleum Institute in July 1968 specialising in petroleum production engineering. Mr. Mou is a professor level senior engineer and has over 30 years' management experience in China's petroleum industry. From February 1990 to April 1997, Mr. Mou served as

Deputy Director and Director of Jiangsu Petroleum Exploration Bureau. From April 1997 to April 1998, Mr. Mou served as Director of Shengli Petroleum Administration Bureau. Mr. Mou served as Vice President of China Petrochemical Corporation from April 1998 to February 2000. Mr. Mou served as Director of the first session of the Board of Directors and Vice President of Sinopec Corp. from February 2000 to April 2003. In April 2003, Mr. Mou was elected as Director of the Second Session of the Board of Directors of Sinopec Corp. and was appointed as Senior Vice President of Sinopec Corp.

**Zhang Jiaren**, 60, Director, Senior Vice President and Chief Financial Officer of Sinopec Corp. Mr. Zhang graduated from Hefei Industrial University in July 1966 specialising in electrical engineering. Mr. Zhang is a professor level senior economist with over 30 years' management experience in China's petrochemical industry. From August 1987 to July 1994, Mr. Zhang served as Vice President and President of Zhenhai Petroleum and Petrochemical Plant under former China Petrochemical Corporation. From July 1994 to April 1998, Mr. Zhang served as Chairman and President of Zhenhai Refining and Chemical Company. Mr. Zhang served as Vice President of China Petrochemical Corporation from April 1998 to February 2000. Mr. Zhang served as Director of the first session of the Board of Directors and Vice President of Sinopec Corp. from February 2000 to April 2003. Mr. Zhang has been Chief Financial Officer of Sinopec Corp. since March 2000. In April 2003, Mr. Zhang was elected as Director of the Second Session of the Board of Directors of Sinopec Corp. and was appointed as Senior Vice President and Chief Financial Officer of Sinopec Corp.

**Cao Xianghong**, 59, Director and Senior Vice President of Sinopec Corp. Mr. Cao graduated from Nanjing Chemical Institute in July 1967 specialising in macro molecular chemistry. Mr. Cao is an academician of the China Academy of Engineering and a professor level senior engineer. Mr. Cao has over 30 years' management experience in China's petrochemical industry. From July 1984 to August 1997, Mr. Cao served as Vice President and Chief Engineer of Beijing Yanshan Petrochemical Company under former China Petrochemical Corporation. From August 1997 to February 2000, Mr. Cao served as President, Vice Chairman and Chairman of Beijing Yanshan Petrochemical Company Limited and Chairman of Beijing Yanhua Petrochemical Company Limited. Mr. Cao served as Director of the first session of the Board of Directors and Vice President of Sinopec Corp. from February 2000 to April 2003. In April 2003, Mr. Cao was elected as Director of the Second Session of the Board of Directors of Sinopec Corp. and was appointed as Senior Vice President of Sinopec Corp.

**Liu Genyuan**, 59, is a Director of Sinopec Corp. Mr. Liu is Vice President of China Petrochemical Corporation. Mr. Liu graduated from Shanghai Science and Technology University in July 1968 specialising in radiation chemistry. He is a professor level senior economist and has over 30 years' extensive management experience in China's petrochemical industry. From May 1995 to July 2001, he served as President of Shanghai Gaoqiao

Petrochemical Company under former China Petrochemical Corporation. Mr. Liu has been Vice President of China Petrochemical Corporation since July 2001. Mr. Liu was elected as Director of the Second Session of the Board of Directors of Sinopec Corp. in June 2003.

**Gao Jian**, 55, Director of Sinopec Corp. In September 1982, Mr. Gao graduated from the Beijing Institute of Political Science and Law as a postgraduate specialising in politics and economics. In July 1992, he graduated from the Finance and Science Research Institute of the Ministry of Finance of the State with a Ph.D. degree specialising in finance. From November 1997 to June 1998, he conducted postdoctoral researches at the Faculty of Economics at Harvard University, USA and is a Senior Economist. Mr. Gao has been engaged in researches in economic theories and financial management for a long period of time and has extensive experience in economics and financial management. From January 1989 to April 1994, he had been the Deputy Head of the Department of Treaty and Law of the Ministry of Finance and the Deputy Head of the State Liabilities Management Department. From April 1994 to October 1998, he was the Head of the State Liabilities Department and the Head of the Department of Treaty and Law of the Ministry of Finance. From October 1998 to April 2001, he was the Chief Economist, the Head of the Funds Bureau and, concurrently, the Chief Representative of the Hong Kong Representative Office of the State Development Bank. From April 2001

to July 2003, he was the Assistant to the Governor, Head of the Funds Bureau and, concurrently, the Chief Representative of the Hong Kong Representative Office of the State Development Bank. Since July 2003, he is the Deputy Governor of the State Development Bank. He was elected as Director of the Second Session of the Board of Directors of Sinopec Corp. in May 2004.

**Liu Kegou**, 57, is a Director of Sinopec Corp. Mr. Liu graduated from the Renmin University of China in February 1982 specializing in politics and economics. He then obtained a doctorate degree from Northeast Finance University in July 2000 specializing in finance. Mr. Liu was engaged in economic management over a long period of time, and has accumulated extensive experience in macro-economic management. From September 1986 to March 1990, he was Vice President of Beijing Public Transportation Company. From March 1990 to October 1996, he served as Deputy Director of Financial Structure and Tax System Reform Bureau, and then as Director of Taxation Administration Bureau, of State Ministry of Finance. From October 1996 to May 1999, he was the assistant to Governor of Liaoning Province. From May 1999 to September 2002, he served as Vice Governor of Liaoning Province. Mr. Liu has been Deputy Governor of China Development Bank since September 2002. From June 2003 to May 2004, Mr. Liu served as Director of the Second Session of the Board of Directors of Sinopec Corp.

**Fan Yifei**, 41, is a Director of Sinopec Corp. Mr. Fan graduated from Changzhou Financial and Economic School in July 1982 specialising in infrastructure finance and credit. He obtained a master's degree in finance from the Financial Science Research Institute of the Ministry of Finance in September 1990. In July 1993, he obtained a doctoral degree in finance from the Renmin University of China. He is a senior accountant. He has long engaged in financial management work, and has relatively extensive experience in financial management. From February 1994 to September 1994, he was the Assistant to the General Manager and Manager of the Planning and Finance Department of the Trust Investment Company of China Construction Bank. From September 1994 to July 1996, he served as Deputy Director of the Capital Planning Department of China Construction Bank. He was the General Manager of the Finance and Accounting Department of China Construction Bank from July 1996 to January 1998. He was the General Manager of the Planning and Finance Department of China Construction Bank from January 1998 to February 2000. He has been the Assistant to the Governor of China Construction Bank since February 2000. Mr. Fan was elected as Director of the Second Session of the Board of Directors of Sinopec Corp. in April 2003.

**Chen Qingtai**, 67, Independent Non-executive Director of Sinopec Corp. Mr. Chen graduated from Tsinghua University in February 1964 specialising in power and

dynamics engineering. Mr. Chen is a researcher and professor. Mr. Chen was engaged in business administration and macro-economic management over a long period of time, and has accumulated extensive experience in business administration and macro-economic management over a long period of time. From October 1982 to July 1992, Mr. Chen was Chief Engineer, President and Chairman of China No. 2 Automobile Works and Chairman of Shenlong Automobile Co., Ltd. From July 1992 to April 1993, Mr. Chen served as Deputy Director of the State Council Economic and Trade Office. From April 1993 to March 1998, Mr. Chen served as Deputy Director of State Economic and Trade Commission. From March 1998 to November 2004, Mr. Chen served as Vice Minister of the Development Research Center of the State Council (DRC) of PRC. Since July 2000, he has been Director of the Public Management College under Tsinghua University. Mr. Chen has been a member of the Standing Committee of the tenth session of Chinese People's Political Consultative Conference since March, 2003. From November 2004, Mr. Chen has been the senior research fellow of the DRC. Mr. Chen served as Independent Non-executive Director of the first session of the Board of Directors of Sinopec Corp. from February 2000 to April 2003. In April 2003, Mr. Cao was elected as Independent Non-executive Director of the Second Session of the Board of Directors of Sinopec Corp.

**Ho Tsu Kwok Charles**, 55, Independent Non-executive Director of Sinopec Corp. Mr. Ho is Chairman of Hong Kong Tobacco Company Limited, a cigarette manufacturer and distributor in the Asia Pacific. Mr. Ho is also Chairman and Director of Global China Investments Limited, a joint venture between a Canadian provincial government pension fund and the Ontario Municipal Employees Retirement System. He is responsible for devising investment and management strategies for Global China Investments Limited. Mr. Ho is Chairman of Global China Investments Holdings Limited and Non-executive Director of China National Aviation Company Limited, each listed on the Hong Kong Stock Exchange. Mr. Ho is also a member of the Standing Committee of the Chinese People's Political Consultative Conference and an economic consultative advisor to Shandong provincial government. He is a member of the Board of Trustees of the University of International Business and Economics of China and an honorary member of the Board of Trustees of Peking University. Mr. Ho served as Independent Non-executive Director of the first session of the Board of Directors of Sinopec Corp. from June 2000 to April 2003. In April 2003, Mr. Ho was elected as Independent Non-executive Director of the Second Session of the Board of Directors of Sinopec Corp.



**Shi Wanpeng**, 67, is an Independent Non-executive Director of Sinopec Corp. Mr. Shi graduated from Northern Jiaotong University in August 1960 specialising in railway transportation administration. He is a professor level senior engineer. He has long engaged in economic management work, and has extensive experience in macro-economic management. From January 1983 to January 1987, he served as a Deputy Director of the Transport Bureau of the State Economic Commission. From January 1987 to May 1988, he was the Director of the Economic and Technical Co-operation Bureau of the State Economic Commission. From May 1988 to July 1991, he was the Director of the Production and Dispatch Bureau of the State Planning Commission. From July 1991 to July 1992, he served as Deputy Secretary General of the Production Office of the State Council. From July 1992 to April 1993, he served as a Deputy Director of the Economic and Trade Office of the State Council. From April 1993 to July 1997, he was a Vice Minister of the State Economic and Trade Commission. From July 1997 to March 1998, he was the Chairman (minister level) of the China Textiles Association. From March 1998 to February 2002, he served as a Vice Minister of the State Economic and Trade Commission. He has been a member of the Standing Committee of the National Committee of the tenth session of the Chinese People's Political Consultative Conference and Deputy Director of its Economic Committee since March 2003. Mr. Shi was elected as Independent Non-

executive Director of the Second Session of the Board of Directors of Sinopec Corp. in April 2003.

**Zhang Youcai**, 63, is an Independent Non-executive Director of Sinopec Corp. Mr. Zhang graduated from Nanjing Industrial University in August 1965 specialising in inorganic chemistry. He is a professor. He has long engaged in business administration, financial management and government work, and has extensive experience in industrial, economic, financial and accounting management. From January 1968 to August 1980, he served as a technician, Vice President, Deputy Secretary of the Party Committee and President, respectively, of Nantong Chemical Fertilizer Plant. From August 1980 to January 1982, he was a Deputy Director and a member of the Leading Party Group of the Industrial Bureau of Nantong Region. From January 1982 to February 1983, he served as a Deputy Director of the Planning Commission of Nantong Region. From February 1983 to November 1989, he served as a Deputy Mayor, Deputy Secretary of the Party Committee and Mayor, respectively, of Nantong City. He was a Vice Minister and a member of the Leading Party Group of the Ministry of Finance from December 1989 to July 2002 (from May 1994 to March 1998 of this period, he served concurrently as the Director of the State-owned Assets Administration Bureau). He has been the Chairman of The Chinese Institute of Chief Accountants since

November 2002. He has also been the member of the standing committee of the tenth session of the National People's Congress and Deputy Director of its Financial and Economic Committee since March 2003. Mr. Zhang was elected as Independent Non-executive Director of the Second Session of the Board of Directors of Sinopec Corp. in April 2003.

**Cao Yaofeng**, 51, is an Employee Representative Director of Sinopec Corp. Mr. Cao graduated from the General Section of East China Petroleum Institute in September 1977 specialising in mining machinery. He obtained a master's degree in mechanical design and theories from the Petroleum University (East China) in June 2001. He is a professor level senior engineer. From April 1997 to December 2001, he was a Deputy Director of Shengli Petroleum Administration Bureau under China Petrochemical Corporation. He acted concurrently as a Vice-Chairman of the Board of Directors of Sinopec Shengli Oilfield Company Limited from May 2000 to December 2001. From December 2001 to December 2002, he was a Director and the General Manager of Sinopec Shengli Oilfield Company Limited. He has been the Chairman of the Board of Directors of Sinopec Shengli Oilfield Company Limited since December 2002. From October 2004, he has been the assistant for the president of the China Petrochemical Corporation. Mr. Cao was elected as Employee Representative Director of the Second Session of the Board of Directors of Sinopec Corp. in April 2003.

## DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES (CONTINUED)

### Information of Directors

Name	Gender	Age	Position with Sinopec Corp.	Term of Office	Paid (P) or Unpaid (U) by the Company	Sinopec Corp.'s Shares Held (as at 31 December)	
						2004	2003
Chen Tonghai	M	56	Chairman	2003.4-2006.4	P	0	0
Wang Jiming	M	62	Vice Chairman, President	2003.4-2006.4	P	0	0
Mou Shuling	M	60	Director, Senior Vice President	2003.4-2006.4	P	0	0
Zhang Jiaren	M	60	Director, Senior Vice President and Chief Financial Officer	2003.4-2006.4	P	0	0
Cao Xianghong	M	59	Director, Senior Vice President	2003.4-2006.4	P	0	0
Liu Genyuan	M	59	Director	2003.6-2006.4	U	0	0
Gao Jian	M	55	Director	2004.5-2006.4	U	0	0
Liu Kegou	M	57	Director	2003.6-2004.5	U	0	0
Fan Yifei	M	41	Director	2003.4-2006.4	U	0	0
Chen Qingtai	M	67	Independent Non-executive Director	2003.4-2006.4	U	0	0
Ho Tsu Kwok Charles	M	55	Independent Non-executive Director	2003.4-2006.4	U	0	0
Shi Wanpeng	M	67	Independent Non-executive Director	2003.4-2006.4	U	0	0
Zhang Youcai	M	63	Independent Non-executive Director	2003.4-2006.4	U	0	0
Cao Yaofeng	M	51	Employee Representative Director	2003.4-2006.4	P	0	0

Note: Mr. Liu Genyuan, Mr. Gao Jian, Mr. Liu Kegou and Mr. Fan Yifei receive salary from China Petrochemical Corporation, State Development Bank and China Construction Bank, respectively.

### (2) Supervisors

**Wang Zuoran**, 54, Chairman of the Supervisory Committee of Sinopec Corp. Mr. Wang graduated from Shandong Economic Administration Institute in September 1994 specialising in economic administration. Mr. Wang is a professor level senior economist and he has extensive experience in the management of petroleum industry. From October 1994 to February 2000, Mr. Wang served as Deputy Director and Party Secretary of Shengli Petroleum Administration Bureau. From February 2000 to July 2001, Mr. Wang was the Assistant to President of China Petrochemical Corporation. Mr. Wang has been Director of Disciplinary Supervision Committee of China Petrochemical Corporation since July 2001. Mr. Wang served as Supervisor of the first session of the Supervisory Committee of Sinopec Corp. from February 2000 to April 2003. In April 2003, Mr. Wang was elected as Supervisor and Chairman of the Second Session of the Supervisory Committee of Sinopec Corp.

**Zhang Chongqing**, 60, Supervisor of Sinopec Corp. Mr. Zhang graduated from China University of Science and Technology in July 1967 specialising in macro molecular chemistry. He is a professor level senior economist. From May 1991 to February 1993, Mr. Zhang served as Deputy President of Planning Institute of former China Petrochemical Corporation. From February 1993 to December 1998, Mr. Zhang served as Deputy Director and Director of General Administrative Office of former China Petrochemical Corporation. Mr. Zhang has been Director of General Administrative Office of China Petrochemical Corporation since December 1998. Mr. Zhang served as Supervisor of the first session of the Supervisory Committee of Sinopec Corp. from February 2000 to April 2003. In April 2003, Mr. Zhang was elected as Supervisor of the Second Session of the Supervisory Committee of Sinopec Corp.

**Wang Peijun**, 59, Supervisor of Sinopec Corp. Mr. Wang graduated from Northeast Petroleum Institute in July 1970 specialising in oil and gas field engineering. He is a professor level senior economist. From June 1989 to August 1991, Mr. Wang was Vice Party Secretary of Qilu Petroleum and Petrochemical Company under former China Petrochemical Corporation. From August 1991 to December 1998, he served as Deputy Director and Director of Human Resources Department of former China Petrochemical Corporation. Since December 1998, Mr. Wang has been Director of Human Resources Department of China Petrochemical Corporation. Mr. Wang served as Supervisor of the first session of the Supervisory Committee of Sinopec Corp. from February 2000 to April 2003. In April 2003, Mr. Wang was elected as Supervisor of the Second Session of the Supervisory Committee of Sinopec Corp.

**Wang Xianwen**, 60, Supervisor of Sinopec Corp. Mr. Wang graduated from Jilin University in July 1968 specialising in chemistry. He is a professor level senior economist. From April 1984 to March 1990, Mr. Wang served as Deputy Manager of Jinzhou Petrochemical Company of former China Petrochemical Corporation. From March 1990 to December 1998, Mr. Wang served as Deputy Director and Director of Auditing Bureau of former China Petrochemical Corporation. Mr. Wang has been Head of China Petrochemical Corporation's Auditing Bureau since December 1998. Mr. Wang has been Director of Sinopec Corp.'s Auditing Bureau since February 2000. Mr. Wang served as Supervisor of the first session of the Supervisory Committee of Sinopec Corp. from February 2000 to April 2003. In April 2003, Mr. Wang was elected as Supervisor of the Second Session of the Supervisory Committee of Sinopec Corp.

**Zhang Baojian**, 60, is a Supervisor of Sinopec Corp. Mr. Zhang graduated from Shandong Financial and Economic College in July 1968 specialising in industrial accounting. He is a professor level senior accountant. From October 1985 to April 1989, he was the Chief Accountant of Yueyang Petrochemical General Plant. From April 1989 to October 1995, he served as the chief accountant and Deputy Director of the Finance Department of former China Petrochemical Corporation. He acted concurrently as the Vice

Chairman of Sinopec Finance Company Limited from May 1993 to October 1995. From October 1995 to February 2000, he served as the Director of the Finance Department of former China Petrochemical Corporation and China Petrochemical Corporation, and concurrently served as Chairman of Sinopec Finance Company Limited. From February 2000 to March 2003, Mr. Zhang served as Director of the Finance & Planning Department of China Petrochemical Corporation and concurrently as Vice Chairman of the Board of Directors of Sinopec Finance Company Limited. From March 2003 to October 2004, he served as Deputy Chief Accountant and concurrently the Director of the Finance & Planning Department of China Petrochemical Corporation as well as Vice Chairman of the Board of Directors of Sinopec Finance Company Limited. He has been Vice Chairman of the Board of Directors of Sinopec Finance Company Limited since October 2004. Mr. Zhang was elected as Supervisor of the Second Session of the Supervisory Committee of Sinopec Corp. in April 2003.

**Kang Xianzhang**, 56, is a Supervisor of Sinopec Corp. Mr. Kang graduated from the Correspondence Teaching Department of the Party School of the Beijing Municipal Party Committee in March 1988 specialising in ideology politics (undergraduate course). He also graduated from the Correspondence Teaching College of the Party School of the Central

Committee of the Communist Party of China in December 1992 specialising in party and political affairs management (bachelor course). He is a senior political worker. From June 1995 to August 1996, he was the Deputy Director of the Organization Department of the Communist Party Committee of the Tibet Autonomous Region. From August 1996 to May 1997, he was a senior researcher of the deputy director level in the Cadre Allocation Bureau of the Organization Department of the Central Committee of the Communist Party of China. He acted as the Deputy Secretary of the Communist Party Committee of the Coal Scientific Research Institute of the Ministry of Coal Industry from May 1997 to October 1998. From October 1998 to May 1999, he was a Supervisor of the deputy director level in the Discipline Inspection Group and the Supervisory Bureau of China Petrochemical Corporation, and acted as a Deputy Director of the Supervisory Bureau of the same company from May 1999 to March 2001. He was the Deputy Director of the Supervisory Department of Sinopec Corp. from February 2000 to March 2001. He has been a Deputy Head of the Discipline Inspection Group of the Leading Party Group and Director of the Supervisory Bureau of China Petrochemical Corporation, as well as Director of the Supervisory Department of Sinopec Corp. since March 2001. Mr. Kang was elected as Supervisor of the Second Session of the Supervisory Committee of Sinopec Corp. in April 2003.

**Cui Jianmin**, 72, Independent Supervisor of Sinopec Corp. Mr. Cui graduated from the Renmin University of China in October 1962 specialising in planning. Mr. Cui is a senior auditor, certified accountant and has extensive management experience in audit and finance fields. From June 1983 to January 1985, Mr. Cui served as Director of Industry and Transportation Bureau of State Audit Administration. From January 1985 to April 1995, Mr. Cui has been Deputy Auditor-General and Managing Deputy Auditor-General of State Audit Administration. From December 1995 to November 2004, Mr. Cui has been Chairman of the Chinese Certified Public Accountants Association since October 2004. He has been the consultant for the Chinese Certified Public Accountants Association. Mr. Cui served as Independent Supervisor in the first session of Supervisory Committee of Sinopec Corp. from April 2000 to April 2003 and was elected Independent Supervisor of the Second Session of Supervisory Committee of Sinopec Corp. in April 2003.

**Li Yonggui**, 64, is an Independent Supervisor of Sinopec Corp. Mr. Li graduated from Shandong Financial and Economic College in July 1965 specialising in finance. He is a senior economist and a certified public accountant. He has long engaged in tax management work and has extensive management experience in the field of taxation. From February 1985 to

December 1988, he was the Deputy Director of the Taxation Bureau of the Ministry of Finance. He served as the Chief Economist of the State Administration of Taxation from December 1988 to April 1991. From April 1991 to February 1995, he served as the Deputy Director of the State Administration of Taxation. He was the Chief Economist of the State Administration of Taxation of China from February 1995 to September 2001. Mr. Li has been the Chairman of the China Taxation Consulting Association since April 2000. Mr. Li was elected as Independent Supervisor of the Second Session of the Supervisory Committee of Sinopec Corp. in April 2003.

**Su Wensheng**, 48, is an Employee Representative Supervisor of Sinopec Corp. Mr. Su graduated from Tsinghua University in December 1980 specialising in environmental engineering. He obtained a master's degree in management science and engineering from Petroleum University (Beijing) in June 2000. He is a senior engineer. From September 1986 to November 1996, he was a Deputy Secretary of the Party Committee of the Beijing Designing Institute under former China Petrochemical Corporation, and acted concurrently as the Secretary of the Disciplinary Committee of the same Institute. From November 1996 to December 1998, he was the Secretary of

the Party Committee of Beijing Designing Institute of the former China Petrochemical Corporation. Mr. Su has been the Director of the Ideology & Politics Department and a Deputy Secretary of the Affiliated Party Committee of China Petrochemical Corporation since December 1998. He has acted concurrently as the Managing Deputy Secretary of the Party Working Committee of the Western New Region Exploration Headquarter of Sinopec Corp. since December 2001. Mr. Su was elected as Employee Representative Supervisor of the Second Session of the Supervisory Committee of Sinopec Corp. in April 2003.

**Cui Guoqi**, 51, is an Employee Representative Supervisor of Sinopec Corp. Mr. Cui graduated from the Correspondence Teaching College of Renmin University of China in December 1985 specialising in industrial business management. In January 1997, he obtained a master's degree in business management from the Business Management School of Renmin University of China. He is a senior economist. Mr. Cui has served as Director of Sinopec Beijing Yanhua Petrochemical Company Limited and he has served concurrently as Chairman of the Trade Union of Sinopec Beijing Yanshan Company since February 2000. Mr. Cui has been a member of the Executive Committee of the All China

Federation of Trade Unions since December 2000, and a member of the Standing Committee of the National Committee of the Union of Chinese Energy and Chemical Industries since December 2001. Mr. Zhang was elected Employee Representative Supervisor of the Second Session of the Supervisory Committee of Sinopec Corp. in April 2003.

**Zhang Xianglin**, 58, is an Employee Representative Supervisor of Sinopec Corp. Mr. Zhang graduated from Beijing Machinery College in July 1970 specialising in precision machine tool. He is a professor level senior political worker. From January 2000 to March 2004, he served as a Director and Chairman of the Trade Union of Sinopec Yangzi Petrochemical Company Limited. He has been deputy secretary of the Communist

Party Committee of Sinopec Yangzi Petrochemical Company Limited since July 2002. From March 2004, he has been the secretary of the Commission for Discipline Inspection and concurrently the convener of the Supervisory Committee of Sinopec Yangzi Petrochemical Company Limited. Mr. Zhang was elected Employee Representative Supervisor of the Second Session of the Supervisory Committee of Sinopec Corp. in April 2003.

**Zhang Haichao**, 47, is an Employee Representative Supervisor of Sinopec Corp. Mr. Zhang graduated from Zhoushan Commercial Technology School in December 1979 specialising in oil storage and transportation. He also graduated from Jilin Chemical Institute in July 1985 specialising in lubricant oil reclaiming process. From January 2001 to June 2002,

he participated in the business administration programme at Macau Science & Technology University. He is an economist. He served as Deputy General Manager of Zhejiang Oil Products Company from March 1998 to September 1999. He has served as General Manager of Zhejiang Oil Products Company since September 1999, and has served as Manager of Sinopec Zhejiang Oil Products Company since February 2000. Since April 2004, he serves as chairman of the BP Sinopec (Zhejiang) Petroleum Company Limited. He has been secretary of the Communist Party Committee, vice chairman and deputy president of the Sinopec Sales Company Limited since October 2004. Mr. Zhang was elected Employee Representative Supervisor of the Second Session of the Supervisory Committee of Sinopec Corp. in April 2003.

#### Information of Supervisors

Name	Gender	Age	Position with Sinopec Corp.	Term of Office	Paid (P) or Unpaid(U) by the Company	Sinopec Corp.'s Shares Held (as at 31 December)	
						2004	2003
Wang Zuoran	M	54	Chairman of the Supervisory Committee	2003.4-2006.4	P	0	0
Zhang Chongqing	M	60	Supervisor	2003.4-2006.4	P	0	0
Wang Peijun	M	59	Supervisor	2003.4-2006.4	P	0	0
Wang Xianwen	M	60	Supervisor	2003.4-2006.4	P	0	0
Zhang Baojian	M	60	Supervisor	2003.4-2006.4	P	0	0
Kang Xianzhang	M	56	Supervisor	2003.4-2006.4	P	0	0
Cui Jianmin	M	72	Independent Supervisor	2003.4-2006.4	U	0	0
Li Yonggui	M	64	Independent Supervisor	2003.4-2006.4	U	0	0
Su Wensheng	M	48	Employee Representative Supervisor	2003.4-2006.4	P	0	0
Cui Guoqi	M	51	Employee Representative Supervisor	2003.4-2006.4	P	0	0
Zhang Xianglin	M	58	Employee Representative Supervisor	2003.4-2006.4	P	0	0
Zhang Haichao	M	47	Employee Representative Supervisor	2003.4-2006.4	P	0	0

**(3) Other Members of the Senior Management**

**Wang Tianpu**, 42, Senior Vice President of Sinopec Corp. Mr. Wang graduated from Qingdao Chemical Institute specialising in basic organic chemistry in July 1985. He then graduated from Dalian Science and Technology University in July 1996 and obtained a master's degree in business administration. In August 2003, he graduated from Zhejiang University specialising in Chemical Engineering and obtained a doctor degree. He is a professor level senior engineer, and has accumulated relatively extensive experience in production management in petrochemical industry. From March 1999 to February 2000, he was Vice President of Qilu Petrochemical Company under China Petrochemical Corporation. From February 2000 to September 2000, he was Vice President of Sinopec Qilu Company. From September 2000 to August 2001, he was President of Sinopec Qilu Company. Mr. Wang was Vice President of Sinopec Corp. from August 2001 to April 2003 and was appointed as Senior Vice President of Sinopec Corp. in April 2003.

**Wang Zhigang**, 48, is a Vice President of Sinopec Corp. Mr. Wang graduated from East China Petroleum Institute in January 1982 specialising in oil production, and then obtained a master degree from China Petroleum University in June 2000 specialising in oil and gas development engineering. In September 2003, he obtained a doctor degree of from Institute of Geology and Geophysics of China Academy of Sciences specialising in geology. He is a professor level senior engineer. From February to June in 2000, he was Vice President of Sinopec Shengli Oil Field Company Limited. From June 2000 to December 2001, Mr. Wang served as Director and President of Sinopec Shengli Oil Field Company Limited. He was appointed as Non-executive Vice Chairman

of the Committee of Economics and Trade of Ningxia Hui Autonomous Region from November 2001 to May 2003. From June 2003, he has acted as the Director of Exploration and Production Department of Sinopec Corp. Mr. Wang was appointed Vice President of Sinopec Corp. in April 2003.

**Zhang Jianhua**, 41, is a Vice President of Sinopec Corp. Mr. Zhang graduated from East China Chemical Engineering Institute in July 1986 specialising in petroleum refining, and then obtained a master degree from East China University to Science and Technology specialising in chemical engineering in December 2000. He is a professor level senior engineer. Mr. Zhang was appointed Vice-president of Shanghai Gaoqiao Petrochemical Company under China Petrochemical Corporation from April 1999 to February 2000. From February to September in 2000, he was Vice President of Sinopec Shanghai Gaoqiao Company. From September 2000 to June 2003, he was the President of Sinopec Shanghai Gaoqiao Company. Mr. Zhang has been Director of Sinopec Operation and Management Department since November 2003. Mr. Zhang was appointed Vice President of Sinopec Corp. in April 2003.

**Cai Xiyou**, 43, is a Vice President of Sinopec Corp. Mr. Cai graduated from Fushun Petroleum Institute in August 1982 specialising in petroleum processing automation, and then obtained an MBA degree from China Industry and Science Administration Dalian Training Center in October 1990. He is a senior economist. From June 1995 to May 1996, Mr. Cai was Vice President of Jinzhou Petrochemical Company under China Petrochemical Corporation before the reorganization. From May 1996 to December 1998, he was Vice President of Dalian West Pacific Petrochemical Limited Company. From December 1998 to June 2001, he acted

as Vice President of Sinopec Sales Company Limited, and from June to December in 2001, he acted as Managing Vice President of Sinopec Sales Company Limited. He has been Director and President of China International United Petroleum & Chemicals Company Limited since December 2001. Mr. Cai was appointed as Vice President of Sinopec Corp. in April 2003.

**Li Chunguang**, 49, is a Vice President of Sinopec Corp. Mr. Li graduated from Heilongjiang Business Institute in January 1982 specialising in petroleum automatic storage and transportation. He is a senior engineer. Mr. Li acted as Vice President of Sinopec Sales Company Limited from October 1995 to June 2001. From June 2001 to December 2001, he was President of Sinopec Sales Company limited, and has been Director of Marketing and Distribution Department of Sinopec Corp. since December 2001. In April 2002, he was elected as chairman and president of Sinopec Sales Company Limited. Mr. Li was appointed as Vice President of Sinopec Corp. in April 2003.

**Chen Ge**, 43, is Secretary to the Board of Directors of Sinopec Corp. Mr. Chen graduated from Daqing Petroleum Institute in July 1983 specialising in petroleum refining, and then obtained an MBA degree from Dalian University of Science and Technology in July 1996. He is a senior economist. From July 1983 to February 2000, he worked in Beijing Yanshan Petrochemical Company. From February 2000 to December 2001, he was a Deputy Director of Sinopec Corp.'s Secretariat to the Board of Directors. Mr. Chen has been the Director of Sinopec Corp.'s Secretariat to the Board of Directors since December 2001. Mr. Chen was appointed as Secretary to the Board of Directors of Sinopec Corp. since April 2003.

### Other Members of the Senior Management

Name	Gender	Age	Position with Sinopec Corp.	Term of Office	Paid (P) or Unpaid (U) by the Company	Sinopec Corp.'s Shares Held (as at 31 December)	
						2004	2003
Wang Tianpu	M	42	Senior Vice President	2003.4-	P	0	0
Wang Zhigang	M	48	Vice President	2003.4-	P	0	0
Zhang Jianhua	M	41	Vice President	2003.4-	P	0	0
Cai Xiyong	M	43	Vice President	2003.4-	P	0	0
Li Chunguang	M	49	Vice President	2003.4-	P	0	0
Chen Ge	M	43	Secretary to the Board of Directors	2003.4-2006.4	P	0	0

#### 2 INTERESTS OF DIRECTORS, SUPERVISORS AND OTHER MEMBERS OF THE SENIOR MANAGEMENT IN THE SHARE CAPITAL OF SINOPEC CORP.

Please refer to item 23 in Disclosure of Significant Events of this report.

#### 3 DIRECTORS' OR SUPERVISORS' INTERESTS IN CONTRACTS

None of the Directors nor the Supervisors of Sinopec Corp. had any beneficial interests in any material contracts to which Sinopec Corp., its holding company or any of its subsidiaries or fellow subsidiaries was a party subsisted at 31 December 2004 or at any time during the year.

#### 4 SALARIES OF DIRECTORS, SUPERVISORS AND MEMBERS OF THE SENIOR MANAGEMENT

Sinopec Corp. has established and continuously improved a fair and transparent performance evaluation standard and an incentive and constraint mechanism for the directors, supervisors and other senior management officers. It has implemented such incentive policies as a the Performance Evaluation and Salary Incentive Plan for the Senior Management of Sinopec Corp., the Plan of Share Appreciation Rights for the

Senior Management of Sinopec Corp. and the Measures on the First Granting of Share Appreciation Rights to the Senior Management of Sinopec Corp., all of which were approved by the Fourth Extraordinary General Meeting of Shareholders of Year 2000 held on 7 September 2000. In addition, Sinopec Corp. establishes and implements incentive policies such as the Implementing Measures of Salary for Senior Management of Sinopec Corp. (Tentative) and the Supplementary Rules for Implementing Measures of Salary for Senior Management of Sinopec Corp. (Tentative).

The directors, supervisors and other senior management officers of Sinopec Corp. received their remuneration in the form of basic salary and performance rewards, including the amount granted by Sinopec Corp. to the directors, supervisors and other senior management according to the retirement pension plan.

During the period of this report, the reserves for the Share appreciation rights to be granted at the first time have already been prepared according to the Measures on the First Granting of Share Appreciation Rights for the Senior Management of Sinopec Corp.

During this reporting period, directors in office (excluding directors and independent non-executive directors who do not hold any working post with Sinopec Corp.), supervisors (excluding independent supervisors) and other senior management officers were paid RMB 5,777,234 in total as annual remuneration. The three highest paid directors and senior management officers respectively received RMB 847,834 and RMB 1,009,620 remuneration in total. The total annual fees for the independent non-executive directors and independent supervisors were RMB 141,000. Mr. Liu Genyuan, Mr. Gao Jian, Mr. Liu Keguo and Mr. Fan Yifei, who do not hold any working post with Sinopec Corp., are not paid any remuneration by Sinopec Corp.

During this reporting period, amongst the 22 directors (excluding directors and independent non-executive directors who do not hold any working post with Sinopec Corp.), supervisors (excluding independent supervisors) and other senior management officers who are in office, 4 of them received annual remuneration for an amount of above RMB 300,000, 18 of them received annual remuneration between RMB 200,000 and RMB 300,000.

**5 THE COMPANY'S EMPLOYEES**

As at 31 December 2004, the Company had a total of 389,451 employees, details are shown as follows:

Breakdown according to operation department structures

	Number of Employees	Percentage to Total Employees (%)
Exploration and Production	143,846	36.9
Refining	80,344	20.6
Marketing and Distribution	70,516	18.1
Chemicals	89,908	23.1
R&D and Others	4,837	1.3
<b>Total</b>	<b>389,451</b>	<b>100</b>

Breakdown according to functions

	Number of Employees	Percentage to Total Employees (%)
Production	187,126	48.0
Sales	69,535	17.9
Technical	45,146	11.6
Finance	10,012	2.6
Administration	32,448	8.3
Others	45,184	11.6
<b>Total</b>	<b>389,451</b>	<b>100</b>

Breakdown according to education level

	Number of Employees	Percentage to Total Employees (%)
Master's degree or above	3,317	0.9
University	47,688	12.2
Tertiary education	70,420	18.1
Technical/polytechnic school	46,321	11.9
Secondary, technical/polytechnic school or below	221,705	56.9
<b>Total</b>	<b>389,451</b>	<b>100</b>

**6 EMPLOYEES' RETIREMENT SCHEME**

Details of the employees' retirement scheme of the Company are set out in note 34 on the financial statements prepared under IFRS which are contained in this annual report.

As at 31 December 2004, the Company had a total of 111,764 retired employees, and all of them have participated in basic pension schemes administered by provincial (autonomous regions and municipalities) governments. Government-administered pension schemes are responsible for the payments of basic pensions.



## PRINCIPAL WHOLLY-OWNED AND NON WHOLLY-OWNED SUBSIDIARIES

At 31 December 2004, details of the principal wholly-owned and non wholly-owned subsidiaries of the Company are as follows.

Name of company	Registered capital RMB millions	Percentage of shares held by Sinopec Corp. (%)	Total assets RMB millions	Net profit RMB millions	Auditor	Principal activities
China Petrochemical International Company Limited	1,400	100.00	10,928	415	Beijing Zhonglunxin CPA Company Limited	Trading of crude oil and petrochemical products
Sinopec Beijing Yanhua Petrochemical Company Limited	3,374	70.01	10,200	2,867	KPMG Huazhen	Manufacturing of chemical products
Sinopec Sales Company Limited	1,700	100.00	19,979	1,463	KPMG Huazhen	Marketing and distribution of refined oil products
Sinopec Shengli Oilfield Company Limited	29,000	100.00	50,196	14,206	KPMG Huazhen	Exploration and production of crude oil and natural gas
Sinopec Fujian Petrochemical Company Limited	2,253	50.00	4,198	195	KPMG Huazhen	Manufacturing of plastics, intermediate petrochemical products and petroleum products
Sinopec Qilu Petrochemical Company Limited	1,950	82.05	The results are yet to be published	The results are yet to be published	KPMG Huazhen	Manufacturing of intermediate petrochemical products and petroleum products
Sinopec Shanghai Petrochemical Company Limited	7,200	55.56	28,757	3,971	KPMG Huazhen	Manufacturing of synthetic fibres, resin and plastics, intermediate petrochemical products and petroleum products
Sinopec Shijiazhuang Refining-Chemical Company Limited	1,154	79.73	The results are yet to be published	The results are yet to be published	KPMG Huazhen	Manufacturing of intermediate petrochemical products and petroleum products
Sinopec Kantons Holdings Limited	HK\$ 104 million	72.40	2,687	164	KPMG	Trading of crude oil and petroleum products
Sinopec Wuhan Petroleum Group Company Limited	147	46.25	724	34	Wuhan Zhonghuan CPA Company Limited	Marketing and distribution of refined oil products
Sinopec Wuhan Phoenix Company Limited	519	40.72	The results are yet to be published	The results are yet to be published	KPMG Huazhen	Manufacturing of chemical products and petroleum products

## PRINCIPAL WHOLLY-OWNED AND NON WHOLLY-OWNED SUBSIDIARIES (CONTINUED)

Name of company	Registered capital RMB millions	Percentage of shares held by Sinopec Corp. (%)	Total assets RMB millions	Net profit RMB millions	Auditor	Principal activities
Sinopec Yangzi Petrochemical Company Limited	2,330	84.98	The results are yet to be published	The results are yet to be published	KPMG Huazhen	Manufacturing of intermediate petrochemical products and petroleum products
Sinopec Yizheng Chemical Fibre Company Limited	4,000	42.00	The results are yet to be published	The results are yet to be published	KPMG Huazhen	Production and sale of polyester chips and polyester fibres
Sinopec Zhenhai Refining and Chemical Company Limited	2,524	71.32	The results are yet to be published	The results are yet to be published	KPMG Huazhen	Manufacturing of intermediate petrochemical products and petroleum products
Sinopec Zhongyuan Petroleum Company Limited	875	70.85	The results are yet to be published	The results are yet to be published	Beijing Zhongzhou Guanghua CPA Company Limited	Exploration and production of crude oil and natural gas
Zhongyuan Petrochemical Company Limited	2,400	93.51	2,265	528	Huazheng CPA Company Limited	Manufacturing of intermediate petrochemical products and petroleum products
Sinopec Shell (Jiangsu) Petroleum Marketing Company Limited	830	60.00	447	(11)	KPMG Huazhen	Marketing and distribution of refined oil products
BP Sinopec (Zhejiang) Petroleum Company Limited	800	60.00	647	—	KPMG Huazhen	Marketing and distribution of refined oil products

The above indicated total assets and net profit are prepared in accordance with the PRC Accounting Rules and Regulations. Except Sinopec Kantons Holdings Limited, which is incorporated in Bermuda, all of the above wholly-owned and non wholly-owned subsidiaries are incorporated in the PRC. The above wholly-owned and non wholly-owned subsidiaries are limited liability companies. The Directors considered that it would be redundant to disclose the particulars of all subsidiaries and, therefore, only those have a significant impact on Sinopec Corp.'s results or net assets are set out above.

## NOTICE OF ANNUAL GENERAL MEETING

**NOTICE IS HEREBY GIVEN** that the annual general meeting ("Annual General Meeting") of China Petroleum & Chemical Corporation ("Sinopec Corp.") for the year 2004 will be held at Crowne Plaza Beijing – Park View Wuzhou, No. 8 North Si Huan Zhong Road, Chaoyang District, Beijing, China on Wednesday, 18 May 2005 at 9:00 a.m. for the following purposes:

**By way of ordinary resolutions:**

1. To consider and approve the report of the Board of Directors of Sinopec Corp. for the year ended 31 December 2004.
2. To consider and approve the report of the Supervisory Committee of Sinopec Corp. for the year ended 31 December 2004.
3. To consider and approve the audited accounts and audited consolidated accounts of Sinopec Corp. for the year ended 31 December 2004.
4. To consider and approve Plan for Profit Appropriation and the Final Dividend of Sinopec Corp. for the year ended 31 December 2004.
5. To appoint the PRC and international auditors, respectively, of Sinopec Corp. for the year 2005 and to authorise the Board of Directors to fix their remuneration.
6. To consider and approve the proposal regarding Sinopec Corp. Tianjin 1 million tonnes per annum ethylene and auxiliary facilities project.

To improve the overall competitiveness and profitability of Sinopec Corp. in accordance with its overall strategic development and current market condition, the Board approved the feasibility study report of Tianjin 1 million tonnes per annum ethylene and auxiliary facilities project and will submit the report for approval at the Annual General Meeting. This project includes an ethylene project with a capacity of 1 million tonnes per annum, a refining revamping project and an auxiliary thermo power revamping project. The total investment of the project is estimated to be RMB20.1 billion.

By Order of the Board  
**Chen Ge**  
Secretary to the Board of Directors  
Beijing, PRC, 25 March 2005

NOTES:

**1. Eligibility for attending the Annual General Meeting**

Holders of Sinopec Corp.'s H Shares whose names appear on the register of members maintained by Hong Kong Registrars Limited and holders of domestic shares whose names appear on the domestic shares register maintained by China Securities Registration and Clearing Company Limited Shanghai Branch Company at the close of business Monday, 25 April 2005 are eligible to attend the Annual General Meeting.

In order to be eligible to attend and vote at the Annual General Meeting to be held on Wednesday, 18 May 2005, all transfers accompanied by the relevant share certificates must be lodged with share registrars for H Shares of Sinopec Corp. in Hong Kong, Hong Kong Registrars Limited, Rooms 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong, not later than 4:00 p.m. on Monday, 18 April 2005.

**2. PROXY**

- (1) A member eligible to attend and vote at the Annual General Meeting is entitled to appoint, in written form, one or more proxies to attend and vote on its behalf. A proxy need not be a shareholder of Sinopec Corp.
- (2) A proxy should be appointed by a written instrument signed by the appointor or its attorney duly authorised in writing. If the form of proxy is signed by the attorney of the appointor, the power of attorney authorising that attorney to sign or the authorisation document(s) must be notarised.
- (3) To be valid, the power of attorney or other authorisation document(s) which have been notarised together with the completed form of proxy must be delivered, in the case of holders of domestic shares, to the registered address of Sinopec Corp. and, in the case of holder of H Shares, to Hong Kong Registrars Limited, not less than 24 hours before the time designated for holding of the Annual General Meeting.
- (4) A proxy may exercise the right to vote by a show of hands or by poll. However, if more than one proxy is appointed by a shareholder, such proxies shall only exercise the right to vote by poll.

### 3. REGISTRATION PROCEDURES FOR ATTENDING THE ANNUAL GENERAL MEETING

- (1) A shareholder or his proxy shall produce proof of identity when attending the meeting. If a shareholder is a legal person, its legal representative or other persons authorised by the board of directors or other governing body of such shareholder may attend the Annual General Meeting by producing a copy of the resolution of the board of directors or other governing body of such shareholder appointing such persons to attend the meeting.
- (2) Holders of H Shares and domestic shares intending to attend the Annual General Meeting should return the reply slip for attending the Annual General Meeting to Sinopec Corp. on or before Thursday, 28 April 2005.
- (3) Shareholder may send the above reply slip to Sinopec Corp. in person, by post or by fax.

### 4. CLOSURE OF REGISTER OF MEMBERS

The register of members of Sinopec Corp. will be closed from Tuesday, 19 April 2005 to Wednesday, 18 May 2005 (both days inclusive).

### 5. PROCEDURES FOR DEMANDING A POLL TO VOTE ON RESOLUTIONS

Subject to the rules of the stock exchanges to which the shares of Sinopec Corp. are listed, the following persons may demand a resolution to be decided on a poll, before or after a vote is carried out by a show of hands:

- (1) the chairman of the meeting;
- (2) at least two shareholders present in person or by proxy entitled to vote thereat; or

- (3) one or more shareholders present in person or by proxy and representing 10% or more of all shares carrying the right to vote at the meeting singly or in aggregate.

Unless a poll is demanded, a declaration shall be made by the chairman that a resolution has been passed on a show of hands. The demand for a poll may be withdrawn by the person who demands the same.

### 6. OTHER BUSINESS

- (1) The Annual General Meeting will not last for more than one working day. Shareholders who attend shall bear their own travelling and accommodation expenses.
- (2) The address of the Share Registrar of H Shares of Sinopec Corp., Hong Kong Registrars Limited is at:

Rooms 1712-1716, 17th Floor  
Hopewell Centre  
183 Queen's Road East  
Hong Kong

- (3) The address of the Share Registrar for A Shares of Sinopec Corp., China Securities Registration and Clearing Company Limited Shanghai Branch Company is at:

72 Pu Jian Road  
Pudong District  
Shanghai

- (4) The registered address of Sinopec Corp. is at:

A6 Huixindong Street  
Chaoyang District  
Beijing 100029  
The People's Republic of China  
Telephone No.: (+86) 10 6499 0060  
Facsimile No.: (+86) 10 6499 0022



To the Shareholders of China Petroleum & Chemical Corporation:

We have audited the accompanying Company's consolidated balance sheet and balance sheet at 31 December 2004, and the consolidated income statement and profit appropriation statement, income statement and profit appropriation statement, consolidated cash flow statement and cash flow statement for the year then ended. The preparation of these financial statements is the responsibility of the Company's management. Our responsibility is to express an audit opinion on these financial statements based on our audit.

We conducted our audit in accordance with China's Independent Auditing Standards of the Certified Public Accountants. Those standards require that we plan and perform the audit to obtain reasonable assurance as to whether the financial statements are free from material misstatement. An audit includes examination, on a test basis, of evidence supporting the amounts and disclosures in the financial statements, an assessment of the accounting policies used and significant estimates made by the Company's management in the preparation of the financial statements, as well as evaluating the overall financial statements presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the above-mentioned financial statements comply with the requirements of the Accounting Standards for Business Enterprises and the Accounting Regulations for Business Enterprises issued by the Ministry of Finance of the People's Republic of China and present fairly, in all material respects, the Company's consolidated financial position and financial position at 31 December 2004, and the consolidated results of operations, results of operations, consolidated cash flows and cash flows for the year then ended.

#### **KPMG Huazhen**

8/F, Office Tower E2  
Oriental Plaza  
No.1, East Chang An Ave.  
Beijing, The People's Republic of China  
Post Code: 100738

Certified Public Accountants  
Registered in the People's Republic of China

**Wu Wei**  
**Song Chenyang**

25 March 2005

**(A) FINANCIAL STATEMENTS PREPARED UNDER THE PRC ACCOUNTING RULES AND REGULATIONS  
CONSOLIDATED BALANCE SHEET**

at 31 December 2004

	Note	2004 RMB millions	2003 RMB millions
<b>Assets</b>			
<b>Current assets</b>			
Cash at bank and in hand	4	18,280	17,405
Bills receivable	5	7,812	5,953
Trade accounts receivable	6	9,756	9,284
Other receivables	7	12,462	15,457
Advance payments	8	4,828	3,904
Inventories	9	63,918	44,915
<b>Total current assets</b>		<b>117,056</b>	<b>96,918</b>
<b>Long-term equity investments (Including equity investment differences of RMB 383 million (2003: RMB 400 million))</b>	10	<b>13,409</b>	<b>11,150</b>
<b>Fixed assets</b>			
Fixed assets, at cost		519,462	461,128
Less: Accumulated depreciation		243,510	213,804
Net book value of fixed assets before impairment losses	11	275,952	247,324
Less: Provision for impairment losses on fixed assets	11	5,816	1,331
Net book value of fixed assets		270,136	245,993
Construction materials	12	430	1,226
Construction in progress	13	45,976	28,513
<b>Total fixed assets</b>		<b>316,542</b>	<b>275,732</b>
<b>Intangible assets and other assets</b>			
Intangible assets	14	5,345	4,564
Long-term deferred expenses	15	3,563	97
<b>Total intangible assets and other assets</b>		<b>8,908</b>	<b>4,661</b>
<b>Deferred tax assets</b>	16	<b>4,166</b>	<b>1,752</b>
<b>Total assets</b>		<b>460,081</b>	<b>390,213</b>
<b>Liabilities and shareholders' funds</b>			
<b>Current liabilities</b>			
Short-term loans	17	26,723	20,904
Bills payable	18	30,797	23,958
Trade accounts payable	19	23,792	22,704
Receipts in advance	20	8,605	5,908
Wages payable		3,223	1,850
Staff welfare payable		1,101	1,230
Taxes payable	21	6,741	6,986
Other payables	22	1,519	1,237
Other creditors	23	26,459	27,537
Accrued expenses	24	652	303
Current portion of long-term liabilities	25	14,298	8,175
<b>Total current liabilities</b>		<b>143,910</b>	<b>120,792</b>
<b>Long-term liabilities</b>			
Long-term loans	26	94,087	79,221
Debentures payable	27	3,500	—
Other long-term payables	28	820	888
<b>Total long-term liabilities</b>		<b>98,407</b>	<b>80,109</b>
<b>Deferred tax liabilities</b>	16	<b>198</b>	<b>289</b>
<b>Total liabilities</b>		<b>242,515</b>	<b>201,190</b>
<b>Minority interests</b>			
		<b>31,216</b>	<b>26,077</b>
<b>Shareholders' funds</b>			
Share capital	29	86,702	86,702
Capital reserve	30	37,121	36,852
Surplus reserves (Including statutory public welfare fund of RMB 9,558 million (2003: RMB 6,330 million))	31	26,116	19,660
Unrecognised investment losses		(713)	(243)
Undistributed profits (Including dividend declared after the balance sheet date in respect of year 2004 of RMB 6,936 million (2003: RMB 5,202 million))	39	37,124	19,975
<b>Total shareholders' funds</b>		<b>186,350</b>	<b>162,946</b>
<b>Total liabilities and shareholders' funds</b>		<b>460,081</b>	<b>390,213</b>

Approved by the Board of Directors on 25 March 2005.

**Chen Tonghai**  
Chairman  
(Authorised representative)

**Wang Jiming**  
Vice Chairman  
and President

**Zhang Jiaren**  
Director, Senior Vice President  
and Chief Financial Officer

**Liu Yun**  
Head of Accounting  
Division

The notes on pages 94 to 125 form part of these financial statements.

# BALANCE SHEET

at 31 December 2004

	Note	2004 RMB millions	2003 RMB millions
<b>Assets</b>			
<b>Current assets</b>			
Cash at bank and in hand	4	6,299	6,581
Bills receivable	5	1,597	1,282
Trade accounts receivable	6	8,245	7,080
Other receivables	7	19,625	24,861
Advance payments	8	4,358	2,990
Inventories	9	33,951	22,793
<b>Total current assets</b>		<b>74,075</b>	<b>65,587</b>
<b>Long-term equity investments (Including equity investment differences of RMB 400 million (2003: RMB 395 million))</b>	10	<b>124,211</b>	<b>98,334</b>
<b>Fixed assets</b>			
Fixed assets, at cost		271,120	223,015
Less: Accumulated depreciation		113,572	94,138
Net book value of fixed assets before impairment losses	11	157,548	128,877
Less: Provision for impairment losses on fixed assets	11	4,038	764
Net book value of fixed assets		153,510	128,113
Construction materials	12	93	263
Construction in progress	13	28,779	19,858
<b>Total fixed assets</b>		<b>182,382</b>	<b>148,234</b>
<b>Intangible assets and other assets</b>			
Intangible assets	14	4,261	3,712
Long-term deferred expenses	15	2,530	—
<b>Total intangible assets and other assets</b>		<b>6,791</b>	<b>3,712</b>
<b>Deferred tax assets</b>	16	<b>3,708</b>	<b>1,510</b>
<b>Total assets</b>		<b>391,167</b>	<b>317,377</b>
<b>Liabilities and shareholders' funds</b>			
<b>Current liabilities</b>			
Short-term loans	17	16,254	9,787
Bills payable	18	21,589	18,006
Trade accounts payable	19	21,137	18,117
Receipts in advance	20	6,106	4,077
Wages payable		1,854	643
Staff welfare payable		498	583
Taxes payable	21	3,170	2,975
Other payables	22	442	380
Other creditors	23	34,156	26,102
Accrued expenses	24	430	133
Current portion of long-term liabilities	25	11,506	4,428
<b>Total current liabilities</b>		<b>117,142</b>	<b>85,231</b>
<b>Long-term liabilities</b>			
Long-term loans	26	82,332	68,723
Debentures payable	27	3,500	—
Other long-term payables	28	438	461
<b>Total long-term liabilities</b>		<b>86,270</b>	<b>69,184</b>
<b>Deferred tax liabilities</b>	16	<b>16</b>	<b>16</b>
<b>Total liabilities</b>		<b>203,428</b>	<b>154,431</b>
<b>Shareholders' funds</b>			
Share capital	29	86,702	86,702
Capital reserve	30	37,797	36,852
Surplus reserves (Including statutory public welfare fund of RMB 9,558 million (2003: RMB 6,330 million))	31	26,116	19,660
Undistributed profits (Including dividend declared after the balance sheet date in respect of year 2004 of RMB 6,936 million (2003: RMB 5,202 million))	39	37,124	19,732
<b>Total shareholders' funds</b>		<b>187,739</b>	<b>162,946</b>
<b>Total liabilities and shareholders' funds</b>		<b>391,167</b>	<b>317,377</b>

Approved by the Board of Directors on 25 March 2005.

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**Liu Yun**  
Head of Accounting  
Division

The notes on pages 94 to 125 form part of these financial statements.

# CONSOLIDATED INCOME STATEMENT AND PROFIT APPROPRIATION STATEMENT

for the year ended 31 December 2004

	Note	2004 RMB millions	2003 RMB millions
Income from principal operations	32	590,632	417,191
Less: Cost of sales		459,207	323,104
Sales taxes and surcharges	33	16,203	13,371
<b>Profit from principal operations</b>		<b>115,222</b>	<b>80,716</b>
Add: Profit from other operations		1,102	856
Less: Selling expenses		19,477	14,582
Administrative expenses		23,167	21,219
Financial expenses	34	4,331	4,129
Exploration expenses, including dry holes	35	6,396	6,133
<b>Operating profit</b>		<b>62,953</b>	<b>35,509</b>
Add: Investment income	36	1,088	548
Non-operating income		665	292
Less: Non-operating expenses	37	11,171	6,334
<b>Profit before taxation</b>		<b>53,535</b>	<b>30,015</b>
Less: Taxation	38	16,060	9,361
Minority interests		5,670	1,886
Add: Unrecognised investment losses		470	243
<b>Net profit</b>		<b>32,275</b>	<b>19,011</b>
Add: Undistributed profits at the beginning of the year		19,975	12,569
<b>Distributable profits</b>		<b>52,250</b>	<b>31,580</b>
Less: Transfer to statutory surplus reserve	31	3,228	1,901
Transfer to statutory public welfare fund	31	3,228	1,901
<b>Distributable profits to shareholders</b>		<b>45,794</b>	<b>27,778</b>
Less: Ordinary shares' final dividend	39	5,202	5,202
Ordinary shares' interim dividend		3,468	2,601
<b>Undistributed profits at the end of the year (Including dividend declared after the balance sheet date in respect of year 2004 of RMB 6,936 million (2003: RMB 5,202 million))</b>	39	<b>37,124</b>	<b>19,975</b>

Approved by the Board of Directors on 25 March 2005.

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# INCOME STATEMENT AND PROFIT APPROPRIATION STATEMENT

for the year ended 31 December 2004

	Note	2004 RMB millions	2003 RMB millions
Income from principal operations	32	397,789	275,426
Less: Cost of sales		336,089	228,387
Sales taxes and surcharges	33	10,094	8,413
<b>Profit from principal operations</b>		<b>51,606</b>	<b>38,626</b>
Add: Profit from other operations		108	146
Less: Selling expenses		13,055	9,591
Administrative expenses		15,523	14,038
Financial expenses	34	2,770	2,337
Exploration expenses, including dry holes	35	4,951	4,483
<b>Operating profit</b>		<b>15,415</b>	<b>8,323</b>
Add: Investment income	36	39,374	22,844
Non-operating income		377	104
Less: Non-operating expenses	37	7,879	3,599
<b>Profit before taxation</b>		<b>47,287</b>	<b>27,672</b>
Less: Taxation	38	14,769	8,904
<b>Net profit</b>		<b>32,518</b>	<b>18,768</b>
Add: Undistributed profits at the beginning of the year		19,732	12,569
<b>Distributable profits</b>		<b>52,250</b>	<b>31,337</b>
Less: Transfer to statutory surplus reserve	31	3,228	1,901
Transfer to statutory public welfare fund	31	3,228	1,901
<b>Distributable profits to shareholders</b>		<b>45,794</b>	<b>27,535</b>
Less: Ordinary shares' final dividend	39	5,202	5,202
Ordinary shares' interim dividend		3,468	2,601
<b>Undistributed profits at the end of the year (Including dividend declared after the balance sheet date in respect of year 2004 of RMB 6,936 million (2003: RMB 5,202 million))</b>	39	<b>37,124</b>	<b>19,732</b>

Approved by the Board of Directors on 25 March 2005.

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The notes on pages 94 to 125 form part of these financial statements.

# CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 December 2004

	Note	2004 RMB millions	2003 RMB millions
<b>Cash flows from operating activities</b>			
Cash received from sale of goods and rendering of services		712,682	505,489
Rentals received		368	370
Other cash received relating to operating activities		3,640	2,925
<b>Sub-total of cash inflows</b>		<b>716,690</b>	<b>508,784</b>
Cash paid for goods and services		(549,408)	(371,086)
Cash paid for operating leases		(6,871)	(4,224)
Cash paid to and on behalf of employees		(16,304)	(15,964)
Value added tax paid		(25,961)	(19,429)
Income tax paid		(16,858)	(9,486)
Taxes paid other than value added tax and income tax		(16,045)	(12,904)
Other cash paid relating to operating activities		(15,104)	(11,243)
<b>Sub-total of cash outflows</b>		<b>(646,551)</b>	<b>(444,336)</b>
<b>Net cash flows from operating activities</b>	(a)	<b>70,139</b>	<b>64,448</b>
<b>Cash flows from investing activities</b>			
Cash received from sale of investments		186	107
Dividends received		322	442
Net cash received from sale of fixed assets and intangible assets		315	380
Maturity of time deposits with financial institutions		2,217	1,700
Other cash received relating to investing activities		359	300
<b>Sub-total of cash inflows</b>		<b>3,399</b>	<b>2,929</b>
Cash paid for acquisition of fixed assets and intangible assets		(66,693)	(43,966)
Cash paid for acquisition of fixed assets and intangible assets of jointly controlled entities		(6,035)	(4,107)
Cash paid for purchases of investments		(1,225)	(1,545)
Increase in time deposits with financial institutions		(1,932)	(2,871)
Cash paid for acquisition of Sinopec Maoming, Xi'an Petrochemical and Tahe Petrochemical		(3,652)	—
<b>Sub-total of cash outflows</b>		<b>(79,537)</b>	<b>(52,489)</b>
<b>Net cash flows from investing activities</b>		<b>(76,138)</b>	<b>(49,560)</b>
<b>Cash flows from financing activities</b>			
Proceeds from contribution from minority shareholders		1,008	580
Proceeds from issuance of corporate bonds, net of issuing expenses		3,472	—
Proceeds from borrowings		391,832	228,654
Proceeds from borrowings of jointly controlled entities		3,014	1,450
<b>Sub-total of cash inflows</b>		<b>399,326</b>	<b>230,684</b>
Repayments of borrowings		(377,855)	(235,175)
Cash paid for dividends, distribution of profit or interest		(13,538)	(12,520)
Dividends paid to minority shareholders by subsidiaries		(775)	(360)
<b>Sub-total of cash outflows</b>		<b>(392,168)</b>	<b>(248,055)</b>
<b>Net cash flows from financing activities</b>		<b>7,158</b>	<b>(17,371)</b>
<b>Effects of foreign exchange rate</b>		<b>1</b>	<b>5</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>	(c)	<b>1,160</b>	<b>(2,478)</b>

The notes on pages 94 to 125 form part of these financial statements.

# NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 December 2004

	2004	2003
	RMB millions	RMB millions
<b>(a) Reconciliation of net profit to cash flows from operating activities</b>		
Net profit	32,275	19,011
Add: Allowance for doubtful accounts	2,050	1,902
Provision for diminution in value of inventories	433	114
Depreciation of fixed assets	30,766	27,151
Amortisation of intangible assets	476	520
Impairment losses on fixed assets	4,628	940
Impairment losses on long-term investments	88	115
Net loss on disposal of fixed assets and intangible assets	3,989	3,291
Financial expenses	4,331	4,129
Dry hole costs	2,976	2,789
Investment income	(843)	(515)
Deferred tax liabilities (less: assets)	(2,439)	(1,580)
(Increase)/decrease in inventories	(16,927)	676
Increase in operating receivables	(4,245)	(866)
Increase in operating payables	6,911	4,885
Minority interests	5,670	1,886
<b>Net cash flows from operating activities</b>	<b>70,139</b>	<b>64,448</b>
<b>(b) Financing activities not requiring the use of cash</b>		
Current portion of convertible bonds	—	1,500
<b>(c) Net increase/(decrease) in cash and cash equivalents</b>		
Cash and cash equivalents at the end of the year	16,381	15,221
Less: Cash and cash equivalents at the beginning of the year	15,221	17,699
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>1,160</b>	<b>(2,478)</b>

Approved by the Board of Directors on 25 March 2005.

**Chen Tonghai**  
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(Authorised representative)

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**Zhang Jiaren**  
Director, Senior Vice President  
and Chief Financial Officer

**Liu Yun**  
Head of Accounting  
Division

The notes on pages 94 to 125 form part of these financial statements.

# CASH FLOW STATEMENT

for the year ended 31 December 2004

	Note	2004 RMB millions	2003 RMB millions
<b>Cash flows from operating activities</b>			
Cash received from sale of goods and rendering of services		474,149	335,409
Rentals received		201	207
Other cash received relating to operating activities		2,760	1,789
<b>Sub-total of cash inflows</b>		<b>477,110</b>	<b>337,405</b>
Cash paid for goods and services		(382,856)	(258,814)
Cash paid for operating leases		(5,391)	(2,785)
Cash paid to and on behalf of employees		(8,539)	(7,595)
Value added tax paid		(13,460)	(11,678)
Income tax paid		(4,474)	(2,009)
Taxes paid other than value added tax and income tax		(10,319)	(8,047)
Repayments of borrowings on behalf of a subsidiary		—	(962)
Other cash paid relating to operating activities		(17,851)	(18,582)
<b>Sub-total of cash outflows</b>		<b>(442,890)</b>	<b>(310,472)</b>
<b>Net cash flows from operating activities</b>	(a)	<b>34,220</b>	<b>26,933</b>
<b>Cash flows from investing activities</b>			
Cash received from sale of investments		62	111
Dividends received		6,379	9,067
Net cash received from sale of fixed assets and intangible assets		178	184
Maturity of time deposits with financial institutions		605	434
Other cash received relating to investing activities		144	125
<b>Sub-total of cash inflows</b>		<b>7,368</b>	<b>9,921</b>
Cash paid for acquisition of fixed assets and intangible assets		(41,477)	(25,151)
Cash paid for purchases of investments		(3,156)	(1,121)
Increase in time deposits with financial institutions		(617)	(449)
Cash paid for acquisition of Sinopec Maoming, Xi'an Petrochemical and Tahe Petrochemical		(3,652)	—
<b>Sub-total of cash outflows</b>		<b>(48,902)</b>	<b>(26,721)</b>
<b>Net cash flows from investing activities</b>		<b>(41,534)</b>	<b>(16,800)</b>
<b>Cash flows from financing activities</b>			
Proceeds from issuance of corporate bonds, net of issuing expenses		3,472	—
Proceeds from borrowings		255,218	142,118
<b>Sub-total of cash inflows</b>		<b>258,690</b>	<b>142,118</b>
Repayments of borrowings		(239,933)	(143,893)
Cash paid for dividends, distribution of profit or interest		(11,737)	(10,220)
<b>Sub-total of cash outflows</b>		<b>(251,670)</b>	<b>(154,113)</b>
<b>Net cash flows from financing activities</b>		<b>7,020</b>	<b>(11,995)</b>
<b>Net decrease in cash and cash equivalents</b>	(b)	<b>(294)</b>	<b>(1,862)</b>

The notes on pages 94 to 125 form part of these financial statements.

# NOTES TO THE CASH FLOW STATEMENT

for the year ended 31 December 2004

	2004	2003
	RMB millions	RMB millions
<b>(a) Reconciliation of net profit to cash flows from operating activities</b>		
Net profit	32,518	18,768
Add: Allowance for doubtful accounts	2,159	1,956
Provision for diminution in value of inventories	190	30
Depreciation of fixed assets	13,349	11,734
Amortisation of intangible assets	346	442
Impairment losses on fixed assets	3,417	373
Impairment losses on long-term investments	—	21
Net loss on disposal of fixed assets and intangible assets	2,555	1,866
Financial expenses	2,770	2,337
Dry hole costs	2,184	1,780
Investment income	(27,948)	(15,211)
Deferred tax liabilities (less: assets)	(2,198)	(1,443)
(Increase)/decrease in inventories	(6,523)	2,700
Increase in operating receivables	(756)	(862)
Increase in operating payables	12,157	2,442
<b>Net cash flows from operating activities</b>	<b>34,220</b>	<b>26,933</b>
<b>(b) Net decrease in cash and cash equivalents</b>		
Cash and cash equivalents at the end of the year	6,051	6,345
Less: Cash and cash equivalents at the beginning of the year	6,345	8,207
<b>Net decrease in cash and cash equivalents</b>	<b>(294)</b>	<b>(1,862)</b>

Approved by the Board of Directors on 25 March 2005.

**Chen Tonghai**

*Chairman*

*(Authorised representative)*

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*and President*

**Zhang Jiaren**

*Director, Senior Vice President  
and Chief Financial Officer*

**Liu Yun**

*Head of Accounting  
Division*

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# NOTES ON THE FINANCIAL STATEMENTS

For the Year Ended 31 December 2004

## 1 STATUS OF THE COMPANY

China Petroleum & Chemical Corporation (the "Company") was established on 25 February 2000 as a joint stock limited company.

According to the State Council's approval to the "Preliminary Plan for the Reorganisation of China Petrochemical Corporation" (the "Reorganisation"), the Company was established by China Petrochemical Corporation ("Sinopec Group Company"), which transferred its core businesses together with the related assets and liabilities at 30 September 1999 to the Company. Such assets and liabilities had been valued jointly by China United Assets Appraisal Corporation, Beijing Zhong Zheng Appraisal Company, CIECC Assets Appraisal Corporation and Zhong Fa International Properties Valuation Corporation ("registered valuers"). The net asset value was determined at RMB 98,249,084,000. The valuation was reviewed and approved by the Ministry of Finance (the "MOF") (Cai Ping Zi [2000] No. 20 "Comments on the Review of the Valuation Regarding the Formation of a Joint Stock Limited Company by China Petrochemical Corporation").

In addition, pursuant to the notice Cai Guan Zi [2000] No. 34 "Reply to the Issue Regarding Management of State-Owned Equity by China Petroleum and Chemical Corporation" issued by the MOF, 68.8 billion domestic state-owned shares with a par value of RMB 1.00 each were issued to Sinopec Group Company, the amount of which is equivalent to 70% of the above net asset value transferred from Sinopec Group Company to the Company in connection with the Reorganisation.

Pursuant to the notice Guo Jing Mao Qi Gai [2000] No. 154 "Reply on the Formation of China Petroleum and Chemical Corporation", the Company obtained the approval from the State Economic and Trade Commission on 21 February 2000 for the formation of a joint stock limited company.

The Company took over the exploration, development and production of crude oil and natural gas, refining, chemicals and related sales and marketing business of Sinopec Group Company after the establishment of the Company.

Pursuant to the resolution passed at the Extraordinary General Meeting held on 24 August 2001, the Company acquired the entire equity interest of Sinopec National Star Petroleum Company ("Sinopec National Star") from Sinopec Group Company for a consideration of RMB 6.45 billion.

Pursuant to the resolution passed at the Board of Directors' meeting held on 28 October 2003, the Company acquired the principal assets and liabilities related to the 380 Kiloton ethylene production and distribution equipments from Sinopec Group Maoming Petrochemical Company ("Sinopec Maoming"), for a consideration of RMB 3.3 billion (hereinafter referred to as the "Acquisition of Ethylene Assets").

Pursuant to the resolution passed at the Board of Directors' meeting held on 29 December 2003, the Company acquired all operating assets and liabilities of two wholly owned subsidiaries of Sinopec Group Company, being Tahe Oilfield Petrochemical Factory ("Tahe Petrochemical") and Xi'an Petrochemical Main Factory ("Xi'an Petrochemical"), from Sinopec Group Company, for considerations of RMB 0.14 billion and RMB 0.22 billion, respectively (hereinafter referred to as the "Acquisition of Refining Assets").

Pursuant to the resolutions passed at the Extraordinary General Meeting held on 21 December 2004, the Company acquired certain operating assets and the related liabilities of certain refining, petrochemicals, catalysts and gas stations businesses (the "Acquisition of Acquired Assets") from Sinopec Group Company for considerations totalling RMB 5.360 billion. In connection with these acquisitions, the Group disposed of certain assets and liabilities of its oilfield downhole operation (the "Disposal of Downhole Assets") to Sinopec Group Company for a consideration of RMB 1.712 billion, resulting in a net consideration of RMB 3.648 billion payable to Sinopec Group Company.

## 2 SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted by the Group are in conformity with the Accounting Standards for Business Enterprises and "Accounting Regulations for Business Enterprises" and other relevant regulations issued by the MOF of the PRC.

### (a) Accounting year

The accounting year of the Group is from 1 January to 31 December.

### (b) Basis of consolidation

The Group prepared the consolidated financial statements according to "Accounting Regulations for Business Enterprises" and Cai Kuai Zi [1995] No.11 "Provisional regulations on consolidated financial statements" issued by the MOF.

The consolidated financial statements include the financial statements of the Company and all of its principal subsidiaries. A subsidiary is a company held by the Company directly or indirectly, more than 50% (excluding 50%) of the equity interest, or the Company holds less than 50% of the equity interest of a company but has effective controlling power. The consolidated income statement of the Company only includes the results of the subsidiaries during the period when the Company holds more than 50% of the equity interests or holds less than 50% of equity interest but exercises effective control. The effect of minority interests on equity and profit/loss attributable to minority shareholders are separately shown in the consolidated financial statements. For those subsidiaries whose assets and results of operation are not significant and have no significant effect on the Group's consolidated financial statements, the Company does not consolidate these subsidiaries, but accounts for under the equity method in the long-term equity investments.

Where the accounting policies adopted by the subsidiaries are different from the policies adopted by the Company, the financial statements of the subsidiaries have been adjusted in accordance with the accounting policies adopted by the Company on consolidation. All significant inter-company balances and transactions, and any unrealised gains arising from inter-company transactions, have been eliminated on consolidation.

For those jointly controlled entities which the Company has joint control with other investors under contractual arrangement, the Company consolidates their assets, liabilities, revenues, costs and expenses based on the proportionate consolidation method according to its percentage of holding of equity interest in those entities in the consolidated financial statements.

### (c) Basis of preparation

The financial statements of the Group have been prepared on an accrual basis under the historical costs convention, unless otherwise stated.

## NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2004

### 2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (d) Reporting currency and translation of foreign currencies

The Group's reporting currency is the Renminbi.

Foreign currency transactions during the year are translated into Renminbi at exchange rates quoted by the People's Bank of China ("PBOC rates") prevailing on the transaction dates. Foreign currency monetary assets and liabilities are translated into Renminbi at the PBOC rates at the balance sheet date. Exchange gains and losses on foreign currency translation, except for those directly relating to the construction of fixed assets (see note 2(i)), are dealt with in the income statement.

The results of overseas subsidiaries are translated into Renminbi at the annual average PBOC rates. The balance sheet items are translated into Renminbi at the PBOC rates at the balance sheet date. The resulting exchange gains or losses are accounted for as foreign currency exchange differences.

#### (e) Cash equivalents

Cash equivalents held by the Group are short-term and highly liquid investments which are readily convertible into known amounts of cash and are subject to an insignificant risk of change in value.

#### (f) Allowance for doubtful accounts

Trade accounts receivable showing signs of uncollectibility are identified individually and allowance is then made based on the probability of being uncollectible. In respect of trade accounts receivable showing no sign of uncollectibility, allowance is made with reference to the ageing analysis and management's estimation based on past experience. Allowances for other receivables are determined based on the nature and corresponding collectibility. Specific approval from management is required for allowances made in respect of significant doubtful accounts.

#### (g) Inventories

Inventories, other than spare parts and consumables, are stated at the lower of cost and net realisable value.

The cost of inventories is calculated using the weighted average method. In addition to the purchase cost of raw material, work in progress and finished goods include direct labour and appropriate proportion of production overheads.

Any excess of the cost over the net realisable value of each item of inventories is recognised as a provision for diminution in the value of inventories. Net realisable value is the estimated selling price in the normal course of business less the estimated costs to completion and the estimated expenses and related taxes necessary to make the sale.

Spare parts and consumables are stated at cost less any provision for obsolescence. Consumables are expensed when being consumed.

Inventories are recorded by perpetual method.

#### (h) Long-term equity investments

Where the Group has the power to control, jointly control or exercise significant influence over an investee enterprise, the investment is accounted for under the equity method whereby the investment is initially recorded at cost and adjusted thereafter for any post acquisition change in the Group's share of the shareholders' funds in the investee enterprise.

Equity investment difference, which is the difference between the initial investment cost and the Group's share of shareholders' funds of the investee enterprise, is accounted for as follows:

Any excess of the initial investment cost over the share of shareholders' funds of the investee enterprise is amortised on a straight-line basis. The amortisation period is determined according to the investment period as stipulated in the relevant agreement, or 10 years if the investment period is not specified in the agreement. The unamortised balance is included in long-term equity investments at the period end.

Any shortfall of the initial investment cost over the share of shareholders' funds of the investee is recognised in capital reserve – reserve for equity investment acquired after the issuance of Cai Kuai [2003] No.10 "Questions and answers on implementing Accounting Regulations for Business Enterprises and related accounting standards (II)". If the investment was acquired before the issuance of Cai Kuai [2003] No.10 "Questions and answers on implementing Accounting Regulations for Business Enterprises and related accounting standards (II)", such shortfall is amortised on a straight-line basis over the investment period as stipulated in the relevant agreement, or 10 years if the investment period is not specified in the agreement. The unamortised balance is included in long-term equity investments at the period end.

Where the Group does not control, jointly control or exercise significant influence over an investee enterprise, the investment is accounted for under the cost method, stating it at the initial investment cost. Investment income is recognised when the investee enterprise declares a cash dividend or distributes profits.

Disposals or transfers of long-term equity investments are recognised in investment income/losses based on the difference between the disposal proceeds and the carrying amount of the investments.

The Group makes provision for impairment losses on long-term equity investments (see note 2(w)).

## NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2004

### 2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (i) Fixed assets and construction in progress

Fixed assets represent the assets held by the Group for production of products and administrative purpose with useful life over 1 year and comparatively high unit value.

Fixed assets are stated in the balance sheet at cost or revalued amount less accumulated depreciation and impairment losses (see note 2(w)). Construction in progress is stated in the balance sheet at cost or revalued amount less impairment losses (see note 2(w)). The revalued amount represents the value of an asset which has been adjusted based on revaluation carried out in accordance with the relevant rules and regulations.

All direct and indirect costs related to the purchase or construction of fixed assets, incurred before the assets are ready for their intended uses, are capitalised as construction in progress. Those costs include borrowing costs (including foreign exchange differences arising from the loan principal and the related interest) on specific borrowings for the construction of the fixed assets during the construction period.

Construction in progress is transferred to fixed assets when the asset is ready for its intended use. No depreciation is provided against construction in progress.

Fixed assets of the Group are depreciated using the straight-line method over their estimated useful lives. The estimated useful lives and the estimated rate of residual values adopted for respective classes of fixed assets are as follows:

	Estimated useful lives	Estimated rate of residual value
Land and buildings	15-45 years	3%-5%
Oil and gas properties	10-14 years	0%-3%
Plant, machinery, equipment and vehicles	4-18 years	3%
Oil depots and storage tanks	8-14 years	3%
Service stations	25 years	3%-5%

#### (j) Oil and gas properties

Costs of development wells and the related support equipment are capitalised. The cost of exploratory wells is initially capitalised as construction in progress pending determination of whether the well has found proved reserves. Exploratory well costs are charged to expenses upon the determination that the well has not found proved reserves. However, in the absence of a determination of the discovery of proved reserves, exploratory well costs are not carried as an asset for more than one year following completion of drilling. If, after one year has passed, a determination of the discovery of proved reserves cannot be made, the exploratory well costs are charged to expense. All other exploration costs, including geological and geophysical costs, are expensed as incurred.

#### (k) Intangible assets

Intangible assets are carried in the balance sheet at cost or valuation less accumulated amortisation and provision for impairment losses (see note 2(w)). Amortisation is provided on a straight-line basis. The amortisation period is the shorter of the beneficial period as specified in the related agreement and the legal life of the intangible asset. Amortisation is provided over 10 years if it is not specified in agreements or stipulated by law.

Intangible assets include exploration and production right. Exploration and production right are amortised on a straight-line basis over the average period of the production rights of the related oil fields.

#### (l) Pre-operating expenditures

Except for the acquisition and constructions of fixed assets, all expenses incurred during the start-up period are recorded in long-term deferred expenses and charged to the income statement in the month when business operation commences.

#### (m) Debentures payable

Debentures payable is stated in the balance sheet at issued price. Interest expense is calculated based on stipulated interest rate.

#### (n) Revenue recognition

Revenues associated with the sale of crude oil, natural gas, petroleum and chemical products and all other items are recorded when the customer accepts the goods and the significant risks and rewards of ownership and title have been transferred to the buyer. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due, the possible return of goods, or when the amount of revenue and the costs incurred or to be incurred in respect of the transaction cannot be measured reliably.

Revenue from the rendering of services only involving in one accounting year is recognised in the income statement upon performance of services. If a transaction lasts more than one accounting year, when the outcome of the transaction involving the rendering of services can be estimated reliably, revenue from the rendering of services is recognised in the income statement in proportion to the stage of completion of the transaction based on the progress of work performed; or when the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent that costs incurred which are expected to be recoverable.

Interest income is recognised on a time proportion basis according to the outstanding principal and the applicable interest rate.



## NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2004

### 2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (o) Income tax

Income tax is recognised using the tax effect accounting method. Income tax for the year comprises provision for current tax and movement of deferred tax assets and liabilities.

Current tax for the year is calculated on taxable income by applying the applicable tax rates.

Deferred tax is provided using the liability method for timing differences between accounting profit before tax and taxable income arising from the differences in the tax and accounting treatment of income, expense or loss item.

The tax value of losses expected to be available for utilisation against future taxable income is set off against the deferred tax liability within the same legal tax unit and jurisdiction. A valuation allowance is provided for the tax value of losses to reduce the deferred tax asset to the amount that is more likely than not to be realised through future taxable income.

#### (p) Borrowing costs

Borrowing costs on specific borrowings for the construction of fixed assets are capitalised into the cost of the fixed assets during the construction period until the fixed assets are ready for their intended uses.

Except for the above, other borrowing costs are recognised as financial expenses in the income statement when incurred.

#### (q) Repairs and maintenance expenses

Repairs and maintenance expenses, including cost of major overhaul, are recognised in the income statement when incurred.

#### (r) Environmental expenditures

Environmental expenditures that relate to current ongoing operations or to conditions caused by past operations are recognised in the income statement when incurred.

#### (s) Research and development costs

Research and development costs are recognised in the income statement when incurred.

#### (t) Operating leases

Operating lease payments are charged to the income statement on a straight-line basis over the period of the respective leases.

#### (u) Dividends

Dividends are recognised in the income statement and profit appropriation statement when they are declared. Dividends proposed or approved after the balance sheet date but before the date on which the financial statements are authorised for issue are separately disclosed under shareholders' funds in the balance sheet.

#### (v) Retirement benefits

Pursuant to the relevant laws and regulations in the PRC, the Group has joined defined contribution retirement plans for the employees organised by governmental organisations. The Group makes contributions to the retirement plans at the applicable rates based on the employees' salaries. The contributions payable under the retirement plans are charged to the income statement when incurred.

#### (w) Provision for impairment

The carrying amounts of assets (including long-term equity investments, fixed assets, construction in progress, intangible assets and other assets) are reviewed periodically in order to assess whether the recoverable amounts have declined below the carrying amounts. 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 the recoverable amount. The amount by which the carrying amount is reduced is the impairment loss.

The recoverable amount is the greater of the net selling price and the present value of the estimated future cash flows generated by the continuous use of the asset and the proceed from the disposal of the asset at the end of its useful life.

Provision for impairment loss is calculated on an item by item basis and recognised as an expense in the income statement. However, when a difference between the initial investment cost and the Group's share of the shareholders' funds of the investee enterprise has been credited to the capital reserve, any impairment loss for long-term equity investment is firstly set off against the difference initially recognised in the capital reserve in connection with the related investment and any excess impairment loss is then recognised in the income statement.

If there is an indication that there has been a change in the estimates used to determine the recoverable amount and as a result the estimated recoverable amount is greater than the carrying amount of the asset, the impairment loss recognised in prior years is reversed. Reversal of impairment loss is recognised in current period's income statement. Impairment loss is reversed to the extent of the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. In respect of the reversal of an impairment loss for a long-term equity investment, the reversal starts with the impairment loss that had previously been recognised in the income statement and then the impairment loss that had been charged to capital reserve.

## NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2004

### 2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (x) Related parties

If the Group has the ability, directly or indirectly, to control, jointly control or exercise significant influence over another party, or vice versa, or where the Group and one or more parties are subject to common control from another party, they are considered to be related parties. Related parties may be individuals or enterprises.

#### (y) Provisions and contingent liabilities

A provision is recognised when the Group has an obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligations and a reliable estimate can be made.

Where it is not probable that the settlement of the above obligation will cause an outflow of economic benefits, or the amount of the outflow cannot be estimated reliably, the obligation is disclosed as a contingent liability.

### 3 TAXATION

Major taxes applicable to the Group and the Company comprise income tax, consumption tax, resources tax and value added tax.

Income tax rate is 33% and that of certain subsidiaries is 15%.

Consumption tax is levied on gasoline and diesel at a rate of RMB 277.6 per tonne and RMB 117.6 per tonne respectively.

Resources tax is levied on crude oil and natural gas at rates ranging from RMB 8 per tonne to RMB 30 per tonne and RMB 2 to RMB 15 per 1000 cubic metre respectively.

Value added tax rate for liquefied petroleum gas, natural gas and certain agricultural products is 13% and that for other products is 17%.

The subsidiaries and branches granted with tax concession are set out below:

Name of subsidiaries	Preferential tax rate	Reasons for granting concession
Sinopec Shanghai Petrochemical Company Limited	15%	The first batch of joint stock enterprise which successfully got listed overseas
Sinopec Yizheng Chemical Fibre Company Limited	15%	The first batch of joint stock enterprise which successfully got listed overseas
Sinopec Yangzi Petrochemical Company Limited	15%	High technology enterprise
Sinopec Zhongyuan Petroleum Company Limited	15%	High technology enterprise
Petro-CyberWorks Information Technology Company Limited	15%	High technology enterprise
Sinopec National Star Xinan Branch	15%	Tax preferential policy in the western part of China
Sinopec National Star Xibei Branch	15%	Tax preferential policy in the western part of China
Sinopec Southern Exploration Branch	15%	Tax preferential policy in the western part of China

### 4 CASH AT BANK AND IN HAND

#### The Group

	2004			2003		
	Original currency millions	Exchange rates	RMB millions	Original currency millions	Exchange rates	RMB millions
Cash in hand						
Renminbi			115			101
Cash at bank						
Renminbi			12,621			11,959
US Dollars	96	8.2765	795	118	8.2767	973
Hong Kong Dollars	47	1.0637	50	70	1.0657	75
Japanese Yen	220	0.0797	18	207	0.0773	16
Euro	1	11.2627	10	2	10.3380	17
			<b>13,609</b>			<b>13,141</b>
Deposits at related parties						
Renminbi			4,657			4,210
US Dollars	2	8.2765	14	7	8.2767	54
<b>Total cash at bank and in hand</b>			<b>18,280</b>			<b>17,405</b>

## NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2004

### 4 CASH AT BANK AND IN HAND (Continued)

#### The Company

	2004			2003		
	Original currency millions	Exchange rates	RMB millions	Original currency millions	Exchange rates	RMB millions
Cash in hand						
Renminbi			107			64
Cash at bank						
Renminbi			4,892			4,752
US Dollars	1	8.2765	6	6	8.2767	53
Hong Kong Dollars			—	26	1.0657	28
Japanese Yen			—	7	0.0773	1
			<b>5,005</b>			<b>4,898</b>
Deposits at related parties						
Renminbi			1,280			1,629
US Dollars	2	8.2765	14	7	8.2767	54
<b>Total cash at bank and in hand</b>			<b>6,299</b>			<b>6,581</b>

Deposits at related parties represent deposits placed at Sinopec Finance Company Limited. Interest income is calculated at market rate.

### 5 BILLS RECEIVABLE

Bills receivable represents mainly the bills of acceptance issued by banks for sales of goods and products.

### 6 TRADE ACCOUNTS RECEIVABLE

	The Group		The Company	
	2004 RMB millions	2003 RMB millions	2004 RMB millions	2003 RMB millions
Subsidiaries	—	—	5,026	2,920
Sinopec Group Company and its fellow subsidiaries	2,349	3,044	858	1,623
Associates	89	81	19	23
Others	10,989	9,344	5,179	4,813
	<b>13,427</b>	<b>12,469</b>	<b>11,082</b>	<b>9,379</b>
Less: Allowance for doubtful accounts	3,671	3,185	2,837	2,299
<b>Total</b>	<b>9,756</b>	<b>9,284</b>	<b>8,245</b>	<b>7,080</b>

Allowance for doubtful accounts are analysed as follows:

	The Group		The Company	
	2004 RMB millions	2003 RMB millions	2004 RMB millions	2003 RMB millions
Balance at 1 January	3,185	2,666	2,299	1,867
Provision for the year	931	910	708	763
Written back for the year	(85)	(46)	(37)	(20)
Written off for the year	(360)	(345)	(133)	(311)
<b>Balance at 31 December</b>	<b>3,671</b>	<b>3,185</b>	<b>2,837</b>	<b>2,299</b>

## NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2004

### 6 TRADE ACCOUNTS RECEIVABLE (Continued)

Ageing analyses on trade accounts receivable are as follows:

	The Group							
	2004				2003			
	Amount RMB millions	Allowance % RMB millions	Amount RMB millions	Allowance % RMB millions	Amount RMB millions	Allowance % RMB millions	Amount RMB millions	Allowance % RMB millions
Within one year	9,546	71.1	390	4.1	8,229	66.0	64	0.8
Between one and two years	308	2.3	83	26.9	770	6.2	309	40.1
Between two and three years	527	3.9	361	68.5	497	4.0	246	49.5
Over three years	3,046	22.7	2,837	93.1	2,973	23.8	2,566	86.3
<b>Total</b>	<b>13,427</b>	<b>100.0</b>	<b>3,671</b>		<b>12,469</b>	<b>100.0</b>	<b>3,185</b>	

	The Company							
	2004				2003			
	Amount RMB millions	Allowance % RMB millions	Amount RMB millions	Allowance % RMB millions	Amount RMB millions	Allowance % RMB millions	Amount RMB millions	Allowance % RMB millions
Within one year	8,103	73.1	275	3.4	6,466	68.9	15	0.2
Between one and two years	193	1.8	66	34.2	373	4.0	157	42.1
Between two and three years	334	3.0	251	75.1	350	3.7	180	51.4
Over three years	2,452	22.1	2,245	91.6	2,190	23.4	1,947	88.9
<b>Total</b>	<b>11,082</b>	<b>100.0</b>	<b>2,837</b>		<b>9,379</b>	<b>100.0</b>	<b>2,299</b>	

Major trade accounts receivable of the Group at 31 December 2004 are set out below:

Name of entity	Balance RMB millions	Percentage of trade accounts receivable %
Baling Petrochemical Yueyang Petrochemical Company	393	2.9
Qingdao Petrochemical Plant	379	2.8
Petrolimex Vietnam	311	2.3
Phibro GmbH	294	2.2
Maoming Petrochemical Shihua Company Limited	248	1.8

Major trade accounts receivable of the Group at 31 December 2003 are set out below:

Name of entity	Balance RMB millions	Percentage of trade accounts receivable %
Hinchest (HK) Limited	256	2.1
Trafigura Pte Limited	179	1.4
Pertamina Divisi Perbendaharaa	145	1.2
Jinan Petrochemical Plant	141	1.1
COSMO Oil	124	1.0

Except for the balances disclosed in Note 40, there is no amount due from shareholders who hold 5% or more voting right of the Company included in the balance of trade accounts receivable.

During the years ended 31 December 2004 and 2003, the Group and the Company had no individually significant trade accounts receivable which had been fully or substantially provided for.

During the years ended 31 December 2004 and 2003, the Group and the Company had no individually significant write off or recover of doubtful debts which had been fully or substantially provided for in prior years.

At 31 December 2004 and 2003, the Group and the Company had no individually significant trade accounts receivable that aged over three years.

## NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2004

### 7 OTHER RECEIVABLES

	The Group		The Company	
	2004	2003	2004	2003
	RMB millions	RMB millions	RMB millions	RMB millions
Subsidiaries	—	—	11,004	12,434
Sinopec Group Company and its fellow subsidiaries	6,135	8,894	5,616	8,104
Associates	308	331	260	331
Others	9,515	8,580	6,168	5,959
	<b>15,958</b>	<b>17,805</b>	<b>23,048</b>	<b>26,828</b>
Less: Allowance for doubtful accounts	3,496	2,348	3,423	1,967
<b>Total</b>	<b>12,462</b>	<b>15,457</b>	<b>19,625</b>	<b>24,861</b>

Allowance for doubtful accounts are analysed as follows:

	The Group		The Company	
	2004	2003	2004	2003
	RMB millions	RMB millions	RMB millions	RMB millions
Balance at 1 January	2,348	1,872	1,967	1,193
Provision for the year	1,245	1,098	1,514	1,258
Written back for the year	(41)	(61)	(26)	(45)
Written off for the year	(56)	(561)	(32)	(439)
<b>Balance at 31 December</b>	<b>3,496</b>	<b>2,348</b>	<b>3,423</b>	<b>1,967</b>

Ageing analyses of other receivables are as follows:

	The Group							
	2004				2003			
	Amount	Allowance		Amount	Allowance			
RMB millions	% RMB millions		% RMB millions	% RMB millions	% RMB millions		%	
Within one year	8,577	53.8	14	0.2	8,191	46.0	14	0.2
Between one and two years	485	3.0	17	3.5	4,256	23.9	321	7.5
Between two and three years	3,549	22.2	430	12.1	1,367	7.7	65	4.8
Over three years	3,347	21.0	3,035	90.7	3,991	22.4	1,948	48.8
<b>Total</b>	<b>15,958</b>	<b>100.0</b>	<b>3,496</b>		<b>17,805</b>	<b>100.0</b>	<b>2,348</b>	

	The Company							
	2004				2003			
	Amount	Allowance		Amount	Allowance			
RMB millions	% RMB millions		% RMB millions	% RMB millions	% RMB millions		%	
Within one year	16,168	70.1	12	0.1	18,585	69.3	257	1.4
Between one and two years	923	4.0	592	64.1	3,777	14.1	21	0.6
Between two and three years	2,620	11.4	48	1.8	1,062	3.9	35	3.3
Over three years	3,337	14.5	2,771	83.0	3,404	12.7	1,654	48.6
<b>Total</b>	<b>23,048</b>	<b>100.0</b>	<b>3,423</b>		<b>26,828</b>	<b>100.0</b>	<b>1,967</b>	

Major other receivables of the Group at 31 December 2004 are set out below:

Name of entity	Particulars	Percentage of	
		Balance	other receivables
		RMB millions	%
China Petrochemical Corporation	Current Account	2,502	15.7
Jinhuang Real Estate Company Limited	Current Account	219	1.4
China Ruilian Industrial Group Corporation	Current Account	184	1.2
Anhui Jinyu Highway Development Company Limited	Current Account	121	0.8
Anhui He Chao Wu Highway Company Limited	Current Account	107	0.7

## NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2004

### 7 OTHER RECEIVABLES (Continued)

Major other receivables of the Group at 31 December 2003 are set out below:

Name of entity	Particulars	Balance	Percentage of
		RMB millions	other receivables %
China Petrochemical Corporation	Current Account	3,201	18.0
Baling Petrochemical Company Limited	Current Account	967	5.4
Jinhuang Real Estate Company Limited	Current Account	367	2.1
Changling Petrochemical Company Limited	Current Account	300	1.7
Guangzhou Petrochemical Plant	Current Account	141	0.8

Except for the balances disclosed in Note 40, there is no amount due from shareholders who hold 5% or more voting right of the Company included in the balance of other receivables.

During the years ended 31 December 2004 and 2003, the Group and the Company had no individually significant other receivables which had been fully or substantially provided for.

During the years ended 31 December 2004 and 2003, the Group and the Company had no individually significant write off of other receivables.

At 31 December 2004 and 2003, the Group and the Company had no individually significant other receivables that aged over three years.

### 8 ADVANCE PAYMENTS

All advance payments are aged within one year.

Except for the balances disclosed in Note 40, there is no amount due from shareholders who hold 5% or more voting right of the Company included in the balance of advance payments.

### 9 INVENTORIES

	The Group		The Company	
	2004	2003	2004	2003
	RMB millions	RMB millions	RMB millions	RMB millions
Raw materials	32,581	23,570	14,544	10,200
Work in progress	8,341	6,805	3,605	3,308
Finished goods	20,804	12,268	15,163	8,741
Spare parts and consumables	3,098	2,791	1,033	770
	<b>64,824</b>	<b>45,434</b>	<b>34,345</b>	<b>23,019</b>
Less: Provision for diminution in value of inventories	906	519	394	226
	<b>63,918</b>	<b>44,915</b>	<b>33,951</b>	<b>22,793</b>

All of the above inventories are purchased or self-manufactured.

Provision for diminution in value of inventories is mainly against finished goods and spare parts.

Provision for diminution in value of inventories are analysed as follows:

	The Group		The Company	
	2004	2003	2004	2003
	RMB millions	RMB millions	RMB millions	RMB millions
Balance at 1 January	519	486	226	224
Provision for the year	621	196	314	72
Written back for the year	(188)	(82)	(124)	(42)
Written off	(46)	(81)	(22)	(28)
<b>Balance at 31 December</b>	<b>906</b>	<b>519</b>	<b>394</b>	<b>226</b>

The cost of inventories recognised as costs and expenses by the Group and the Company amounted to RMB 473,724 million (2003: RMB 335,588 million) and RMB 343,269 million (2003: RMB 235,664 million) for the year ended 31 December 2004.

## NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2004

### 10 LONG-TERM EQUITY INVESTMENTS

#### The Group

	Listed stock investment	Unlisted stock and other equity investment	Equity investment differences	Provision for impairment losses	Total
	RMB millions	RMB millions	RMB millions	RMB millions	RMB millions
Balance at 1 January 2004	736	10,285	400	(271)	11,150
Addition for the year	—	2,083	169	—	2,252
Share of profits less losses from investments accounted for under the equity method	54	887	—	—	941
Dividends receivable/received	—	(237)	—	—	(237)
Disposal for the year	—	(429)	—	—	(429)
Amortisation for the year	—	—	(186)	—	(186)
Movement of provision for impairment losses	—	—	—	(82)	(82)
<b>Balance at 31 December 2004</b>	<b>790</b>	<b>12,589</b>	<b>383</b>	<b>(353)</b>	<b>13,409</b>

#### The Company

	Listed stock investment	Unlisted stock and other equity investment	Equity investment differences	Provision for impairment losses	Total
	RMB millions	RMB millions	RMB millions	RMB millions	RMB millions
Balance at 1 January 2004	43,459	54,640	395	(160)	98,334
Addition for the year	—	7,141	162	—	7,303
Share of profits less losses from investments accounted for under the equity method	10,964	16,902	—	—	27,866
Dividends receivable/received	(2,103)	(4,037)	—	—	(6,140)
Disposal for the year	—	(411)	—	—	(411)
Acquired equity interests in a subsidiary (Note)	(2,589)	—	—	—	(2,589)
Amortisation for the year	—	—	(157)	—	(157)
Movement of provision for impairment losses	—	—	—	5	5
<b>Balance at 31 December 2004</b>	<b>49,731</b>	<b>74,235</b>	<b>400</b>	<b>(155)</b>	<b>124,211</b>

Note: During 2004 the Company acquired equity interests from minority shareholders of a subsidiary, Sinopec Maoming Refining and Chemical Company Limited. All assets and liabilities of the subsidiary were merged into the Company. The subsidiary was liquidated and no longer existed as at 31 December 2004.

Provision for impairment losses are analysed as follows:

	The Group		The Company	
	2004	2003	2004	2003
	RMB millions	RMB millions	RMB millions	RMB millions
Balance at 1 January	271	184	160	149
Provision for the year	96	131	2	21
Written back for the year	(8)	(16)	(2)	—
Written off	(6)	(28)	(5)	(10)
<b>Balance at 31 December</b>	<b>353</b>	<b>271</b>	<b>155</b>	<b>160</b>

At 31 December 2004 and 2003, the Group and the Company had no individually significant long-term equity investments which had been provided for.

Other equity investments represent the Group's interests in PRC domiciled enterprises which are mainly engaged in non-oil and gas and chemical activities and operations. This includes non-consolidated entities which the Group has over 50% equity interest but the costs of investment are not significant or the Group has no control on the entities. Stock investments of the Company represent investments in subsidiaries, associates and jointly controlled entities. Details of the Company's principal subsidiaries are set out in Note 41.

## NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2004

### 10 LONG-TERM EQUITY INVESTMENTS (Continued)

At 31 December 2004, details of listed stock investment of the Group are as follows:

Name of investee enterprise	Type of equity interest	No. of shares millions	Percentage of equity interest held by the Group	Initial investment cost RMB millions	Balance at 1 January 2004		Shares of profits/for under the equity method RMB millions	Balance at 31 December 2004 RMB millions	Market value as at 31 December 2004* RMB millions
					RMB millions	RMB millions			
Sinopec Shengli Oil Field Dynamic Co Ltd	Legal person shares	96	26.33%	223	425	36	461	479	
Sinopec Shandong Taishan Petroleum Co Ltd	Legal person shares	186	38.68%	124	311	18	329	1,516	
					<b>736</b>	<b>54</b>	<b>790</b>		

\* Information of market price is sourced from Shenzhen Stock Exchange.

At 31 December 2004, details of principal unlisted stock and other equity investment of the Group are as follows:

Name of investee enterprise	Initial investment cost RMB millions	Investment period	Percentage of equity interest held by the Group	Balance at 1 January 2004		Addition for the year RMB millions	Share of profits/(losses) accounted for under the equity method RMB millions	Dividends receivable/ received RMB millions	Balance at 31 December 2004 RMB millions
				RMB millions	RMB millions				
BASF-YPC Company Limited (i)	3,516	—	40%	2,814	702	—	—	3,516	
Sinopec Finance Company Limited	1,205	—	40%	1,288	—	83	(60)	1,311	
Shanghai Petroleum National Gas Corporation	300	—	30%	754	—	293	(135)	912	
Shanghai Chemical Industry Park Development Company Limited	608	30 years	38%	652	—	10	(11)	651	
China Shipping & Sinopec Suppliers Company Limited	438	—	50%	438	—	30	—	468	
Sinopec Changjiang Fuel Company Limited	190	20 years	50%	217	—	62	(28)	251	
Hunan Highway Industrial Development Company Limited	215	—	49%	106	109	3	—	218	
China Gas Holdings Ltd	136	—	11%	—	136	—	—	136	
Sinopec Railway Oil Marketing Company Limited	50	20 years	50%	50	—	60	—	110	
Shanghai Jinpu Packaging Material Company Limited	102	30 years	50%	104	—	(11)	—	93	

No provision for individually significant impairment losses or individually significant equity investment difference was made for the long-term equity investments as set out above.

(i) Due to the fact that the project in the investee enterprise is still under construction, there is no income statement for the investee enterprise. Accordingly the Group did not have any share of profit or loss of the investee enterprise for the year ended 31 December 2004.

At 31 December 2004, the Group's and the Company's proportion of the total investments to the net assets was 7.0% (2003: 6.8%) and 65.8% (2003: 60.3%) respectively.



## NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2004

### 11 FIXED ASSETS

#### The Group – by segment

	Exploration and production RMB millions	Refining RMB millions	Marketing and distribution RMB millions	Chemicals RMB millions	Others RMB millions	Total RMB millions
<b>Cost/valuation:</b>						
At 1 January 2004	166,603	104,432	54,212	133,374	2,507	461,128
Acquisition of Acquired Assets from Sinopec Group Company (Note 1)	—	1,828	1,536	24,400	1,442	29,206
Disposal of Downhole Assets (Note 1)	(3,631)	—	—	—	—	(3,631)
Addition for the year	1,402	782	1,555	263	71	4,073
Transferred from construction in progress	17,428	13,366	8,983	8,609	183	48,569
Disposals	(11,345)	(3,345)	(1,511)	(3,571)	(111)	(19,883)
<b>At 31 December 2004</b>	<b>170,457</b>	<b>117,063</b>	<b>64,775</b>	<b>163,075</b>	<b>4,092</b>	<b>519,462</b>
<b>Accumulated depreciation:</b>						
At 1 January 2004	84,662	50,335	10,000	68,235	572	213,804
Acquisition of Acquired Assets from Sinopec Group Company (Note 1)	—	975	—	13,674	740	15,389
Disposal of Downhole Assets (Note 1)	(1,774)	—	—	—	—	(1,774)
Depreciation charge for the year	12,556	7,564	2,599	7,855	192	30,766
Written back on disposal	(8,894)	(2,260)	(942)	(2,482)	(97)	(14,675)
<b>At 31 December 2004</b>	<b>86,550</b>	<b>56,614</b>	<b>11,657</b>	<b>87,282</b>	<b>1,407</b>	<b>243,510</b>
<b>Net book value:</b>						
<b>At 31 December 2004</b>	<b>83,907</b>	<b>60,449</b>	<b>53,118</b>	<b>75,793</b>	<b>2,685</b>	<b>275,952</b>
<b>At 31 December 2003</b>	<b>81,941</b>	<b>54,097</b>	<b>44,212</b>	<b>65,139</b>	<b>1,935</b>	<b>247,324</b>

#### The Company – by segment

	Exploration and production RMB millions	Refining RMB millions	Marketing and distribution RMB millions	Chemicals RMB millions	Others RMB millions	Total RMB millions
<b>Cost/valuation:</b>						
At 1 January 2004	59,647	71,414	52,729	37,698	1,527	223,015
Acquisition of Acquired Assets from Sinopec Group Company (Note 1)	—	1,828	1,536	19,360	1,442	24,166
Disposal of Downhole Assets (Note 1)	(2,103)	—	—	—	—	(2,103)
Transfer from a subsidiary	—	5,158	—	—	—	5,158
Addition for the year	437	672	459	13	10	1,591
Transferred from construction in progress	9,056	10,911	8,020	1,452	183	29,622
Disposals	(6,012)	(2,090)	(1,331)	(804)	(92)	(10,329)
<b>At 31 December 2004</b>	<b>61,025</b>	<b>87,893</b>	<b>61,413</b>	<b>57,719</b>	<b>3,070</b>	<b>271,120</b>
<b>Accumulated depreciation:</b>						
At 1 January 2004	27,651	36,047	9,627	20,509	304	94,138
Acquisition of Acquired Assets from Sinopec Group Company (Note 1)	—	975	—	10,267	740	11,982
Disposal of Downhole Assets (Note 1)	(1,063)	—	—	—	—	(1,063)
Transfer from a subsidiary	—	2,682	—	—	—	2,682
Depreciation charge for the year	4,430	4,698	2,295	1,832	94	13,349
Written back on disposal	(4,535)	(1,599)	(805)	(496)	(81)	(7,516)
<b>At 31 December 2004</b>	<b>26,483</b>	<b>42,803</b>	<b>11,117</b>	<b>32,112</b>	<b>1,057</b>	<b>113,572</b>
<b>Net book value:</b>						
<b>At 31 December 2004</b>	<b>34,542</b>	<b>45,090</b>	<b>50,296</b>	<b>25,607</b>	<b>2,013</b>	<b>157,548</b>
<b>At 31 December 2003</b>	<b>31,996</b>	<b>35,367</b>	<b>43,102</b>	<b>17,189</b>	<b>1,223</b>	<b>128,877</b>

# NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2004

## 11 FIXED ASSETS (Continued)

### The Group – by asset class

	Land and buildings RMB millions	Oil and gas properties RMB millions	Oil depots, storage tanks and service stations RMB millions	Plant, machinery, equipment and others RMB millions	Total RMB millions
<b>Cost/valuation:</b>					
At 1 January 2004	41,648	147,275	46,067	226,138	461,128
Acquisition of Acquired					
Assets from Sinopec Group Company (Note 1)	3,873	—	1,533	23,800	29,206
Disposal of Downhole Assets (Note 1)	(97)	(2,362)	—	(1,172)	(3,631)
Addition for the year	305	450	1,301	2,017	4,073
Transferred from construction in progress	2,235	17,428	12,161	16,745	48,569
Disposals	(857)	(10,846)	(1,099)	(7,081)	(19,883)
<b>At 31 December 2004</b>	<b>47,107</b>	<b>151,945</b>	<b>59,963</b>	<b>260,447</b>	<b>519,462</b>
<b>Accumulated depreciation:</b>					
At 1 January 2004	16,978	77,640	8,771	110,415	213,804
Acquisition of Acquired					
Assets from Sinopec Group Company (Note 1)	1,734	—	—	13,655	15,389
Disposal of Downhole Assets (Note 1)	(22)	(1,207)	—	(545)	(1,774)
Depreciation charge for the year	1,663	9,726	2,307	17,070	30,766
Written back on disposal	(365)	(8,493)	(585)	(5,232)	(14,675)
<b>At 31 December 2004</b>	<b>19,988</b>	<b>77,666</b>	<b>10,493</b>	<b>135,363</b>	<b>243,510</b>
<b>Net book value:</b>					
<b>At 31 December 2004</b>	<b>27,119</b>	<b>74,279</b>	<b>49,470</b>	<b>125,084</b>	<b>275,952</b>
<b>At 31 December 2003</b>	<b>24,670</b>	<b>69,635</b>	<b>37,296</b>	<b>115,723</b>	<b>247,324</b>

### The Company – by asset class

	Land and buildings RMB millions	Oil and gas properties RMB millions	Oil depots, storage tanks and service stations RMB millions	Plant, machinery, equipment and others RMB millions	Total RMB millions
<b>Cost/valuation:</b>					
At 1 January 2004	21,267	51,380	44,703	105,665	223,015
Acquisition of Acquired					
Assets from Sinopec Group Company (Note 1)	3,060	—	1,533	19,573	24,166
Disposal of Downhole Assets (Note 1)	(75)	(1,081)	—	(947)	(2,103)
Transfer from a subsidiary	216	—	—	4,942	5,158
Addition for the year	223	43	248	1,077	1,591
Transferred from construction in progress	1,128	8,854	11,415	8,225	29,622
Disposals	(632)	(5,889)	(1,075)	(2,733)	(10,329)
<b>At 31 December 2004</b>	<b>25,187</b>	<b>53,307</b>	<b>56,824</b>	<b>135,802</b>	<b>271,120</b>
<b>Accumulated depreciation:</b>					
At 1 January 2004	7,682	25,631	8,505	52,320	94,138
Acquisition of Acquired					
Assets from Sinopec Group Company (Note 1)	1,276	—	—	10,706	11,982
Disposal of Downhole Assets (Note 1)	(17)	(578)	—	(468)	(1,063)
Transfer from a subsidiary	101	—	—	2,581	2,682
Depreciation charge for the year	923	3,664	2,193	6,569	13,349
Written back on disposal	(293)	(4,418)	(582)	(2,223)	(7,516)
<b>At 31 December 2004</b>	<b>9,672</b>	<b>24,299</b>	<b>10,116</b>	<b>69,485</b>	<b>113,572</b>
<b>Net book value:</b>					
<b>At 31 December 2004</b>	<b>15,515</b>	<b>29,008</b>	<b>46,708</b>	<b>66,317</b>	<b>157,548</b>
<b>At 31 December 2003</b>	<b>13,585</b>	<b>25,749</b>	<b>36,198</b>	<b>53,345</b>	<b>128,877</b>

Fixed assets and construction in progress of the Group at 30 September 1999 were valued by registered valuers. The valuation was reviewed and approved by the MOF (Note 1). Surplus on revaluation was RMB 29,093 million and deficit on revaluation was RMB 3,210 million. A net surplus on revaluation of RMB 25,883 million was resulted which has been incorporated in the Group's financial statements since the year ended 31 December 1999.

## NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2004

### 11 FIXED ASSETS (Continued)

In accordance with the relevant rules and regulations in respect of the acquisition of Sinopec National Star, fixed assets and construction in progress of Sinopec National Star have been valued by a firm of independent valuers. Surplus on revaluation of RMB 541 million has been incorporated in the Group's financial statements since the year ended 31 December 2001.

In accordance with the relevant rules and regulations in respect of the Acquisition of Ethylene Assets, fixed assets and construction in progress of Sinopec Maoming have been revalued by a firm of independent valuers. Deficit on revaluation of RMB 86 million has been incorporated in the Group's financial statements since the year ended 31 December 2003.

In accordance with the relevant rules and regulations in respect of the Acquisition of Refining Assets, fixed assets and construction in progress of the Refining Assets have been revalued by a firm of independent valuers. Surplus on revaluation of RMB 82 million has been incorporated in the Group's financial statements since the year ended 31 December 2003.

In accordance with the relevant rules and regulations in respect of the Acquisition of Acquired Assets, fixed assets and construction in progress of the Acquired Assets have been revalued by independent valuers. Surplus on revaluation of RMB 492 million has been incorporated in the Group's financial statements for the year ended 31 December 2004.

At 31 December 2004, the carrying amounts of fixed assets that were pledged by the Group and the Company were RMB 123 million (2003: RMB 519 million) and RMB 10 million (2003: RMB 14 million) respectively.

Provision for impairment losses on fixed assets are analysed as follows:

#### The Group – by segment

	Exploration and production RMB millions	Refining RMB millions	Marketing and distribution RMB millions	Chemicals RMB millions	Total RMB millions
At 1 January 2004	764	114	—	453	1,331
Addition for the year	98	14	1,769	2,747	4,628
Disposal of Downhole Assets (Note 1)	(79)	—	—	—	(79)
Written off	—	(64)	—	—	(64)
<b>At 31 December 2004</b>	<b>783</b>	<b>64</b>	<b>1,769</b>	<b>3,200</b>	<b>5,816</b>

#### The Company – by segment

	Exploration and production RMB millions	Refining RMB millions	Marketing and distribution RMB millions	Chemicals RMB millions	Total RMB millions
At 1 January 2004	701	63	—	—	764
Addition for the year	98	14	1,737	1,568	3,417
Disposal of Downhole Assets (Note 1)	(79)	—	—	—	(79)
Written off	—	(64)	—	—	(64)
<b>At 31 December 2004</b>	<b>720</b>	<b>13</b>	<b>1,737</b>	<b>1,568</b>	<b>4,038</b>

#### The Group – by asset class

	Land and buildings RMB millions	Oil and gas properties RMB millions	Oil depots, storage tanks and service stations RMB millions	Plant, machinery, equipment and others RMB millions	Total RMB millions
At 1 January 2004	8	764	—	559	1,331
Addition for the year	325	98	1,249	2,956	4,628
Disposal of Downhole Assets (Note 1)	—	(79)	—	—	(79)
Written off	(2)	—	—	(62)	(64)
<b>At 31 December 2004</b>	<b>331</b>	<b>783</b>	<b>1,249</b>	<b>3,453</b>	<b>5,816</b>

## NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2004

### 11 FIXED ASSETS (Continued)

#### The Company – by asset class

	Land and buildings RMB millions	Oil and gas properties RMB millions	Oil depots, storage tanks and service stations RMB millions	Plant, machinery, equipment and others RMB millions	Total RMB millions
At 1 January 2004	—	701	—	63	764
Addition for the year	186	98	1,249	1,884	3,417
Disposal of Downhole Assets (Note 1)	—	(79)	—	—	(79)
Written off	(2)	—	—	(62)	(64)
<b>At 31 December 2004</b>	<b>184</b>	<b>720</b>	<b>1,249</b>	<b>1,885</b>	<b>4,038</b>

Provision for impairment losses recognised on fixed assets of the refining and chemicals segment of RMB 14 million (2003: RMB 114 million) and RMB 2,747 million (2003: RMB 453 million) for the year ended 31 December 2004 relate to certain refining and chemicals production facilities that are held for use. The carrying values of these facilities were written down to their recoverable values which were based on the asset held for use model using the present value of estimated future cash flows. The primary factor resulting in the provision for impairment losses of the chemicals segment was due to higher operating and production costs caused by the increase in the prices of raw materials that are not expected to be recovered through an increase in selling price.

Provision for impairment losses recognised on fixed assets of the marketing and distribution segment of RMB 1,769 million (2003: RMB nil) for the year ended 31 December 2004 primarily relate to certain service stations that were closed during the year. In measuring the amounts of impairment charges, the carrying amounts of these assets were compared to the present value of the expected future cash flows of the assets, as well as information about sales and purchases of similar properties in the same geographic area.

The factors resulting in the exploration and production (“E&P”) segment provision for impairment losses of RMB 98 million for the year ended 31 December 2004 (2003: RMB 373 million) were unsuccessful development drilling and high operating and development costs for certain small oil fields. The carrying values of these E&P properties were written down to a recoverable value which was determined based on the present values of the expected future cash flows of the assets. The oil and gas pricing was a factor used in the determination of the present values of the expected future cash flows of the assets and had an impact on the recognition of the asset impairment.

At 31 December 2004 and 2003, the Group and the Company had no individually significant fixed assets which were temporarily idle or pending for disposal.

At 31 December 2004 and 2003, the Group and the Company had no individually significant fully depreciated fixed assets which were still in use.

### 12 CONSTRUCTION MATERIALS

At 31 December 2004 and 2003, the Group's and the Company's construction materials mainly represent the actual cost of materials such as steel and copper to be used for construction projects.

## NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2004

### 13 CONSTRUCTION IN PROGRESS

#### The Group

	Exploration and production RMB millions	Refining RMB millions	Marketing and distribution RMB millions	Chemicals RMB millions	Others RMB millions	Total RMB millions
At 1 January 2004	5,535	8,355	7,641	6,581	401	28,513
Acquisition of Acquired Assets from Sinopec Group Company (Note 1)	—	2	—	267	56	325
Addition for the year	22,808	13,224	14,793	10,118	1,239	62,182
Addition for the year of jointly controlled entities	1,323	—	—	5,178	—	6,501
Dry hole costs written off	(2,976)	—	—	—	—	(2,976)
Transferred to fixed assets	(17,428)	(13,366)	(8,983)	(8,609)	(183)	(48,569)
<b>At 31 December 2004</b>	<b>9,262</b>	<b>8,215</b>	<b>13,451</b>	<b>13,535</b>	<b>1,513</b>	<b>45,976</b>

The interest rates per annum at which borrowing costs were capitalised during the year ended 31 December 2004 by the Group ranged from 3.1% to 6.0% (2003: 3.1% to 6.1%).

The Group's proportionate share of the jointly controlled entities' construction in progress at 31 December 2004 in the E&P and the chemicals segments were RMB 2,053 million (2003: RMB 3,812 million) and RMB 8,171 million (2003: RMB 2,993 million), respectively.

At 31 December 2004, major projects of the Group are as follows:

Project name	Budgeted amount RMB millions	At 1 January 2004 RMB millions	Addition for the year RMB millions	Transferred to fixed assets RMB millions	At 31 December 2004 RMB millions	Percentage of completion	Source of funding	Accumulated interest capitalised at 31 December 2004 RMB millions
<b>The Group</b>								
South-west Fuel Oil Pipeline Project	3,526	787	1,661	—	2,448	69%	Bank loans & self-financing	10
Ningbo – Shanghai – Nanjing Pipeline Project	5,705	3,049	1,865	(3,514)	1,400	86%	Bank loans & self-financing	20
Sour Crude Oil Improvement Project	1,454	134	961	(120)	975	67%	Bank loans & self-financing	4
Yizheng-Changling Crude Oil Pipeline Project	4,820	—	893	—	893	19%	Bank loans & self-financing	—
Fertilizer Improvement Project	1,063	178	712	—	890	84%	Bank loans & self-financing	4
<b>Jointly controlled entities</b>								
900,000 tonnes Ethylene Project	8,895	2,975	5,165	—	8,140	92%	Bank loans & self-financing	261

#### The Company

	Exploration and production RMB millions	Refining RMB millions	Marketing and distribution RMB millions	Chemicals RMB millions	Others RMB millions	Total RMB millions
At 1 January 2004	4,501	7,311	6,380	1,284	382	19,858
Acquisition of Acquired Assets from Sinopec Group Company (Note 1)	—	2	—	257	56	315
Transfer from a subsidiary	—	76	—	—	—	76
Addition for the year	13,346	10,281	11,581	3,889	1,239	40,336
Dry hole costs written off	(2,184)	—	—	—	—	(2,184)
Transferred to fixed assets	(9,056)	(10,911)	(8,020)	(1,452)	(183)	(29,622)
<b>At 31 December 2004</b>	<b>6,607</b>	<b>6,759</b>	<b>9,941</b>	<b>3,978</b>	<b>1,494</b>	<b>28,779</b>

The interest rates per annum at which borrowing costs were capitalised for the year ended 31 December 2004 by the Company ranged from 3.1% to 6.0% (2003: 3.1% to 6.1%).

## NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2004

### 14 INTANGIBLE ASSETS

#### The Group

	Computer software license RMB millions	Technical know-how RMB millions	Exploration and production right RMB millions	Others RMB millions	Total RMB millions
<b>Cost:</b>					
At 1 January 2004	554	1,797	3,163	198	5,712
Addition for the year	298	490	—	516	1,304
Disposals	—	(1)	—	(79)	(80)
<b>At 31 December 2004</b>	<b>852</b>	<b>2,286</b>	<b>3,163</b>	<b>635</b>	<b>6,936</b>
<b>Accumulated Amortisation:</b>					
At 1 January 2004	90	634	351	73	1,148
Amortisation charge for the year	95	207	117	57	476
Written back on disposal	—	—	—	(33)	(33)
<b>At 31 December 2004</b>	<b>185</b>	<b>841</b>	<b>468</b>	<b>97</b>	<b>1,591</b>
<b>Net book value:</b>					
<b>At 31 December 2004</b>	<b>667</b>	<b>1,445</b>	<b>2,695</b>	<b>538</b>	<b>5,345</b>
<b>At 31 December 2003</b>	<b>464</b>	<b>1,163</b>	<b>2,812</b>	<b>125</b>	<b>4,564</b>

Except for the exploration and production right, the above intangible assets were acquired from third parties. The Company acquired Sinopec National Star together with the exploration and production right from Sinopec Group Company. The exploration and production right was valued with reference to the proved reserves of the associated oil fields. The amortisation period of the exploration and production right was 27 years. The amortisation periods of other intangible assets range from 4 to 10 years. At 31 December 2004, the remaining amortisation period of the exploration and production right was 23 years.

#### The Company

	Computer software license RMB millions	Technical know-how RMB millions	Exploration and production right RMB millions	Others RMB millions	Total RMB millions
<b>Cost:</b>					
At 1 January 2004	379	1,036	3,163	129	4,707
Addition for the year	292	280	—	355	927
Disposals	—	—	—	(63)	(63)
<b>At 31 December 2004</b>	<b>671</b>	<b>1,316</b>	<b>3,163</b>	<b>421</b>	<b>5,571</b>
<b>Accumulated Amortisation:</b>					
At 1 January 2004	48	554	351	42	995
Amortisation charge for the year	72	119	117	38	346
Written back on disposal	—	—	—	(31)	(31)
<b>At 31 December 2004</b>	<b>120</b>	<b>673</b>	<b>468</b>	<b>49</b>	<b>1,310</b>
<b>Net book value:</b>					
<b>At 31 December 2004</b>	<b>551</b>	<b>643</b>	<b>2,695</b>	<b>372</b>	<b>4,261</b>
<b>At 31 December 2003</b>	<b>331</b>	<b>482</b>	<b>2,812</b>	<b>87</b>	<b>3,712</b>

Except for the exploration and production right, the above intangible assets were acquired from third parties. The Company acquired Sinopec National Star together with the exploration and production right from Sinopec Group Company. The exploration and production right was valued with reference to the proved reserves of the associated oil fields. The amortisation period of the exploration and production right was 27 years. The amortisation periods of other intangible assets range from 4 to 10 years. At 31 December 2004, the remaining amortisation period of the exploration and production right was 23 years.

### 15 LONG-TERM DEFERRED EXPENSES

Long-term deferred expenses primarily represent prepaid rental expenses over one year, catalysts and jointly controlled entities' pre-operating expenditures.

## NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2004

### 16 DEFERRED TAX ASSETS AND LIABILITIES

#### The Group

	Deferred tax assets		Deferred tax liabilities		Net balance	
	2004	2003	2004	2003	2004	2003
	RMB millions	RMB millions	RMB millions	RMB millions	RMB millions	RMB millions
<i>Current</i>						
Provisions, primarily for receivables and inventories	2,524	1,436	—	—	2,524	1,436
<i>Non-current</i>						
Property, plant and equipment	1,566	272	(198)	(289)	1,368	(17)
Tax value of losses carried forward, net of valuation allowance	66	—	—	—	66	—
Others	10	44	—	—	10	44
<b>Deferred tax assets/(liabilities)</b>	<b>4,166</b>	<b>1,752</b>	<b>(198)</b>	<b>(289)</b>	<b>3,968</b>	<b>1,463</b>

#### The Company

	Deferred tax assets		Deferred tax liabilities		Net balance	
	2004	2003	2004	2003	2004	2003
	RMB millions	RMB millions	RMB millions	RMB millions	RMB millions	RMB millions
<i>Current</i>						
Provisions, primarily for receivables and inventories	2,245	1,249	—	—	2,245	1,249
<i>Non-current</i>						
Property, plant and equipment	1,457	226	(16)	(16)	1,441	210
Others	6	35	—	—	6	35
<b>Deferred tax assets/(liabilities)</b>	<b>3,708</b>	<b>1,510</b>	<b>(16)</b>	<b>(16)</b>	<b>3,692</b>	<b>1,494</b>

### 17 SHORT-TERM LOANS

The Group's and the Company's short-term loans represent:

	The Group		The Company	
	2004	2003	2004	2003
	RMB millions	RMB millions	RMB millions	RMB millions
Short-term bank loans	20,009	16,979	10,527	7,466
Short-term other loans	—	29	—	25
Loans from Sinopec Group Company and its fellow subsidiaries	6,714	3,896	5,727	2,296
<b>Total</b>	<b>26,723</b>	<b>20,904</b>	<b>16,254</b>	<b>9,787</b>

The Group's and the Company's weighted average interest rates per annum on short-term loans were 3.9% (2003: 3.2%) and 4.0% (2003: 3.1%) respectively at 31 December 2004. The majority of the above loans are unsecured.

At 31 December 2004 and 2003, the Group and the Company had no significant overdue short-term loans.

### 18 BILLS PAYABLE

Bills payable primarily represented the bank accepted bills for the purchase of material, goods and products. The repayment term is normally from three to six months.

## NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2004

### 19 TRADE ACCOUNTS PAYABLE

The ageing analyses of trade accounts payable are as follows:

	The Group			
	2004		2003	
	RMB millions	%	RMB millions	%
Within 3 months	12,868	54.1	16,311	71.8
Between 3 and 6 months	9,110	38.3	5,140	22.6
Over 6 months	1,814	7.6	1,253	5.6
<b>Total</b>	<b>23,792</b>	<b>100.0</b>	<b>22,704</b>	<b>100.0</b>

	The Company			
	2004		2003	
	RMB millions	%	RMB millions	%
Within 3 months	13,462	63.7	15,143	83.6
Between 3 and 6 months	6,183	29.3	2,130	11.8
Over 6 months	1,492	7.0	844	4.6
<b>Total</b>	<b>21,137</b>	<b>100.0</b>	<b>18,117</b>	<b>100.0</b>

Except for the balances disclosed in Note 40, there is no amount due to shareholders who hold 5% or more voting right of the Company included in the balance of trade accounts payable.

At 31 December 2004 and 2003, the Group and the Company had no individually significant trade accounts payable aged over three years.

### 20 RECEIPTS IN ADVANCE

Except for the balances disclosed in Note 40, there is no amount due to shareholders who hold 5% or more voting right of the Company included in the balance of receipts in advance.

At 31 December 2004 and 2003, the Group and the Company had no individually significant receipts in advance aged over one year.

### 21 TAXES PAYABLE

	The Group		The Company	
	2004	2003	2004	2003
	RMB millions	RMB millions	RMB millions	RMB millions
Value added tax	(1,119)	459	(1,377)	(389)
Consumption tax	1,443	1,547	1,146	1,184
Income tax	5,391	4,077	3,142	2,012
Business tax	99	52	37	24
Other taxes	927	851	222	144
<b>Total</b>	<b>6,741</b>	<b>6,986</b>	<b>3,170</b>	<b>2,975</b>

The provision for PRC current income tax is based on a statutory rate of 33% of the assessable income of the Group and the Company as determined in accordance with the relevant income tax rules and regulations of the PRC during the years ended 31 December 2004 and 2003, except for certain entities of the Company, which are taxed at a preferential rate of 15%.

### 22 OTHER PAYABLES

At 31 December 2004 and 2003, the Group's and the Company's other payables primarily represented payables for resources compensation fee and education surcharge.

### 23 OTHER CREDITORS

At 31 December 2004 and 2003, the Group's and the Company's other creditors primarily represented payables for constructions.

Except for the balances disclosed in Note 40, there is no amount due to shareholders who hold 5% or more voting right of the Company included in the balance of other creditors.

At 31 December 2004 and 2003, the Group and the Company had no individually significant other creditors aged over three years.



## NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2004

### 24 ACCRUED EXPENSES

At 31 December 2004 and 2003, the Group's and the Company's accrued expenses primarily represented accrued interest expenses, repair and maintenance expenses, research and development expenses and other production expenses.

### 25 CURRENT PORTION OF LONG-TERM LOANS

The Group's and the Company's current portion of long-term loans represent:

	The Group		The Company	
	2004	2003	2004	2003
	RMB millions	RMB millions	RMB millions	RMB millions
<b>Long-term bank loans</b>				
— Renminbi loans	8,500	5,363	6,247	3,437
— Japanese Yen loans	805	533	798	498
— US Dollar loans	2,841	623	2,341	408
— Euro loans	28	—	28	—
— Hong Kong Dollar loans	3	4	—	—
	<b>12,177</b>	<b>6,523</b>	<b>9,414</b>	<b>4,343</b>
<b>Long-term other loans</b>				
— Renminbi loans	88	65	61	30
— US Dollar loans	33	62	31	30
	<b>121</b>	<b>127</b>	<b>92</b>	<b>60</b>
<b>Debentures payable</b>				
— Renminbi loans (Note 27)	—	1,500	—	—
<b>Long-term loans from Sinopec Group Company and its fellow subsidiaries</b>				
— Renminbi loans	2,000	19	2,000	19
— US Dollar loans	—	6	—	6
	<b>2,000</b>	<b>25</b>	<b>2,000</b>	<b>25</b>
<b>Total current portion of long-term loans</b>	<b>14,298</b>	<b>8,175</b>	<b>11,506</b>	<b>4,428</b>

At 31 December 2004 and 2003, the Group and the Company had no significant overdue long-term loans.

## NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2004

### 26 LONG-TERM LOANS

The Group's and the Company's long-term loans represent:

Interest rate and final maturity		The Group		The Company	
		2004	2003	2004	2003
		RMB millions	RMB millions	RMB millions	RMB millions
<b>Third parties debts</b>					
<b>Long-term bank loans</b>					
Renminbi loans	Interest rates ranging from interest free to 6.2% per annum at 31 December 2004 with maturities through 2013	52,227	38,863	45,233	29,577
Japanese Yen loans	Interest rates ranging from 2.6% to 5.8% per annum at 31 December 2004 with maturities through 2024	4,562	2,909	4,556	2,866
US Dollar loans	Interest rates ranging from interest free to 7.4% per annum at 31 December 2004 with maturities through 2031	7,729	4,340	5,278	2,676
Euro loans	Fixed rate at 6.7% per annum at 31 December 2004 with maturities through 2010	165	—	165	—
Hong Kong Dollar loans	Floating rate at Hong Kong Prime Rate plus 0.3% per annum at 31 December 2004 with maturities through 2006	5	7	—	—
Less: Current portion		12,177	6,523	9,414	4,343
<b>Long-term bank loans</b>		<b>52,511</b>	<b>39,596</b>	<b>45,818</b>	<b>30,776</b>
<b>Other long-term loans</b>					
Renminbi loans	Interest rates ranging from interest free to 5.0% per annum at 31 December 2004 with maturities through 2008	359	359	200	182
US Dollar loans	Interest rates ranging from interest free to 4.0% per annum at 31 December 2004 with maturities through 2015	110	151	89	118
Euro loans	Interest rates ranging from 1.8% to 8.1% per annum at 31 December 2003 with maturities through 2025. Paid off as at 31 December 2004	—	21	—	21
Less: Current portion		121	127	92	60
<b>Other long-term loans</b>		<b>348</b>	<b>404</b>	<b>197</b>	<b>261</b>
<b>Long-term bank loans of jointly controlled entities</b>					
Renminbi loans	Floating rate at 90% of PBOC's base lending rate per annum at 31 December 2004 with maturities through 2021	2,415	705	—	—
US Dollar loans	Floating rate at London Interbank Offer Rate plus 0.7% per annum at 31 December 2004 with maturities through 2021	2,048	745	—	—
<b>Long-term bank loans of jointly controlled entities</b>		<b>4,463</b>	<b>1,450</b>	<b>—</b>	<b>—</b>
<b>Long-term loans from Sinopec Group Company and fellow subsidiaries</b>					
Renminbi loans	Interest free with maturity in 2020	35,561	35,561	35,561	35,561
Renminbi loans	Interest rates ranging from interest free to 5.2% per annum at 31 December 2004 with maturities through 2009	3,204	2,223	2,756	2,138
US Dollar loans	Floating rate at London Interbank Offer Rate plus 1.4% per annum at 31 December 2003; paid off as at 31 December 2004	—	12	—	12
Less: Current portion		2,000	25	2,000	25
<b>Long-term loans from Sinopec Group Company and fellow subsidiaries</b>		<b>36,765</b>	<b>37,771</b>	<b>36,317</b>	<b>37,686</b>
		<b>94,087</b>	<b>79,221</b>	<b>82,332</b>	<b>68,723</b>

## NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2004

### 26 LONG-TERM LOANS (Continued)

The maturity analyses of the Group's and the Company's long-term loans are as follows:

	The Group		The Company	
	2004	2003	2004	2003
	RMB millions	RMB millions	RMB millions	RMB millions
Between one and two years	15,886	13,145	12,363	9,346
Between two and five years	36,041	26,591	31,279	21,526
After five years	42,160	39,485	38,690	37,851
<b>Total long-term loans</b>	<b>94,087</b>	<b>79,221</b>	<b>82,332</b>	<b>68,723</b>

At 31 December 2004, the Group and the Company had secured loans from third parties amounting to RMB 40 million (2003: RMB 103 million) and RMB 9 million (2003: RMB 9 million) respectively. All long-term other loans are unsecured.

Except for the balances disclosed in Note 40, there is no amount due to shareholders who hold 5% or more voting right of the Company included in the balance of long-term loans.

### 27 DEBENTURES PAYABLE

	Interest rate and final maturity	The Group		The Company	
		2004	2003	2004	2003
		RMB millions	RMB millions	RMB millions	RMB millions
Corporate bonds	Fixed rate at 4.61% per annum, redeemable in February 2014 (i)	3,500	—	3,500	—
Convertible bonds	Matured and paid off during the year ended 2004(ii)	—	1,500	—	—
Less: current portion		—	1,500	—	—
		<b>3,500</b>	<b>—</b>	<b>3,500</b>	<b>—</b>

(i) The Company issued ten years corporate bonds of RMB 3.5 billion to PRC citizens as well as PRC legal and non-legal persons on 24 February 2004, guaranteed by Sinopec Group Company, with a fixed interest rate at 4.61% per annum and annual interest payment schedule. Interest payable for the current period was included in accrued expenses.

(ii) Convertible bonds amounting to RMB 1,500 million were issued by a subsidiary of the Group on 28 July 1999. Pursuant to the subsidiary's shareholders' approval at the Annual General Meeting held on 23 March 2004, the subsidiary decided not to undergo an initial public offering. The bonds were repaid in July 2004.

### 28 OTHER LONG-TERM PAYABLES

Other long-term payables primarily represent provision for future dismantlement of oil and gas properties, the costs arising from environmental restoration and specific research and development projects.

### 29 SHARE CAPITAL

	The Group and the Company	
	2004	2003
	RMB millions	RMB millions
<b>Registered, issued and fully paid:</b>		
67,121,951,000 domestic state-owned A shares of RMB 1.00 each	67,122	67,122
16,780,488,000 H shares of RMB 1.00 each	16,780	16,780
2,800,000,000 A shares of RMB 1.00 each	2,800	2,800
	<b>86,702</b>	<b>86,702</b>

The Company was established on 25 February 2000 with a registered capital of 68.8 billion state-owned domestic shares with a par value of RMB 1.00 each, which were all held by Sinopec Group Company (see Note 1).

Pursuant to the resolutions passed in the Extraordinary General Meeting of the Company held on 25 July 2000 and the approval from relevant authorities, the Company issued 15,102,439,000 H shares with a par value of RMB 1.00 each in its initial global offering in October 2000. The shares include 12,521,864,000 H shares and 25,805,750 American Depositary Shares ("ADSs", each representing 100 H shares) at prices of HK\$ 1.59 and US\$ 20.645 respectively. As part of the offering, 1,678,049,000 shares were offered in placing to Hong Kong and overseas investors.

In July 2001, the Company issued 2,800,000,000 domestic listed A shares with a par value of RMB 1.00 each at RMB 4.22.

All the domestic ordinary shares and H shares rank pari passu in all material aspects.

KPMG Huazhen had verified the above paid-in capital. The capital verification reports, KPMG-C (2000) CV No. 0007, KPMG-C (2001) CV No. 0002 and KPMG-C (2001) CV No. 0006 were issued on 22 February 2000, 27 February 2001 and 23 July 2001 respectively.

## NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2004

### 30 CAPITAL RESERVE

The movements in capital reserve are as follows:

	The Group		The Company	
	2004	2003	2004	2003
	RMB millions	RMB millions	RMB millions	RMB millions
Balance at 1 January	36,852	36,588	36,852	36,588
Government grants (i)	269	35	269	35
Reserve for equity investment (ii)	—	—	676	—
Premium from issuance of shares by a subsidiary (iii)	—	147	—	147
Gain from debt restructuring by a subsidiary (iv)	—	82	—	82
<b>Total long-term loans</b>	<b>37,121</b>	<b>36,852</b>	<b>37,797</b>	<b>36,852</b>

- (i) During the year ended 31 December 2004, the Group received subsidy on investments amounted to RMB 269 million (2003: RMB 35 million), pursuant to Fa Gai Tou Zi [2004] No. 1248 "Notice on the Enterprise Technology Reform and Industry Upgrade regarding the First Batch State Debt's Project Fund Plan in 2004" issued by the National Development and Reform Commission and the MOF. This fund is used for technology improvement projects.
- (ii) During the year ended 31 December 2004, the Company invested in certain newly set up subsidiaries using non-monetary assets at revalued amount as the Group's capital investment in these subsidiaries. The difference between the revalued amount of these non-monetary assets and their original book value (that is the Group's shared shareholders' funds in these subsidiaries over the initial investment cost) was recorded in capital reserve. Such difference has been eliminated in the Group's consolidated financial statements.
- (iii) A subsidiary of the Group issued additional shares in the PRC during the year ended 31 December 2003. Independent investors used cash to subscribe for the additional shares. The increase in the Group's consolidated net assets as a result of addition issuance of shares was reflected as an increase of capital reserve.
- (iv) During the year ended 31 December 2003, a subsidiary of the Group carried out debt restructuring with a bank and certain interest payable had been waived. The gain in connection with the debt restructuring was reflected as an increase of capital reserve.

### 31 SURPLUS RESERVES

Movements in surplus reserves are as follows:

	The Group and the Company			
	Statutory surplus reserve	Statutory public welfare fund	Discretionary surplus reserve	Total
	RMB millions	RMB millions	RMB millions	RMB millions
At 1 January 2003	4,429	4,429	7,000	15,858
Appropriation of net profit	1,901	1,901	—	3,802
<b>At 31 December 2003</b>	<b>6,330</b>	<b>6,330</b>	<b>7,000</b>	<b>19,660</b>
At 1 January 2004	6,330	6,330	7,000	19,660
Appropriation of net profit	3,228	3,228	—	6,456
<b>At 31 December 2004</b>	<b>9,558</b>	<b>9,558</b>	<b>7,000</b>	<b>26,116</b>

The Articles of Association of the Company and the following profit appropriation plans had been approved at the Extraordinary General Meeting held on 25 July 2000:

- (a) 10% of the net profit is transferred to the statutory surplus reserve;
- (b) 5% to 10% of the net profit is transferred to the statutory public welfare fund; and
- (c) after the transfer to the statutory surplus reserve, a transfer to discretionary surplus reserve can be made upon the passing of a resolution at the shareholders' meeting.

### 32 INCOME FROM PRINCIPAL OPERATIONS

The income from principal operations represents revenue from sales of crude oil, natural gas, petroleum and chemical products net of value added tax. The Group's segmental information is set out in Note 45.

For the year ended 31 December 2004, revenue from sales to top five customers amounted to RMB 58,691 million (2003: RMB 61,502 million) which accounted for 10% (2003: 15%) of income from principal operations of the Group.

## NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2004

### 33 SALES TAXES AND SURCHARGES

	The Group		The Company	
	2004	2003	2004	2003
	RMB millions	RMB millions	RMB millions	RMB millions
Consumption tax	11,847	9,856	7,981	6,691
City construction tax	2,505	1,991	1,261	1,038
Education surcharge	1,243	955	624	503
Resources tax	452	434	114	108
Business tax	156	135	114	73
<b>Total</b>	<b>16,203</b>	<b>13,371</b>	<b>10,094</b>	<b>8,413</b>

### 34 FINANCIAL EXPENSES

	The Group		The Company	
	2004	2003	2004	2003
	RMB millions	RMB millions	RMB millions	RMB millions
Interest expenses incurred	4,909	4,635	3,067	2,417
Less: Capitalised interest expenses	327	487	231	187
<b>Net interest expenses</b>	<b>4,582</b>	<b>4,148</b>	<b>2,836</b>	<b>2,230</b>
Interest income	(359)	(305)	(144)	(125)
Foreign exchange losses	167	316	130	279
Foreign exchange gains	(59)	(30)	(52)	(47)
<b>Total</b>	<b>4,331</b>	<b>4,129</b>	<b>2,770</b>	<b>2,337</b>

### 35 EXPLORATION EXPENSES

Exploration expenses include geological and geophysical expenses and dry hole costs.

### 36 INVESTMENT INCOME

	The Group		The Company	
	2004	2003	2004	2003
	RMB millions	RMB millions	RMB millions	RMB millions
Investment income accounted for under the cost method	120	71	82	36
Investment income accounted for under the equity method	968	477	39,292	22,808
<b>Total</b>	<b>1,088</b>	<b>548</b>	<b>39,374</b>	<b>22,844</b>

### 37 NON-OPERATING EXPENSES

	The Group		The Company	
	2004	2003	2004	2003
	RMB millions	RMB millions	RMB millions	RMB millions
Loss on disposal of fixed assets	4,304	3,459	2,733	1,917
Impairment losses on fixed assets	4,628	940	3,417	373
Fines, penalties and compensations	280	140	273	133
Donations	275	132	91	91
Employee reduction expenses (Note)	919	1,014	745	713
Others	765	649	620	372
<b>Total</b>	<b>11,171</b>	<b>6,334</b>	<b>7,879</b>	<b>3,599</b>

Note: During the year ended 31 December 2004, in accordance with the Group's voluntary employee reduction plan, and in connection with the Acquisition of Acquired Assets from and Disposal of Downhole Assets to Sinopec Group Company, the Group recorded employee reduction expenses of RMB 919 million (2003: RMB 1,014 million) relating to the reduction of approximately 24,000 employees (2003: 21,000 employees).

## NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2004

### 38 INCOME TAX

	The Group		The Company	
	2004	2003	2004	2003
	RMB millions	RMB millions	RMB millions	RMB millions
Provision for PRC income tax for the year	18,405	10,862	16,815	10,340
Deferred taxation	(2,439)	(1,580)	(2,198)	(1,443)
Underprovision for income tax in respect of preceding year	94	79	152	7
<b>Total</b>	<b>16,060</b>	<b>9,361</b>	<b>14,769</b>	<b>8,904</b>

### 39 DIVIDENDS

#### (a) Dividends of ordinary shares proposed after the balance sheet date

Pursuant to a resolution passed at the Board of Directors' meeting on 25 March 2005, a final dividend in respect of the year ended 31 December 2004 of RMB 0.08 per share totalling RMB 6,936 million was proposed for shareholders' approval at the Annual General Meeting.

#### (b) Dividends of ordinary shares declared during the year

Pursuant to the shareholder's approval at the Annual General Meeting on 18 May 2004, the Board of Directors was authorised to declare the interim dividends for the year ended 31 December 2004. According to the resolution passed at the Directors' meeting on 27 August 2004, an interim dividend of RMB 0.04 (2003: RMB 0.03) per share totalling RMB 3,468 million (2003: RMB 2,601 million) was declared.

Pursuant to the shareholders' approval at the Annual General Meeting on 18 May 2004, a final dividend of RMB 0.06 per share totalling RMB 5,202 million in respect of the year ended 31 December 2003 was declared and paid on 28 June 2004.

Pursuant to the shareholders' approval at the Annual General Meeting on 10 June 2003, a final dividend of RMB 0.06 per share totalling RMB 5,202 million in respect of the year ended 31 December 2002 was declared and paid on 30 June 2003.

### 40 RELATED PARTIES AND RELATED PARTY TRANSACTIONS

#### (a) Related parties having the ability to exercise control over the Group

The name of the company	:	China Petrochemical Corporation ("Sinopec Group Company")
Registered address	:	No. 6A, Huixin East Street, Chaoyang District, Beijing
Principal activities	:	Processing crude oil into refined products and petrochemical products, petrochemical products which include: petrochemical products made from crude oil and natural gas; production, sale and import and export of synthetic fibre and synthetic fibre monomer.
Relationship with the Group	:	Ultimate holding company
Types of legal entity	:	State-owned
Authorised representative	:	Chen Tonghai
Registered capital	:	RMB 104,912 million

There is no movement in the above registered capital for the year ended 31 December 2004.

Change of the Company's equity interests held by Sinopec Group Company is as follows:

From 1 January 2004 to 29 December 2004	55.06%
From 30 December 2004 to 31 December 2004	67.92%

## NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2004

### 40 RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

(b) The principal related party transactions carried out in the ordinary course of business are as follows:

	Note	2004 RMB millions	2003 RMB millions
Sales of goods	(i)	72,015	42,398
Purchases	(ii)	40,911	34,953
Transportation and storage	(iii)	2,003	1,835
Exploration and development services	(iv)	14,446	13,699
Production related services	(v)	9,123	8,718
Ancillary and social services	(vi)	1,776	1,862
Operating lease charges	(vii)	3,365	3,116
Agency commission income	(viii)	41	41
Intellectual property license fee paid	(ix)	10	10
Interest received	(x)	59	87
Interest paid	(xi)	622	583
Net deposits placed with /(withdrawn from) related parties	(xii)	407	(1,438)
Net loans obtained from /(paid to) related parties	(xiii)	3,787	(285)

The amounts set out in the table above in respect of the years ended 31 December 2004 and 2003 represent the relevant costs to the Group and income from related parties as determined by the corresponding contracts with the related parties.

At 31 December 2004 and 2003, there were no guarantees given to banks by the Group in respect of banking facilities to Sinopec Group Company and fellow subsidiaries.

The directors of the Company are of the opinion that the above transactions with related parties were conducted in the ordinary course of business and on normal commercial terms or in accordance with the agreements governing such transactions, and this has been confirmed by the independent non-executive directors.

Notes:

- (i) Sales of goods represent the sale of crude oil, intermediate petrochemical products, petroleum products and ancillary materials.
- (ii) Purchases represent the purchase of material and utility supplies directly related to the Group's operations such as the procurement of raw and ancillary materials and related services, supply of water, electricity and gas.
- (iii) Transportation and storage represent the cost for the use of railway, road and marine transportation services, pipelines, loading, unloading and storage facilities.
- (iv) Exploration and development services comprise direct costs incurred in the exploration and development activities oil such as geophysical, drilling, well testing and well measurement services.
- (v) Production related services represent ancillary services rendered in relation to the Group's operations such as equipment repair and general maintenance, insurance premium, technical research, communications, fire fighting, security, product quality testing and analysis, information technology, design and engineering, construction which includes the construction of oilfield ground facilities, refineries and chemical plants, manufacture of replacement parts and machinery, installation, project management and environmental protection.
- (vi) Ancillary and social services represent expenditures for social welfare and support services such as educational facilities, media communication services, sanitation, accommodation, canteens, property maintenance and management services.
- (vii) Operating lease charges represent the rental paid to Sinopec Group Company for operating leases in respect of land, buildings and service stations.
- (viii) Agency commission income represents commission earned for acting as an agent in respect of sales of products and purchase of material for certain entities owned by Sinopec Group Company.
- (ix) Intellectual property license fee represents reimbursement paid to Sinopec Group Company for fees required to maintain the validity of licenses for trademarks, patents, technology and computer software.
- (x) Interest received represents interest received from deposits placed with Sinopec Finance Company Limited, a finance company controlled by Sinopec Group Company. The applicable interest rate is determined in accordance with the prevailing saving deposit rate. The balances of deposits at 31 December 2004 and 2003 were RMB 4,671 million and RMB 4,264 million respectively.
- (xi) Interest paid represents interest charges on the loans obtained from Sinopec Group Company and Sinopec Finance Company Limited.
- (xii) Deposits were withdrawn from/placed with Sinopec Finance Company Limited.
- (xiii) The Group obtained/repaid loans from/to Sinopec Group Company and Sinopec Finance Company Limited. The average loan balance for the year ended 31 December 2004, which is calculated based on monthly average balance, was RMB 42,696 million (2003: RMB 41,247 million).

## NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2004

### 40 RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

In connection with the Reorganisation, the Company and Sinopec Group Company entered into a number of agreements under which 1) Sinopec Group Company will provide goods and products and a range of ancillary, social and supporting services to the Group and 2) the Group will sell certain goods to Sinopec Group Company. These agreements impacted the operating results of the Group for the year ended 31 December 2004. The terms of these agreements are summarised as follows:

- (a) The Company entered into a non-exclusive Agreement for Mutual Provision of Products and Ancillary Services (“Mutual Provision Agreement”) with Sinopec Group Company under which Sinopec Group Company has agreed to provide the Group with certain ancillary production services, construction services, information advisory services, supply services and other services and products. While each of Sinopec Group Company and the Company is permitted to terminate the Mutual Provision Agreement upon at least six months’ notice, Sinopec Group Company has agreed not to terminate the agreement if the Group is unable to obtain comparable services from a third party. The pricing policy for these services and products provided by Sinopec Group Company to the Group is as follows:
- the government-prescribed price;
  - where there is no government-prescribed price, the government-guidance price;
  - where there is neither a government-prescribed price nor a government-guidance price, the market price; or
  - where none of the above is applicable, the price to be agreed between the parties, which shall be based on a reasonable cost incurred in providing such services plus a profit margin not exceeding 6%.
- (b) The Company has entered into a non-exclusive Agreement for Provision of Cultural and Educational, Health Care and Community Services with Sinopec Group Company effective from 1 January 2000 in which Sinopec Group Company has agreed to provide the Group with certain cultural, educational, health care and community services on the same pricing terms and termination conditions as agreed to in the above Mutual Provision Agreement.
- (c) The Company has entered into a number of lease agreements with Sinopec Group Company to lease certain land and buildings at a rental of approximately RMB 2,447 million and RMB 567 million, respectively, per annum. The Company and Sinopec Group Company can renegotiate the rental amount every three years for land and every year for buildings, such amount not to exceed the market price as determined by an independent third party. The Group has the option to terminate these leases upon six months notice to Sinopec Group Company.
- (d) The Company has entered into agreements with Sinopec Group Company effective from 1 January 2000 under which the Group has been granted the right to use certain trademarks, patents, technology and computer software developed by Sinopec Group Company. The Group will reimburse Sinopec Group Company for fees required to maintain the validity of these licenses.
- (e) The Company has entered into agency agreements effective from 1 January 2000 with certain entities owned by Sinopec Group Company under which the Group acts as a sole agent in respect of the sale of all the products of these entities. In exchange for the Group’s sales agency services, Sinopec Group Company has agreed to pay the Group a commission of between 0.2% and 1.0% of actual sales receipts depending on the products and to reimburse the Group for reasonable costs incurred in the capacity as its sales agent.
- (f) The Company has entered into a service station franchise agreement with Sinopec Group Company under which its service station and retail stores would exclusively sell the refined products supplied by the Group.

#### (c) Balances with related parties

The balances with the Group’s related parties at 31 December 2004 and 2003 are as follows:

	The ultimate holding company		Other related companies	
	2004	2003	2004	2003
	RMB millions	RMB millions	RMB millions	RMB millions
Trade accounts receivable	—	—	2,438	3,125
Advance payments	—	—	350	463
Other receivables	2,502	3,201	3,941	6,024
Trade accounts payable	—	—	1,527	1,028
Receipts in advance	—	—	1,218	539
Other creditors	4,851	4,588	4,828	9,927
Short-term loans	—	—	6,714	3,896
Long-term loans (including current portion) (Note)	—	—	38,765	37,796

Note: The Sinopec Group Company had borrowed an interest free loan for 20 years amounted to RMB 35,561 million to the Group through Sinopec Finance Company Limited which was included in the long-term loans.

As discussed in Note 1, pursuant to the resolutions passed at the Extraordinary General Meeting held on 21 December 2004, the Company acquired the equity interests of Tianjin Petrochemical, Luoyang Petrochemical, Zhongyuan Petrochemical, Guangzhou Petrochemical and Catalyst Plants from Sinopec Group Company for a total consideration payable of RMB 3,128 million. In addition, the Company acquired certain individual assets and liabilities from Sinopec Group Company for a total consideration payable of RMB 2,232 million. In connection with these acquisitions, the Group disposed of Downhole Assets to Sinopec Group Company for a consideration receivable of RMB 1,712 million, resulting in a net consideration of RMB 3,648 million payable to Sinopec Group Company.



## NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2004

### 41 PRINCIPAL SUBSIDIARIES

The Company's principal subsidiaries are limited companies operating in the PRC and had been consolidated into the Group's financial statements for the year ended 31 December 2004. Except for Sinopec Kantons Holdings Limited, which is incorporated in Bermuda, the companies below are incorporated in the PRC. The following list contains the particulars of subsidiaries which principally affected the results or assets of the Group:

Name of enterprise	Registered capital RMB millions	Percentage of equity interest held by the Company %	Principal activities
China Petrochemical International Company Limited	1,400	100.00	Trading of crude oil and petrochemical products
Sinopec Beijing Yanhua Petrochemical Company Limited	3,374	70.01	Manufacturing of chemical products
Sinopec Sales Company Limited	1,700	100.00	Marketing and distribution of refined petroleum products
Sinopec Shengli Oilfield Company Limited	29,000	100.00	Exploration and production of crude oil and natural gas
Sinopec Fujian Petrochemical Company Limited	2,253	(i) 50.00	Manufacturing of plastics, intermediate petrochemical products and petroleum products
Sinopec Qilu Petrochemical Company Limited	1,950	82.05	Manufacturing of intermediate petrochemical products and petroleum products
Sinopec Shanghai Petrochemical Company Limited	7,200	55.56	Manufacturing of synthetic fibres, resin and plastics, intermediate petrochemical products and petroleum products
Sinopec Shijiazhuang Refining Chemical Company Limited	1,154	79.73	Manufacturing of intermediate petrochemical products and petroleum products
Sinopec Kantons Holdings Limited	HK\$104	72.40	Trading of crude oil and petroleum products
Sinopec Wuhan Petroleum Group Company Limited	147	(i) 46.25	Marketing and distribution of refined petroleum products
Sinopec Wuhan Phoenix Company Limited	519	(i) 40.72	Manufacturing of petrochemical products and petroleum products
Sinopec Yangzi Petrochemical Company Limited	2,330	84.98	Manufacturing of intermediate petrochemical products and petroleum products
Sinopec Yizheng Chemical Fibre Company Limited	4,000	(i) 42.00	Production and sale of polyester chips and polyester fibres
Sinopec Zhenhai Refining and Chemical Company Limited	2,524	71.32	Manufacturing of intermediate petrochemical products and petroleum products
Sinopec Zhongyuan Petroleum Company Limited	875	70.85	Exploration and production of crude oil and natural gas
Zhongyuan Petrochemical Company Limited	2,400	93.51	Manufacturing of chemical products
Sinopec Shell (Jiangsu) Petroleum Marketing Company Limited	830	60.00	Marketing and distribution of refined petroleum products
BP Sinopec (Zhejiang) Petroleum Company Limited	800	60.00	Marketing and distribution of refined petroleum products

(i) The Company consolidated the results of these entities because the Company controlled the board of these entities and had the power to govern their financial and operating policies.

### 42 PRINCIPAL JOINTLY CONTROLLED ENTITIES

At 31 December 2004, the Group's principal jointly controlled entities are as follows:

Name of jointly controlled entities	Registered capital/paid-up capital	Percentage of equity interest held by the Group %	Principal activities
Shanghai Secco Petrochemical Company Limited	Registered capital USD 901,440,964	50.00	Manufacturing and distribution of petrochemical products
Yueyang Sinopec and Shell Coal Gasification Company Limited	Registered capital USD 45,588,700	50.00	Manufacturing and distribution of industrial gas
Block A Oil Field in the Western Area Chenda in Bohai Bay	—	43.00	Exploration and production of crude oil and natural gas

## NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2004

### 43 COMMITMENTS

#### Operating lease commitments

The Group and the Company lease service stations and other equipment through non-cancellable operating leases. These operating leases do not contain provisions for contingent lease rentals. None of the rental agreements contain escalation provisions that may require higher future rental payments.

At 31 December 2004, the future minimum lease payments of the Group and the Company under operating leases are as follows:

	The Group		The Company	
	2004	2003	2004	2003
	RMB millions	RMB millions	RMB millions	RMB millions
Within one year	3,452	3,276	3,272	3,175
Between one and two years	3,343	3,229	3,237	3,133
Between two and three years	3,278	3,200	3,213	3,114
Between three and four years	3,245	3,175	3,188	3,095
Between four and five years	3,225	3,162	3,170	3,087
After five years	97,527	99,619	95,968	98,253
<b>Total</b>	<b>114,070</b>	<b>115,661</b>	<b>112,048</b>	<b>113,857</b>

#### Capital commitments

At 31 December 2004, capital commitments are as follows:

	2004	2003
	RMB millions	RMB millions
<b>The Group</b>		
Authorised and contracted for	43,001	48,107
Authorised but not contracted for	60,173	47,716
	<b>103,174</b>	<b>95,823</b>
<b>Jointly controlled entities</b>		
Authorised and contracted for	3,157	6,923
Authorised but not contracted for	2,088	3,432
	<b>5,245</b>	<b>10,355</b>
<b>The Company</b>		
Authorised and contracted for	28,143	32,210
Authorised but not contracted for	37,619	36,029
	<b>65,762</b>	<b>68,239</b>

These capital commitments relate to oil and gas exploration and development, refining and petrochemical production capacity expansion projects, the construction of service stations and oil depots, and capital contributions to the Group's investments and interests in associates.

#### Exploration and production licenses

Exploration licenses for exploration activities are registered with the Ministry of Land and Resources. The maximum term of the Group's exploration licenses is 7 years, and may be renewed twice within 30 days prior to expiration of the original term with each renewal being for a two-year term. The Group is obligated to make progressive annual minimum exploration investment relating to the exploration blocks in respect of which the license is issued. The Ministry of Land and Resources also issues production licenses to the Group on the basis of the reserve reports approved by relevant authorities. The maximum term of a full production license is 30 years unless a special dispensation was given by the State Council. The maximum term of the production licenses issued to the Group is 55 years as a special dispensation was given to the Group by the State Council. The Group's production license is renewable upon application by the Group 30 days prior to expiration.

The Group is required to make payments of exploration license fees and production right usage fees to the Ministry of Land and Resources annually which are expensed as incurred. Payments incurred were approximately RMB 189 million for the year ended 31 December 2004 (2003: RMB 97 million).

Estimated future annual payments are as follows:

	The Group		The Company	
	2004	2003	2004	2003
	RMB millions	RMB millions	RMB millions	RMB millions
Within one year	90	87	60	69
Between one and two years	120	117	85	88
Between two and three years	75	87	47	54
Between three and four years	67	72	55	42
Between four and five years	74	65	64	52
After five years	279	361	143	212
<b>Total</b>	<b>705</b>	<b>789</b>	<b>454</b>	<b>517</b>

## NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2004

### 44 CONTINGENT LIABILITIES

- (a) The Company has been advised by its PRC lawyers that, except for liabilities constituting or arising out of or relating to the business assumed by the Company in the Reorganisation, no other liabilities were assumed by the Company, and the Company is not jointly and severally liable for other debts and obligations incurred by Sinopec Group Company prior to the Reorganisation.
- (b) At 31 December 2004, guarantees given by the Group and the Company to banks in respect of banking facilities granted to the parties below are as follows:

	The Group		The Company	
	2004	2003	2004	2003
	RMB millions	RMB millions	RMB millions	RMB millions
Subsidiaries	—	—	2,656	173
Associates and jointly controlled entities	4,828	4,955	12,059	12,084
<b>Total</b>	<b>4,828</b>	<b>4,955</b>	<b>14,715</b>	<b>12,257</b>

The Company 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 2004 and 31 December 2003, it is not probable that the Company will be required to make payments under the guarantees. Thus no liability has been accrued relating to the Company's obligation under these guarantee arrangements.

#### Environmental contingencies

To date, the Group has not incurred any significant expenditures for environmental remediation, is currently not involved in any environmental remediation, and has not accrued any amounts for environmental remediation relating to its operations. Under existing legislation, management believes that there are no probable liabilities that will have a material adverse effect on the financial position or operating results of the Group. The PRC government, however, has moved and may move further towards more rigorous enforcement of applicable laws, and towards the adoption of more stringent environmental standards. Environmental liabilities are subject to considerable uncertainties which affect the Group's ability to estimate the ultimate cost of remediation efforts. These uncertainties include: i) the exact nature and extent of the contamination at various sites including, but not limited to refineries, oil fields, service stations, terminals and land development areas, whether operating, closed or sold; ii) the extent of required cleanup efforts; iii) varying costs of alternative remediation strategies; iv) changes in environmental remediation requirements; and v) the identification of new remediation sites. The amount of such future cost is indeterminable due to such factors as the unknown magnitude of possible contamination and the unknown timing and extent of the corrective actions that may be required. Accordingly, the outcome of environmental liabilities under proposed or future environmental legislation cannot reasonably be estimated at present, and could be material. The Group paid normal routine pollutant discharge fee of approximately RMB 248 million for the year ended 31 December 2004 (2003: RMB 245 million).

#### Legal contingencies

The Group is a defendant in certain lawsuits as well as the named party in other proceedings arising in the ordinary course of business. While the outcomes of such contingencies, lawsuits or other proceedings cannot be determined at present, management believes that any resulting liabilities will not have a material adverse effect on the financial position or operating results of the Group.

### 45 SEGMENTAL INFORMATION

The Group has five operating segments as follows:

- (i) Exploration and production – which explores and develops oil fields, produces crude oil and natural gas and sells such products to the refining segment of the Group and external customers.
- (ii) Refining – which processes and purifies crude oil, which is sourced from the exploration and production segment of the Group and external suppliers, and manufactures and sells petroleum products to the chemicals and marketing and distribution segments of the Group and external customers.
- (iii) Marketing and distribution – which owns and operates oil depots and service stations in the PRC, and distributes and sells refined petroleum products (mainly gasoline and diesel) in the PRC through wholesale and retail sales networks.
- (iv) Chemicals – which manufactures and sells petrochemical products, derivative petrochemical products and other chemical products to external customers.
- (v) Others – which largely comprise the trading activities of the import and export companies of the Group and research and development undertaken by other subsidiaries.

The segments were determined primarily because the Group manages its exploration and production, refining, marketing and distribution, chemicals, and others businesses separately. The reportable segments are each managed separately because they manufacture and/or distribute distinct products with different production processes and due to their distinct operating and gross margin characteristics. 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 the performance and allocates resources to its operating segments on an operating income basis, without considering the effects of finance costs or investment income. The accounting policies of the Group's segments are the same as those described in the principal accounting policies (see Note 2). Corporate administrative costs and assets are not allocated to the operating segments; instead, operating segments are billed for direct corporate services. Inter-segment transfer pricing is based on cost plus an appropriate margin, as specified by the Group's policy.

## NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2004

### 45 SEGMENTAL INFORMATION (Continued)

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

	2004	2003
	RMB millions	RMB millions
<b>Income from principal operations</b>		
Exploration and production		
External sales	16,109	14,936
Inter-segment sales	59,914	47,287
	<b>76,023</b>	<b>62,223</b>
Refining		
External sales	71,333	57,887
Inter-segment sales	281,215	208,366
	<b>352,548</b>	<b>266,253</b>
Marketing and distribution		
External sales	342,840	238,210
Inter-segment sales	2,831	2,602
	<b>345,671</b>	<b>240,812</b>
Chemicals		
External sales	112,078	74,919
Inter-segment sales	10,040	7,415
	<b>122,118</b>	<b>82,334</b>
Others		
External sales	48,272	31,239
Inter-segment sales	30,873	29,361
	<b>79,145</b>	<b>60,600</b>
Elimination of inter-segment sales	(384,873)	(295,031)
<b>Income from principal operations</b>	<b>590,632</b>	<b>417,191</b>
<b>Cost of sales, sales taxes and surcharges</b>		
Exploration and production	36,073	31,596
Refining	340,360	254,360
Marketing and distribution	306,309	210,456
Chemicals	96,994	73,116
Others	78,410	59,984
Elimination of inter-segment cost of sales	(382,736)	(293,037)
<b>Cost of sales, sales taxes and surcharges</b>	<b>475,410</b>	<b>336,475</b>
<b>Profit from principal operations</b>		
Exploration and production	37,997	28,785
Refining	12,005	11,741
Marketing and distribution	39,362	30,356
Chemicals	25,123	9,218
Others	735	616
<b>Profit from principal operations</b>	<b>115,222</b>	<b>80,716</b>

### 46 POST BALANCE SHEET EVENTS

On 29 December 2004, the Group announced its proposal to privatise Sinopec Beijing Yanhua Petrochemical Company Limited ("Beijing Yanhua"), a non-wholly owned subsidiary in which the Group holds approximately 70% of the equity interests. According to the proposal, the Group will acquire the entire 1,012,000,000 H shares, representing approximately 30% of the issued share capital of Beijing Yanhua at HK\$ 3.80 per share. The total consideration required to be paid by the Group was approximately HK\$ 3,846 million which will be settled in cash.

Pursuant to the resolution passed in the Special General Meeting of Beijing Yanhua on 4 March 2005, the shareholders of the H shares in Beijing Yanhua agreed to dispose of and sell their shares in Beijing Yanhua to the Group at the above mentioned price, subject to the approval from the relevant PRC governmental and regulatory bodies.

## NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2004

### 47 ITEMS UNDER NON-OPERATING PROFITS/LOSSES

Pursuant to "Questions and answers in the prepayment of information disclosures of companies issuing public shares, No.1—Extraordinary gain and loss" (2004 revised), the extraordinary gains and losses of the Group are as follows:

	2004	2003
	RMB millions	RMB millions
<b>Items under non-operating profits/losses for the year:</b>		
Loss on disposal of fixed assets	4,304	3,459
Employee reduction expenses	919	1,014
Donations	275	132
(Gain)/loss on disposal of long-term equity investments	(2)	23
Other non-operating income and expenses, excluding impairment losses on long-lived assets	380	497
Written back of provisions for impairment losses in previous years	(322)	(205)
Tax effect	(1,833)	(1,624)
<b>Total</b>	<b>3,721</b>	<b>3,296</b>

### 48 OTHER SIGNIFICANT EVENTS

The Group had no any other significant event required to disclose as at the approval date of these financial statements.



**To the Shareholders of  
China Petroleum & Chemical Corporation**

*(Established in The People's Republic of China with limited liability)*

We have audited the financial statements on pages 127 to 158 which have been prepared in accordance with International Financial Reporting Standards promulgated by the International Accounting Standards Board.

**RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS**

The Company's directors are responsible for the preparation of financial statements which give a true and fair view. In preparing financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently, that judgements and estimates are made which are prudent and reasonable and that the reasons for any significant departure from applicable accounting standards are stated.

It is our responsibility to form an independent opinion, based on our audit, on those financial statements and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

**BASIS OF OPINION**

We conducted our audit in accordance with Statements of Auditing Standards issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Company's and the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements. We believe that our audit provides a reasonable basis for our opinion.

**OPINION**

In our opinion, the financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2004 and of the Group's profit and cash flows for the year then ended and have been properly prepared in accordance with International Financial Reporting Standards promulgated by the International Accounting Standards Board and the disclosure requirements of the Hong Kong Companies Ordinance.

**KPMG**

Certified Public Accountants  
Hong Kong, China, 25 March 2005

**(B) FINANCIAL STATEMENTS PREPARED UNDER INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRS”)  
CONSOLIDATED INCOME STATEMENT**

for the year ended 31 December 2004

(Amounts in millions, except per share data)

	Note	2004 RMB	2003 RMB
<b>Turnover and other operating revenues</b>			
Turnover	3	597,197	429,949
Other operating revenues	4	22,586	19,052
		<b>619,783</b>	<b>449,001</b>
<b>Operating expenses</b>			
Purchased crude oil, products and operating supplies and expenses		(443,590)	(313,238)
Selling, general and administrative expenses	5	(31,843)	(27,228)
Depreciation, depletion and amortisation		(32,342)	(27,951)
Exploration expenses, including dry holes		(6,396)	(6,133)
Personnel expenses	6	(18,634)	(16,972)
Employee reduction expenses	7	(919)	(1,040)
Taxes other than income tax	8	(16,324)	(13,581)
Other operating expenses, net	9	(6,666)	(3,975)
<b>Total operating expenses</b>		<b>(556,714)</b>	<b>(410,118)</b>
<b>Operating profit</b>		<b>63,069</b>	<b>38,883</b>
<b>Finance costs</b>			
Interest expense	10	(4,583)	(4,365)
Interest income		374	322
Foreign exchange losses		(223)	(450)
Foreign exchange gains		61	30
<b>Net finance costs</b>		<b>(4,371)</b>	<b>(4,463)</b>
Gain from issuance of shares by a subsidiary		—	136
Investment income		111	89
Share of profits less losses from associates		797	396
<b>Profit from ordinary activities before taxation</b>		<b>59,606</b>	<b>35,041</b>
Taxation	11	(17,815)	(10,645)
<b>Profit from ordinary activities after taxation</b>		<b>41,791</b>	<b>24,396</b>
Minority interests		(5,772)	(1,972)
<b>Profit attributable to shareholders</b>		<b>36,019</b>	<b>22,424</b>
<b>Basic earnings per share</b>	15	<b>0.42</b>	<b>0.26</b>
<b>Dividends attributable to the year:</b>			
Interim dividend declared during the year	16	3,468	2,601
Final dividend proposed after the balance sheet date		6,936	5,202
		<b>10,404</b>	<b>7,803</b>

Financial Statements (International)

The notes on pages 133 to 158 form part of these financial statements.

# CONSOLIDATED BALANCE SHEET

at 31 December 2004  
(Amounts in millions)

	Note	2004 RMB	2003 RMB
<b>Non-current assets</b>			
Property, plant and equipment	17	284,123	270,731
Construction in progress	18	46,185	29,354
Investments	20	2,538	2,709
Interests in associates	21	10,222	8,121
Deferred tax assets	27	4,558	3,067
Lease prepayments		750	810
Long-term prepayments and other assets	23	5,947	2,353
<b>Total non-current assets</b>		<b>354,323</b>	<b>317,145</b>
<b>Current assets</b>			
Cash and cash equivalents		16,381	16,263
Time deposits with financial institutions		1,899	2,184
Trade accounts receivable	24	9,756	9,479
Bills receivable	24	7,812	6,283
Inventories	25	64,329	47,916
Prepaid expenses and other current assets	26	20,094	20,914
<b>Total current assets</b>		<b>120,271</b>	<b>103,039</b>
<b>Current liabilities</b>			
Short-term debts	28	32,307	29,181
Loans from Sinopec Group Company and fellow subsidiaries	28	8,714	4,865
Trade accounts payable	29	23,792	23,319
Bills payable	29	30,797	24,267
Accrued expenses and other payables	30	45,276	43,561
Income tax payable		5,391	4,079
<b>Total current liabilities</b>		<b>146,277</b>	<b>129,272</b>
<b>Net current liabilities</b>		<b>(26,006)</b>	<b>(26,233)</b>
<b>Total assets less current liabilities</b>		<b>328,317</b>	<b>290,912</b>
<b>Non-current liabilities</b>			
Long-term debts	28	60,822	48,257
Loans from Sinopec Group Company and fellow subsidiaries	28	36,765	39,039
Deferred tax liabilities	27	5,636	4,599
Other liabilities		1,008	1,451
<b>Total non-current liabilities</b>		<b>104,231</b>	<b>93,346</b>
<b>Minority interests</b>		<b>31,046</b>	<b>26,051</b>
<b>Net assets</b>		<b>193,040</b>	<b>171,515</b>
<b>Shareholders' funds</b>			
Share capital	31	86,702	86,702
Reserves		106,338	84,813
		<b>193,040</b>	<b>171,515</b>

Approved and authorised for issue by the board of directors on 25 March 2005

**Chen Tonghai**  
Chairman

**Wang Jiming**  
Vice Chairman and President

**Zhang Jiaren**  
Director, Senior Vice President and  
Chief Financial Officer

The notes on pages 133 to 158 form part of these financial statements.



# BALANCE SHEET

at 31 December 2004  
(Amounts in millions)

	Note	2004 RMB	2003 RMB
<b>Non-current assets</b>			
Property, plant and equipment	17	158,011	143,274
Construction in progress	18	28,948	20,631
Interests in subsidiaries	19	118,451	96,707
Investments	20	158	605
Interests in associates	21	7,540	5,983
Interests in jointly controlled entities	22	3,568	1,043
Deferred tax assets	27	3,724	2,196
Long-term prepayments and other assets	23	3,660	1,519
<b>Total non-current assets</b>		<b>324,060</b>	<b>271,958</b>
<b>Current assets</b>			
Cash and cash equivalents		6,051	7,259
Time deposits with financial institutions		248	236
Trade accounts receivable	24	8,245	7,311
Bills receivable	24	1,597	1,612
Inventories	25	34,044	24,736
Prepaid expenses and other current assets	26	26,471	29,407
<b>Total current assets</b>		<b>76,656</b>	<b>70,561</b>
<b>Current liabilities</b>			
Short-term debts	28	20,033	15,071
Loans from Sinopec Group Company and fellow subsidiaries	28	7,727	3,265
Trade accounts payable	29	21,137	18,646
Bills payable	29	21,589	18,170
Accrued expenses and other payables	30	45,565	35,337
Income tax payable		3,142	2,014
<b>Total current liabilities</b>		<b>119,193</b>	<b>92,503</b>
<b>Net current liabilities</b>		<b>(42,537)</b>	<b>(21,942)</b>
<b>Total assets less current liabilities</b>		<b>281,523</b>	<b>250,016</b>
<b>Non-current liabilities</b>			
Long-term debts	28	49,515	37,169
Loans from Sinopec Group Company and fellow subsidiaries	28	36,317	38,954
Deferred tax liabilities	27	2,025	1,425
Other liabilities		626	953
<b>Total non-current liabilities</b>		<b>88,483</b>	<b>78,501</b>
<b>Net assets</b>		<b>193,040</b>	<b>171,515</b>
<b>Shareholders' funds</b>			
Share capital	31	86,702	86,702
Reserves		106,338	84,813
		<b>193,040</b>	<b>171,515</b>

Approved and authorised for issue by the board of directors on 25 March 2005

**Chen Tonghai**  
Chairman

**Wang Jiming**  
Vice Chairman and President

**Zhang Jiaren**  
Director, Senior Vice President and  
Chief Financial Officer

The notes on pages 133 to 158 form part of these financial statements.

## CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 December 2004  
(Amounts in millions)

	Note	2004 RMB	2003 RMB
<b>Cash flows from operating activities</b>	(a)	<b>69,081</b>	<b>62,097</b>
<b>Cash flow from investing activities</b>			
Capital expenditure		(67,583)	(44,434)
Capital expenditure of jointly controlled entities		(6,035)	(4,107)
Purchase of investments and investments in associates		(1,162)	(1,519)
Proceeds from disposal of investments and investments in associates		186	141
Proceeds from disposal of property, plant and equipment		317	400
Increase in time deposits with financial institutions		(1,932)	(2,871)
Maturity of time deposits with financial institutions		2,217	1,700
<b>Net cash used in investing activities</b>		<b>(73,992)</b>	<b>(50,690)</b>
<b>Cash flow from financing activities</b>			
Proceeds from bank and other loans		399,440	235,163
Proceeds from bank and other loans of jointly controlled entities		3,014	1,450
Proceeds from issuance of corporate bonds, net of issuing expenses		3,472	—
Repayments of bank and other loans		(388,809)	(243,503)
Distributions to minority interests		(775)	(360)
Contributions from minority interests		1,008	580
Dividend paid		(8,670)	(7,803)
Cash and cash equivalent distributed to Sinopec Group Company		(3,652)	—
<b>Net cash from/(used in) financing activities</b>		<b>5,028</b>	<b>(14,473)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>117</b>	<b>(3,066)</b>
<b>Effect of foreign exchange rate</b>		<b>1</b>	<b>5</b>
<b>Cash and cash equivalents at beginning of the year</b>		<b>16,263</b>	<b>19,324</b>
<b>Cash and cash equivalents at end of the year</b>		<b>16,381</b>	<b>16,263</b>

The notes on pages 133 to 158 form part of these financial statements.

## NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 December 2004

(Amounts in millions)

### (a) Reconciliation of profit from ordinary activities before taxation to cash flows from operating activities

	2004 RMB	2003 RMB
Profit from ordinary activities before taxation	59,606	35,041
Adjustments for:		
Depreciation, depletion and amortisation	32,342	27,951
Dry hole costs	2,976	2,789
Share of profits less losses from associates	(797)	(396)
Investment income	(111)	(89)
Interest income	(374)	(322)
Interest expense	4,583	4,365
Gain from issuance of shares by a subsidiary	—	(136)
Unrealised foreign exchange losses	150	289
Loss on disposal of property, plant and equipment, net	1,686	2,238
Impairment losses on long-lived assets	3,919	877
(Increase)/decrease in trade accounts receivable	(494)	1,487
Increase in bills receivable	(1,529)	(1,031)
(Increase)/decrease in inventories	(16,526)	449
Decrease in prepaid expenses and other current assets	3,022	981
Decrease in lease prepayments	60	19
Increase in long-term prepayments and other assets	(4,199)	(781)
Increase in trade accounts payable	599	3,283
Increase/(decrease) in bills payable	6,530	(6,544)
(Decrease)/increase in accrued expenses and other payables	(391)	5,715
(Decrease)/increase in other liabilities	(334)	38
<b>Cash generated from operations</b>	<b>90,718</b>	<b>76,223</b>
Interest received	374	313
Interest paid	(5,450)	(5,392)
Investment and dividend income received	322	449
Income tax paid	(16,883)	(9,496)
<b>Cash flows from operating activities</b>	<b>69,081</b>	<b>62,097</b>

Financial Statements (International)

The notes on pages 133 to 158 form part of these financial statements.

# CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' FUNDS

for the year ended 31 December 2004

(Amounts in millions, except per share data)

	Share capital	Capital reserve	Share premium	Revaluation reserve	Statutory		Discretionary surplus	Other reserves	Retained earnings	Total
					surplus reserve	public welfare fund				
	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB	RMB
Shareholders' funds at 1 January 2003,										
as previously reported	86,702	(18,878)	18,072	31,641	4,429	4,429	7,000	9,579	20,849	163,823
Adjusted for acquisition of the Acquired Group	—	—	—	—	—	—	—	2,954	—	2,954
Shareholders' funds at 1 January 2003, as adjusted	86,702	(18,878)	18,072	31,641	4,429	4,429	7,000	12,533	20,849	166,777
Final dividend for 2002 (Note 16)	—	—	—	—	—	—	—	—	(5,202)	(5,202)
Interim dividend for 2003 (Note 16)	—	—	—	—	—	—	—	—	(2,601)	(2,601)
Profit attributable to shareholders	—	—	—	—	—	—	—	—	22,424	22,424
Appropriation (Note (a) and (b))	—	—	—	—	1,901	1,901	—	—	(3,802)	—
Revaluation surplus realised	—	—	—	(1,316)	—	—	—	—	1,316	—
Revaluation surplus of Refining Assets	—	(82)	—	16	—	—	—	82	—	16
Deferred tax effect of surplus on land use rights (Note 27)	—	—	—	—	—	—	—	16	—	16
Realisation of deferred tax on land use rights	—	—	—	—	—	—	—	(5)	5	—
Transfer from retained earnings to other reserves	—	—	—	—	—	—	—	1,157	(1,157)	—
Net assets distributed to Sinopec Group Company (Note (e))	—	—	—	—	—	—	—	(6,263)	—	(6,263)
Consideration for Acquisitions of Ethylene Assets and Refining Assets (Note 1)	—	—	—	—	—	—	—	(3,652)	—	(3,652)
<b>Shareholders' funds at 31 December 2003</b>	<b>86,702</b>	<b>(18,960)</b>	<b>18,072</b>	<b>30,341</b>	<b>6,330</b>	<b>6,330</b>	<b>7,000</b>	<b>3,868</b>	<b>31,832</b>	<b>171,515</b>
Shareholders' funds at 1 January 2004	86,702	(18,960)	18,072	30,341	6,330	6,330	7,000	3,868	31,832	171,515
Final dividend for 2003 (Note 16)	—	—	—	—	—	—	—	—	(5,202)	(5,202)
Interim dividend for 2004 (Note 16)	—	—	—	—	—	—	—	—	(3,468)	(3,468)
Profit attributable to shareholders	—	—	—	—	—	—	—	—	36,019	36,019
Appropriation (Note (a) and (b))	—	—	—	—	3,228	3,228	—	—	(6,456)	—
Revaluation surplus realised	—	—	—	(1,891)	—	—	—	—	1,891	—
Revaluation surplus of Petrochemical and Catalyst Assets	—	(257)	—	257	—	—	—	257	—	257
Realisation of deferred tax on land use rights	—	—	—	—	—	—	—	(5)	5	—
Impairment losses on revalued assets (Note 9)	—	—	—	(709)	—	—	—	—	—	(709)
Transfer from retained earnings to other reserves	—	—	—	—	—	—	—	1,499	(1,499)	—
Net assets distributed to Sinopec Group Company (Note (e))	—	—	—	—	—	—	—	(2,244)	—	(2,244)
Consideration for Acquisition of Petrochemical and Catalyst Assets (Note 1)	—	—	—	—	—	—	—	(3,128)	—	(3,128)
<b>Shareholders' funds at 31 December 2004</b>	<b>86,702</b>	<b>(19,217)</b>	<b>18,072</b>	<b>27,998</b>	<b>9,558</b>	<b>9,558</b>	<b>7,000</b>	<b>247</b>	<b>53,122</b>	<b>193,040</b>

## Notes:

(a) According to the Company's Articles of Association, the Company is required to transfer 10% of its net profit, as determined in accordance with the PRC Accounting Rules and Regulations, to statutory surplus reserve until the reserve balance reaches 50% of the registered capital. The transfer to this reserve must be made before distribution of a dividend to shareholders.

Statutory surplus reserve can be used to make good previous years' losses, if any, and may be converted into share capital by the issue of new shares to shareholders in proportion to their existing shareholdings or by increasing the par value of the shares currently held by them, provided that the balance after such issue is not less than 25% of the registered capital. During the year ended 31 December 2004, the Company transferred RMB 3,228 million (2003: RMB 1,901 million), being 10% of the current year's net profit determined in accordance with the PRC Accounting Rules and Regulations, to this reserve.

(b) According to the Company's Articles of Association, the Company is required to transfer 5% to 10% of its net profit, as determined in accordance with the PRC Accounting Rules and Regulations, to the statutory public welfare fund. This fund can only be utilised on capital items for the collective benefits of the Company's employees such as the construction of dormitories, canteen and other staff welfare facilities. This fund is non-distributable other than on liquidation. The transfer to this fund must be made before distribution of a dividend to shareholders.

Pursuant to the shareholders' approval at the Annual General Meeting on 18 May 2004, the Board of Directors was authorised to determine the amount of the transfer for the six-month period ended 30 June 2004. The directors authorised the transfer of RMB 1,504 million (2003: RMB 977 million), being 10% of the net profit for the six-month period ended 30 June 2004 determined in accordance with the PRC Accounting Rules and Regulations, to this fund.

The directors authorised the transfer of RMB 1,724 million (2003: RMB 924 million), subject to the shareholders' approval, being 10% of the net profit for the six-month period ended 31 December 2004 determined in accordance with the PRC Accounting Rules and Regulations, to this fund.

(c) The usage of the discretionary surplus reserve is similar to that of statutory surplus reserve.

(d) According to the Company's Articles of Association, the amount of retained profits available for distribution to shareholders of the Company is the lower of the amount determined in accordance with the PRC Accounting Rules and Regulations and the amount determined in accordance with IFRS. At 31 December 2004, the amount of retained profits available for distribution was RMB 37,124 million (2003: RMB 19,732 million), being the amount determined in accordance with the PRC Accounting Rules and Regulations. Final dividend of RMB 6,936 million (2003: RMB 5,202 million) proposed after the balance sheet date has not been recognised as a liability at the balance sheet date.

(e) These represent net assets contributed from and distributed to Sinopec Group Company for no monetary consideration. The net assets distributed to Sinopec Group Company during the year ended 31 December 2004 primarily represent certain assets retained by Sinopec Group Company in connection with the Acquisition of Petrochemical and Catalyst Assets. The net assets distributed to Sinopec Group Company during the year ended 31 December 2003 primarily represent certain assets retained by Sinopec Group Company in connection with the Acquisition of Ethylene Assets and the Acquisition of Refining Assets. These transactions were recorded at historical cost and was reflected as changes in other reserves in the year the acquisitions occurred.

(f) The capital reserve represents (i) the difference between the total amount of the par value of shares issued and the amount of the net assets transferred from Sinopec Group Company in connection with the Reorganisation and (ii) the difference between the considerations paid over the amount of the net assets acquired from Sinopec National Star, Sinopec Maoming, Xi'an Petrochemical, Tahe Petrochemical, Tianjin Petrochemical, Luoyang Petrochemical, Zhongyuan Petrochemical, Guangzhou Petrochemical and Catalyst Plants.

(g) The application of the share premium account is governed by Sections 178 and 179 of the PRC Company Law.

The notes on pages 133 to 158 form part of these financial statements.

# NOTES ON THE FINANCIAL STATEMENTS

for the year ended 31 December 2004

## 1 PRINCIPAL ACTIVITIES, ORGANISATION AND BASIS OF PRESENTATION

### Principal activities

China Petroleum & Chemical Corporation (the “Company”) is an energy and chemical company that, through its subsidiaries (hereinafter collectively referred to as the “Group”), engages in fully integrated oil and gas and chemical operations in the People’s Republic of China (the “PRC”). Oil and gas operations consist of exploring for, developing and producing crude oil and natural gas; transporting crude oil, natural gas and products by pipelines; refining crude oil into finished petroleum products; and marketing crude oil, natural gas and refined petroleum products. Chemical operations include the manufacture and marketing of a wide range of chemicals for industrial uses.

### Organisation

The Company was established in the PRC on 25 February 2000 as a joint stock limited company as part of the reorganisation (the “Reorganisation”) of China Petrochemical Corporation (“Sinopec Group Company”), the ultimate holding company of the Group and a ministry-level enterprise under the direct supervision of the State Council of the PRC. Prior to the incorporation of the Company, the oil and gas and chemical operations of the Group were carried on by oil administration bureaux, petrochemical and refining production enterprises and sales and marketing companies of Sinopec Group Company.

As part of the Reorganisation, certain of Sinopec Group Company’s core oil and gas and chemical operations and businesses together with the related assets and liabilities that were to be transferred to the Company were segregated such that the operations and businesses were separately managed beginning 31 December 1999. On 25 February 2000, in consideration for Sinopec Group Company transferring such oil and gas and chemical operations and businesses and the related assets and liabilities to the Company, the Company issued 68.8 billion domestic state-owned ordinary shares with a par value of RMB 1.00 each to Sinopec Group Company. The shares issued to Sinopec Group Company on 25 February 2000 represented the entire registered and issued share capital of the Company at that date. The oil and gas and chemical operations and businesses transferred to the Company related to (i) the exploration, development and production of crude oil and natural gas, (ii) the refining, transportation, storage and marketing of crude oil and petroleum products, and (iii) the production and sale of chemicals (collectively the “Predecessor Operations”).

### Basis of presentation

Pursuant to the resolution passed at the Extraordinary General Meeting held on 24 August 2001, the Company acquired the entire equity interest of Sinopec National Star Petroleum Company (“Sinopec National Star”) from Sinopec Group Company for a consideration of RMB 6.45 billion (hereinafter referred to as the “Acquisition of Sinopec National Star”).

Pursuant to the resolution passed at the Directors’ meeting on 28 October 2003, the Group acquired the equity interest of Sinopec Group Maoming Petrochemical Company (“Sinopec Maoming”) from Sinopec Group Company, for a consideration of RMB 3.3 billion, which was paid in 2004 (hereinafter referred to as the “Acquisition of Ethylene Assets”).

Pursuant to the resolution passed at the Directors’ meeting on 29 December 2003, the Group acquired the equity interest of Xi’an Petrochemical Main Factory (“Xi’an Petrochemical”) and Tahe Oilfield Petrochemical Factory (“Tahe Petrochemical”) from Sinopec Group Company, for considerations of RMB 221 million and RMB 135 million, respectively which were paid in 2004 (hereinafter referred to as the “Acquisition of Refining Assets”).

Pursuant to the resolutions passed at the Extraordinary General Meeting held on 21 December 2004, the Group acquired the equity interest of Sinopec Group Tianjin Petrochemical Company (“Tianjin Petrochemical”), Sinopec Group Luoyang Petrochemical General Plant (“Luoyang Petrochemical”), Zhongyuan Petrochemical Company Limited. (“Zhongyuan Petrochemical”), Sinopec Group Guangzhou Petrochemical General Plant (“Guangzhou Petrochemical”) and certain catalyst plants (“Catalyst Plants”) from Sinopec Group Company for a total consideration of RMB 3,128 million (hereinafter referred to as the “Acquisition of Petrochemical and Catalyst Assets”).

As the Group, Sinopec National Star, Sinopec Maoming, Xi’an Petrochemical, Tahe Petrochemical, Tianjin Petrochemical, Luoyang Petrochemical, Zhongyuan Petrochemical, Guangzhou Petrochemical and Catalyst Plants are under the common control of Sinopec Group Company, the Acquisition of Sinopec National Star, the Acquisition of Ethylene Assets, the Acquisition of Refining Assets and the Acquisition of Petrochemical and Catalyst Assets are considered as “combination of entities under common control” which are accounted in a manner similar to a pooling-of-interests (“as-if pooling-of-interests accounting”). Accordingly, the assets and liabilities acquired from Sinopec National Star, Sinopec Maoming, Xi’an Petrochemical, Tahe Petrochemical, Tianjin Petrochemical, Luoyang Petrochemical, Zhongyuan Petrochemical, Guangzhou Petrochemical and Catalyst Plants have been accounted for at historical cost and the financial statements of the Group for periods prior to the combination have been restated to include the results of operations of Sinopec National Star, Sinopec Maoming, Xi’an Petrochemical, Tahe Petrochemical, Tianjin Petrochemical, Luoyang Petrochemical, Zhongyuan Petrochemical, Guangzhou Petrochemical and Catalyst Plants on a combined basis. In connection with these acquisitions, certain assets, primarily property, plant and equipment and construction in progress, were retained by Sinopec Group Company. The assets retained by Sinopec Group Company were reflected as a distribution in the shareholders’ funds. The considerations for these acquisitions were treated as equity transactions.

The financial condition and results of operations previously reported by the Group as at and for the year ended 31 December 2003 have been restated to include the results of Tianjin Petrochemical, Luoyang Petrochemical, Zhongyuan Petrochemical, Guangzhou Petrochemical and Catalyst Plants (collectively the “Acquired Group”) as set out below.

	The Group without the Acquired Group RMB millions	The Acquired Group RMB millions	Combined RMB millions
<b>Results of operations:</b>			
Operating revenue	443,136	5,865	449,001
Net income	21,593	831	22,424
Basic earnings per share (RMB)	0.25	0.01	0.26
<b>Financial condition:</b>			
Current assets	99,328	3,711	103,039
Total assets	400,818	19,366	420,184
Current liabilities	122,005	7,267	129,272
Total liabilities	207,053	15,565	222,618
Net assets	167,899	3,616	171,515

# NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2004

## 1 PRINCIPAL ACTIVITIES, ORGANISATION AND BASIS OF PRESENTATION (Continued)

For the years presented, all significant balances and transactions between the Group and the Acquired Group have been eliminated.

The accompanying financial statements have been prepared in accordance with IFRS promulgated by the International Accounting Standards Board. IFRS includes International Accounting Standards ("IAS") and related interpretations. These financial statements also comply with the disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The accompanying financial statements are prepared on the historical cost basis as modified by the revaluation of certain property, plant and equipment (Note 17). The accounting policies described in Note 2 have been consistently applied by the Group.

The International Accounting Standards Board has issued a number of new and revised IFRS and IAS ("new IFRS") which are effective for accounting periods beginning on or after 1 January 2005. The Group has not early adopted these new IFRS in the financial statements for the year ended 31 December 2004. The Group has commenced an assessment of the impact of these new IFRS but is not yet in a position to state whether these new IFRS would have a significant impact on its results of operations and financial position.

The preparation of the financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. Actual results could differ from those estimates.

## 2 PRINCIPAL ACCOUNTING POLICIES

### (a) Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries. Subsidiaries are those entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries are included in the consolidated income statement from the date that control effectively commences until the date that control effectively ceases, and the share attributable to minority interests is deducted from or added to profit from ordinary activities after taxation. All significant inter-company balances and transactions and any unrealised gains arising from inter-company transactions are eliminated on consolidation.

The particulars of the Group's principal subsidiaries are set out in Note 36.

### (b) Translation of foreign currencies

The functional and reporting currency of the Group is Renminbi. Foreign currency transactions during the year are translated into Renminbi at the applicable rates of exchange quoted by the People's Bank of China ("PBOC rates") prevailing on the transaction dates. Foreign currency monetary assets and liabilities are translated into Renminbi at the PBOC rates at the balance sheet date.

Exchange differences, other than those capitalised as construction in progress, are recognised as income or expense in the income statement.

### (c) Cash and cash equivalents

Cash equivalents consist of time deposits with financial institutions with an initial term of less than three months when purchased. Cash equivalents are stated at cost, which approximates fair value.

### (d) Trade accounts receivable

Trade accounts receivable are stated at cost less allowance for doubtful accounts. An allowance for doubtful accounts is provided based upon the evaluation of the recoverability of these accounts at the balance sheet date.

### (e) Inventories

Inventories, other than spare parts and consumables, are stated at the lower of cost and net realisable value. Cost includes the cost of purchase computed using the weighted average method and, in the case of work in progress and finished goods, direct labour and an appropriate proportion of production overheads. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Spare parts and consumables are stated at cost less any provision for obsolescence.

**2 PRINCIPAL ACCOUNTING POLICIES** (Continued)

**(f) Property, plant and equipment**

An item of property, plant and equipment is initially recorded at cost, less accumulated depreciation and impairment losses. The cost of an asset comprises its purchase price and any directly attributable costs of bringing the asset to working condition and location for its intended use. Subsequent to the revaluation (Note 17), which was based on depreciated replacement costs, property, plant and equipment are carried at revalued amount, being the fair value at the date of the revaluation less any subsequent accumulated depreciation and impairment losses. Revaluations are performed periodically to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the balance sheet date. Expenditure incurred after the asset has been put into operation is capitalised only when it increases the future economic benefits embodied in the item of property, plant and equipment. All other expenditure is charged to the income statement in the year in which it is incurred.

Gains or losses arising from the retirement or disposal of property, plant and equipment, other than oil and gas properties, are determined as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised as income or expense in the income statement on the date of retirement or disposal. On disposal of a revalued asset, the related revaluation surplus is transferred from the revaluation reserve to retained earnings.

Depreciation is provided to write off the cost/revalued amount of each asset, other than oil and gas properties, over its estimated useful life on a straight-line basis, after taking into account its estimated residual value, as follows:

Buildings	15 to 45 years
Plant, machinery, equipment, oil depots and others	4 to 18 years
Service stations	25 years

**(g) Oil and gas properties**

The Group uses the successful efforts method of accounting for its oil and gas producing activities. Under this method, costs of development wells and the related support equipment are capitalised. The cost of exploratory wells is initially capitalised as construction in progress pending determination of whether the well has found proved reserves. The impairment of exploratory well costs occurs upon the determination that the well has not found proved reserves. Exploratory wells that find oil and gas reserves in any area requiring major capital expenditure are expensed unless the well has found a sufficient quantity of reserves to justify its completion as a producing well if the required capital expenditure is made, and drilling of the additional exploratory wells is under way or firmly planned for the near future. However, in the absence of a determination of the discovery of proved reserves, exploratory well costs are not carried as an asset for more than one year following completion of drilling. If, after one year has passed, a determination of the discovery of proved reserves cannot be made, the exploratory well costs are impaired and charged to expense. All other exploration costs, including geological and geophysical costs, other dry hole costs and annual lease rentals, are expensed as incurred. Capitalised costs relating to proved properties are amortised at the field level on a unit-of-production method. The amortisation rates are determined based on oil and gas reserves estimated to be recoverable from existing facilities over the shorter of the economic lives of crude oil and natural gas reservoirs and the terms of the relevant production licenses.

Gains and losses on the disposal of proved oil and gas properties are not recognised unless the disposal encompasses an entire property. The proceeds on such disposals are credited to the carrying amounts of oil and gas properties.

**(h) Lease prepayments**

Lease prepayments represent land use rights paid to the PRC's land bureau. Land use rights are carried at cost and amortised on a straight-line basis over the respective periods of the rights.

**(i) Construction in progress**

Construction in progress represents buildings, oil and gas properties, various plant and equipment under construction and pending installation, and is stated at cost less impairment losses. Cost comprises direct costs of construction as well as interest charges, and foreign exchange differences on related borrowed funds to the extent that they are regarded as an adjustment to interest charges, during the periods of construction.

Construction in progress is transferred to property, plant and equipment when the asset is substantially ready for its intended use.

No depreciation is provided in respect of construction in progress.

**(j) Investments**

Investments in unlisted equity securities are stated at cost less provision for impairment losses. A provision is made where, in the opinion of management, the carrying amount of the investments exceeds its recoverable amount.

**(k) Interests in associates**

An associate is a company, not being a subsidiary, in which the Group exercises significant influence over its management. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control over those policies.

Investments in associates are accounted for using the equity method from the date that significant influence commences until the date that significant influence ceases.

**(l) Jointly controlled entities**

A jointly controlled entity is an entity over which the Group can exercise joint control with other venturers. Joint control is the contractually agreed sharing of control over an economic activity.

The Group's interests in jointly controlled entities are accounted for on a proportionate consolidation basis. Under this method, the Group combines its proportionate share of the jointly controlled entity's turnover and expenses with each major turnover and expenses caption of the Group's income statement and combines its proportionate share of the jointly controlled entity's assets and liabilities with each major asset and liability caption of the Group's balance sheet.

## NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2004

### 2 PRINCIPAL ACCOUNTING POLICIES (Continued)

#### (m) Provisions

A provision is recognised in the balance sheet when the Group has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation.

#### (n) Revenue recognition

Revenues associated with the sale of crude oil, natural gas, petroleum and chemical products and ancillary materials are recorded when the customer accepts the goods and the significant risks and rewards of ownership and title have been transferred to the buyer. Revenue from the rendering of services is recognised in the income statement upon performance of the services. No revenue is recognised if there are significant uncertainties regarding recovery of the consideration due, the possible return of goods, or when the amount of revenue and the costs incurred or to be incurred in respect of the transaction cannot be measured reliably.

Interest income is recognised on a time apportioned basis that takes into account the effective yield on the asset.

#### (o) Borrowing costs

Borrowing costs are expensed in the income statement in the year in which they are incurred, except to the extent that they are capitalised as being attributable to the construction of an asset which necessarily takes a period of time to get ready for its intended use.

#### (p) Repairs and maintenance expenditure

Repairs and maintenance expenditure, including cost of major overhaul, is expensed as incurred.

#### (q) Environmental expenditures

Environmental expenditures that relate to current ongoing operations or to conditions caused by past operations are expensed as incurred.

Liabilities related to future remediation costs are recorded when environmental assessments and/or cleanups are probable and the costs can be reasonably estimated. As facts concerning environmental contingencies become known to the Group, the Group reassesses its position both with respect to accrued liabilities and other potential exposures.

#### (r) Research and development costs

Research and development costs are recognised as expenses in the year in which they are incurred.

#### (s) Operating leases

Operating lease payments are charged to the income statement on a straight-line basis over the period of the respective leases.

#### (t) Retirement benefits

The contributions payable under the Group's retirement plans are charged to the income statement as incurred and according to the contribution determined by the plans. Further information is set out in Note 34.

#### (u) Impairment loss

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 the recoverable amount. The recoverable amount is the greater of the net selling price and the value in use. In determining the value in use, expected future cash flows generated by the asset are discounted to their present value. The amount of the reduction is recognised as an expense in the income statement unless the asset is carried at revalued amount for which an impairment loss is recognised directly against any related revaluation reserve to the extent that the impairment loss does not exceed the amount held in the revaluation reserve for that same asset.

The Group assesses at each balance sheet date whether there is any indication that an impairment loss recognised for an asset in prior years may no longer exist. An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. A subsequent increase in the recoverable amount of an asset, when the circumstances and events that led to the write-down or write-off cease to exist, is recognised as income unless the asset is carried at revalued amount. Reversal of an impairment loss on a revalued asset is credited to the revaluation reserve except for impairment loss which was previously recognised as an expense in the income statement; a reversal of such impairment loss is recognised as income. The reversal is reduced by the amount that would have been recognised as depreciation had the write-down or write-off not occurred.

#### (v) Income tax

Income tax comprises current and deferred tax. Current tax is calculated on taxable income by applying the applicable tax rates. Deferred tax is provided using the balance sheet liability method on all temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is calculated on the basis of the enacted tax rates that are expected to apply in the period when the asset is realised or the liability is settled.

The tax value of losses expected to be available for utilisation against future taxable income is set off against the deferred tax liability within the same legal tax unit and jurisdiction to the extent appropriate, and is not available for set-off against the taxable profit of another legal tax unit. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realised.

#### (w) Dividends

Dividends are recognised as a liability in the period in which they are declared.

#### (x) Segmental reporting

A business segment is a distinguishable component of the Group that is engaged in providing products or services and is subject to risks and rewards that are different from those of other segments.



## NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2004

### 3 TURNOVER

Turnover represents revenue from the sales of crude oil, natural gas, petroleum and chemical products, net of value-added tax.

### 4 OTHER OPERATING REVENUES

	The Group	
	2004	2003
	RMB millions	RMB millions
Sale of materials, service and others	22,213	18,653
Rental income	373	399
	<b>22,586</b>	<b>19,052</b>

### 5 SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

The following items are included in selling, general and administrative expenses:

	The Group	
	2004	2003
	RMB millions	RMB millions
Research and development costs	1,518	2,122
Operating lease charges	4,288	3,601
Auditors' remuneration		
– audit services	80	92
– other services	—	3

### 6 PERSONNEL EXPENSES

	The Group	
	2004	2003
	RMB millions	RMB millions
Wages and salaries	13,589	12,468
Staff welfare	1,772	1,624
Contributions to retirement schemes	2,242	1,882
Social security contributions	1,031	998
	<b>18,634</b>	<b>16,972</b>

### 7 EMPLOYEE REDUCTION EXPENSES

During the year ended 31 December 2004, in accordance with the Group's voluntary employee reduction plan, and in connection with the Acquisition of Petrochemical and Catalyst Assets from and Disposal of Downhole Assets to Sinopec Group Company, the Group recorded employee reduction expenses of RMB 919 million (2003: RMB 1,040 million) relating to the reduction of approximately 24,000 employees (2003: 21,500 employees).

### 8 TAXES OTHER THAN INCOME TAX

	The Group	
	2004	2003
	RMB millions	RMB millions
Consumption tax	11,920	9,898
City construction tax	2,533	2,078
Education surcharge	1,255	995
Resources tax	452	434
Business tax	164	176
	<b>16,324</b>	<b>13,581</b>

Consumption tax is levied on producers of gasoline and diesel based on a tariff rate applied to the volume of sales. City construction tax is levied on an entity based on its total amount of value-added tax, consumption tax and business tax.

## NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2004

### 9 OTHER OPERATING EXPENSES, NET

	The Group	
	2004	2003
	RMB millions	RMB millions
Fines, penalties and compensations	277	165
Donations	290	152
Loss on disposal of property, plant and equipment, net	1,686	2,238
Impairment losses on long-lived assets (Note)	3,919	877
Others	494	543
	<b>6,666</b>	<b>3,975</b>

Note:

Impairment losses recognised on long-lived assets of the refining and chemicals segment of RMB 14 million (2003: RMB 114 million) and RMB 2,747 million (2003: RMB 453 million) for the year ended 31 December 2004 relate to certain refining and chemicals production facilities that are held for use. The carrying values of these facilities were written down to their recoverable values which were based on the asset held for use model using the present value of estimated future cash flows. An amount of RMB 2,052 million (2003: RMB 567 million) was charged to the income statement with the remaining amount of RMB 709 million (2003: RMB nil) in the chemicals segment recognised directly against the related revaluation reserve in respect of those assets that were carried at revalued amount. The primary factor resulting in the impairment losses of the chemicals segment was due to higher operating and production costs caused by the increase in the prices of raw materials that are not expected to be recovered through an increase in selling price.

Impairment losses recognised on long-lived assets of the marketing and distribution segment of RMB 1,769 million (2003: RMB nil) for the year ended 31 December 2004 primarily relate to certain service stations that were closed during the year. In measuring the amounts of impairment charges, the carrying amounts of these assets were compared to the present value of the expected future cash flows of the assets, as well as information about sales and purchases of similar properties in the same geographic area.

The factors resulting in the exploration and production ("E&P") segment impairment losses of RMB 98 million for the year ended 31 December 2004 (2003: RMB 310 million) were unsuccessful development drilling and high operating and development costs for certain small oil fields. The carrying values of these E&P properties were written down to a recoverable value which was determined based on the present values of the expected future cash flows of the assets. The oil and gas pricing was a factor used in the determination of the present values of the expected future cash flows of the assets and had an impact on the recognition of the asset impairment.

### 10 INTEREST EXPENSE

	The Group	
	2004	2003
	RMB millions	RMB millions
Interest expense incurred	5,491	5,316
Less: Interest expense capitalised*	(908)	(951)
	<b>4,583</b>	<b>4,365</b>

\* Interest rates per annum at which borrowing costs were capitalised for construction in progress **3.1% to 6.0%** **3.1% to 6.1%**

### 11 TAXATION

Taxation in the consolidated income statement represents:

	The Group	
	2004	2003
	RMB millions	RMB millions
Provision for PRC income tax		
– the Group	18,195	10,868
– associates	340	148
Deferred taxation (Note 27)	(720)	(371)
	<b>17,815</b>	<b>10,645</b>

A reconciliation of the expected tax with the actual tax expense is as follows:

	The Group	
	2004	2003
	RMB millions	RMB millions
Profit from ordinary activities before taxation	59,606	35,041
Expected PRC income tax expense at a statutory tax rate of 33%	19,670	11,564
Non-deductible expenses	812	639
Non-taxable income	(216)	(231)
Differential tax rate on subsidiaries' income (Note)	(2,408)	(1,232)
Tax losses not recognised for deferred tax	409	248
Under-provision in prior years	94	79
Other	(546)	(422)
	<b>17,815</b>	<b>10,645</b>

Substantially all income before income tax and related tax expense is from PRC sources.

Note:

The provision for PRC current income tax is based on a statutory rate of 33% of the assessable income of the Group as determined in accordance with the relevant income tax rules and regulations of the PRC, except for certain subsidiaries of the Company, which are taxed at a preferential rate of 15%.

## NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2004

### 12 DIRECTORS' AND SUPERVISORS' EMOLUMENTS

Directors' and supervisors' emoluments are as follows:

	2004	2003
	RMB'000	RMB'000
Fees	147	165
Salaries and other emoluments	3,850	2,875
Retirement scheme contributions	202	178
	<b>4,199</b>	<b>3,218</b>

Included in the directors' and supervisors' emoluments were fees of RMB 141,000 (2003: RMB 165,000) paid to the independent non-executive directors and the independent supervisors during the year ended 31 December 2004.

An analysis of directors' and supervisors' emoluments by number of directors and supervisors and emolument range is as follows:

	2004	2003
	Number	Number
Nil to HK\$ 1,000,000	<b>26</b>	<b>25</b>

### 13 SENIOR MANAGEMENT'S EMOLUMENTS

For the year ended 31 December 2004, of the five highest paid individuals, one is a director whose emoluments are disclosed in Note 12. The aggregate of the emoluments in respect of the five highest paid individuals are as follows:

	2004	2003
	RMB'000	RMB'000
Salaries and other emoluments	1,622	1,428
Retirement scheme contributions	65	89
	<b>1,687</b>	<b>1,517</b>

An analysis of emoluments paid to the five highest paid individuals by number of individuals and emolument range is as follows:

	2004	2003
	Number	Number
Nil to HK\$ 1,000,000	<b>5</b>	<b>5</b>

### 14 PROFIT ATTRIBUTABLE TO SHAREHOLDERS

The profit attributable to shareholders includes a profit of RMB 36,019 million (2003: RMB 22,424 million) which has been dealt with in the financial statements of the Company.

### 15 BASIC EARNINGS PER SHARE

The calculation of basic earnings per share for the year ended 31 December 2004 is based on the profit attributable to shareholders of RMB 36,019 million (2003: RMB 22,424 million) divided by the weighted average number of shares of 86,702,439,000 (2003: 86,702,439,000) during the year.

The amount of diluted earnings per share is not presented as there were no dilutive potential ordinary shares in existence during the years presented.

### 16 DIVIDENDS

Dividends attributable to the year represent:

	2004	2003
	RMB millions	RMB millions
Dividends declared and paid during the year of RMB 0.04 per share (2003: RMB 0.03 per share)	3,468	2,601
Dividends proposed after the balance sheet date of RMB 0.08 per share (2003: RMB 0.06 per share)	6,936	5,202
	<b>10,404</b>	<b>7,803</b>

Pursuant to the shareholders' approval at the Annual General Meeting on 18 May 2004, the Board of Directors was authorised to declare the interim dividends for the year ended 31 December 2004. According to the resolution passed at the Directors' meeting on 27 August 2004, an interim dividend of RMB 0.04 (2003: RMB 0.03) per share totalling RMB 3,468 million (2003: RMB 2,601 million) was declared and paid on 30 September 2004.

Pursuant to a resolution passed at the Directors' meeting on 25 March 2005, a final dividend in respect of the year ended 31 December 2004 of RMB 0.08 (2003: RMB 0.06) per share totalling RMB 6,936 million (2003: RMB 5,202 million) was proposed for shareholders' approval at the Annual General Meeting. Final dividend of RMB 6,936 million (2003: RMB 5,202 million) proposed after the balance sheet date has not been recognised as a liability at the balance sheet date.

Dividends attributable to the previous financial year, approved and paid during the year represent:

	2004	2003
	RMB millions	RMB millions
Final dividends in respect of the previous financial year, approved and paid during the year of RMB 0.06 per share (2003: RMB 0.06 per share)	<b>5,202</b>	<b>5,202</b>

Pursuant to the shareholders' approval at the Annual General Meeting on 18 May 2004, a final dividend of RMB 0.06 per share totalling RMB 5,202 million in respect of the year ended 31 December 2003 was declared and paid on 28 June 2004.

Pursuant to the shareholders' approval at the Annual General Meeting on 10 June 2003, a final dividend of RMB 0.06 per share totalling RMB 5,202 million in respect of the year ended 31 December 2002 was declared and paid on 30 June 2003.

# NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2004

## 17 PROPERTY, PLANT AND EQUIPMENT

### The Group - by segment:

	Exploration and production RMB millions	Refining RMB millions	Marketing and distribution RMB millions	Chemicals RMB millions	Corporate and others RMB millions	Total RMB millions
<b>Cost/valuation:</b>						
Balance at 1 January 2004	177,962	105,237	54,482	160,289	3,788	501,758
Additions	1,402	793	1,555	314	169	4,233
Transferred from construction in progress	17,428	13,489	9,283	9,460	304	49,964
Acquired from Sinopec Group Company (Note 33)	—	805	1,536	—	—	2,341
Revaluation	—	35	—	206	16	257
Disposals	(1,085)	(3,354)	(1,511)	(4,253)	(179)	(10,382)
Disposed to Sinopec Group Company (Note 33)	(3,631)	—	—	—	—	(3,631)
Less: Amount distributed to Sinopec Group Company in connection with the Acquisition of Petrochemical and Catalyst Assets	—	(95)	—	(2,794)	(6)	(2,895)
<b>Balance at 31 December 2004</b>	<b>192,076</b>	<b>116,910</b>	<b>65,345</b>	<b>163,222</b>	<b>4,092</b>	<b>541,645</b>
<b>Accumulated depreciation:</b>						
Balance at 1 January 2004	84,604	50,901	10,014	84,285	1,223	231,027
Depreciation charge for the year	12,042	7,594	2,624	9,156	289	31,705
Impairment losses for the year	98	14	1,769	2,747	—	4,628
Acquired from Sinopec Group Company (Note 33)	—	458	—	—	—	458
Written back on disposals	(942)	(2,323)	(942)	(3,157)	(103)	(7,467)
Disposed to Sinopec Group Company (Note 33)	(1,774)	—	—	—	—	(1,774)
Less: Amount distributed to Sinopec Group Company in connection with the Acquisition of Petrochemical and Catalyst Assets	—	(64)	—	(989)	(2)	(1,055)
<b>Balance at 31 December 2004</b>	<b>94,028</b>	<b>56,580</b>	<b>13,465</b>	<b>92,042</b>	<b>1,407</b>	<b>257,522</b>
<b>Net book value:</b>						
<b>At 31 December 2004</b>	<b>98,048</b>	<b>60,330</b>	<b>51,880</b>	<b>71,180</b>	<b>2,685</b>	<b>284,123</b>
<b>At 31 December 2003</b>	<b>93,358</b>	<b>54,336</b>	<b>44,468</b>	<b>76,004</b>	<b>2,565</b>	<b>270,731</b>

### The Company - by segment:

	Exploration and production RMB millions	Refining RMB millions	Marketing and distribution RMB millions	Chemicals RMB millions	Corporate and others RMB millions	Total RMB millions
<b>Cost/valuation:</b>						
Balance at 1 January 2004	62,555	72,523	52,999	61,488	2,807	252,372
Additions	437	706	459	55	72	1,729
Transferred from construction in progress	9,056	11,035	8,320	2,205	304	30,920
Acquired from Sinopec Group Company (Note 33)	—	805	1,536	—	—	2,341
Transferred from a subsidiary	—	5,158	—	—	—	5,158
Revaluation	—	35	—	206	16	257
Disposals	(361)	(2,101)	(1,331)	(1,301)	(123)	(5,217)
Disposed to Sinopec Group Company (Note 33)	(2,103)	—	—	—	—	(2,103)
Less: Amount distributed to Sinopec Group Company in connection with the Acquisition of Petrochemical and Catalyst Assets	—	(95)	—	(2,794)	(6)	(2,895)
<b>Balance at 31 December 2004</b>	<b>69,584</b>	<b>88,066</b>	<b>61,983</b>	<b>59,859</b>	<b>3,070</b>	<b>282,562</b>
<b>Accumulated depreciation:</b>						
Balance at 1 January 2004	28,732	36,633	9,640	33,139	954	109,098
Depreciation charge for the year	4,707	4,728	2,320	2,724	188	14,667
Impairment losses for the year	98	14	1,737	1,568	—	3,417
Acquired from Sinopec Group Company (Note 33)	—	458	—	—	—	458
Transferred from a subsidiary	—	2,682	—	—	—	2,682
Written back on disposals	(355)	(1,662)	(805)	(748)	(83)	(3,653)
Disposed to Sinopec Group Company (Note 33)	(1,063)	—	—	—	—	(1,063)
Less: Amount distributed to Sinopec Group Company in connection with the Acquisition of Petrochemical and Catalyst Assets	—	(64)	—	(989)	(2)	(1,055)
<b>Balance at 31 December 2004</b>	<b>32,119</b>	<b>42,789</b>	<b>12,892</b>	<b>35,694</b>	<b>1,057</b>	<b>124,551</b>
<b>Net book value:</b>						
<b>At 31 December 2004</b>	<b>37,465</b>	<b>45,277</b>	<b>49,091</b>	<b>24,165</b>	<b>2,013</b>	<b>158,011</b>
<b>At 31 December 2003</b>	<b>33,823</b>	<b>35,890</b>	<b>43,359</b>	<b>28,349</b>	<b>1,853</b>	<b>143,274</b>

# NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2004

## 17 PROPERTY, PLANT AND EQUIPMENT (Continued)

### The Group - by asset class:

	Buildings RMB millions	Oil and gas properties RMB millions	Oil depots, storage tanks and service stations RMB millions	Plant, machinery, equipment and others RMB millions	Total RMB millions
<b>Cost/valuation:</b>					
Balance at 1 January 2004	44,728	158,634	46,337	252,059	501,758
Additions	342	450	1,301	2,140	4,233
Transferred from construction in progress	2,357	17,428	12,461	17,718	49,964
Acquired from Sinopec Group Company (Note 33)	—	—	1,533	808	2,341
Revaluation	1	—	—	256	257
Disposals	(927)	(586)	(1,099)	(7,770)	(10,382)
Disposed to Sinopec Group Company (Note 33)	(97)	(2,362)	—	(1,172)	(3,631)
Less: Amount distributed to Sinopec Group Company in connection with the Acquisition of Petrochemical and Catalyst Assets	(1,550)	—	—	(1,345)	(2,895)
<b>Balance at 31 December 2004</b>	<b>44,854</b>	<b>173,564</b>	<b>60,533</b>	<b>262,694</b>	<b>541,645</b>
<b>Accumulated depreciation:</b>					
Balance at 1 January 2004	18,975	77,582	8,785	125,685	231,027
Depreciation charge for the year	1,768	9,211	2,332	18,394	31,705
Impairment losses for the year	325	98	1,249	2,956	4,628
Acquired from Sinopec Group Company (Note 33)	—	—	—	458	458
Written back on disposals	(428)	(541)	(585)	(5,913)	(7,467)
Disposed to Sinopec Group Company (Note 33)	(22)	(1,207)	—	(545)	(1,774)
Less: Amount distributed to Sinopec Group Company in connection with the Acquisition of Petrochemical and Catalyst Assets	(310)	—	—	(745)	(1,055)
<b>Balance at 31 December 2004</b>	<b>20,308</b>	<b>85,143</b>	<b>11,781</b>	<b>140,290</b>	<b>257,522</b>
<b>Net book value:</b>					
<b>At 31 December 2004</b>	<b>24,546</b>	<b>88,421</b>	<b>48,752</b>	<b>122,404</b>	<b>284,123</b>
<b>At 31 December 2003</b>	<b>25,753</b>	<b>81,052</b>	<b>37,552</b>	<b>126,374</b>	<b>270,731</b>

### The Company - by asset class:

	Buildings RMB millions	Oil and gas properties RMB millions	Oil depots, storage tanks and service stations RMB millions	Plant, machinery, equipment and others RMB millions	Total RMB millions
<b>Cost/valuation:</b>					
Balance at 1 January 2004	26,487	54,288	44,974	126,623	252,372
Additions	253	43	248	1,185	1,729
Transferred from construction in progress	1,248	8,854	11,715	9,103	30,920
Acquired from Sinopec Group Company (Note 33)	—	—	1,533	808	2,341
Transferred from a subsidiary	216	—	—	4,942	5,158
Revaluation	1	—	—	256	257
Disposals	(742)	(238)	(1,075)	(3,162)	(5,217)
Disposed to Sinopec Group Company (Note 33)	(75)	(1,081)	—	(947)	(2,103)
Less: Amount distributed to Sinopec Group Company in connection with the Acquisition of Petrochemical and Catalyst Assets	(1,550)	—	—	(1,345)	(2,895)
<b>Balance at 31 December 2004</b>	<b>25,838</b>	<b>61,866</b>	<b>57,395</b>	<b>137,463</b>	<b>282,562</b>
<b>Accumulated depreciation:</b>					
Balance at 1 January 2004	9,905	26,711	8,518	63,964	109,098
Depreciation charge for the year	1,028	3,941	2,218	7,480	14,667
Impairment losses for the year	186	98	1,249	1,884	3,417
Acquired from Sinopec Group Company (Note 33)	—	—	—	458	458
Transferred from a subsidiary	101	—	—	2,581	2,682
Written back on disposals	(356)	(238)	(582)	(2,477)	(3,653)
Disposed to Sinopec Group Company (Note 33)	(17)	(578)	—	(468)	(1,063)
Less: Amount distributed to Sinopec Group Company in connection with the Acquisition of Petrochemical and Catalyst Assets	(310)	—	—	(745)	(1,055)
<b>Balance at 31 December 2004</b>	<b>10,537</b>	<b>29,934</b>	<b>11,403</b>	<b>72,677</b>	<b>124,551</b>
<b>Net book value:</b>					
<b>At 31 December 2004</b>	<b>15,301</b>	<b>31,932</b>	<b>45,992</b>	<b>64,786</b>	<b>158,011</b>
<b>At 31 December 2003</b>	<b>16,582</b>	<b>27,577</b>	<b>36,456</b>	<b>62,659</b>	<b>143,274</b>

## NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2004

### 17 PROPERTY, PLANT AND EQUIPMENT (Continued)

As required by the relevant PRC regulations with respect to the Reorganisation, the property, plant and equipment of the Group at 30 September 1999 were valued for each asset class by China United Assets Appraisal Corporation, Beijing Zhong Zheng Appraisal Company, CIECC Assets Appraisal Corporation and Zhong Fa International Properties Valuation Corporation, independent valuers registered in the PRC, on a depreciated replacement cost basis. The value of property, plant and equipment was determined at RMB 159,788 million. The surplus on revaluation of RMB 32,320 million, net of amounts allocated to minority interests, was incorporated in the financial statements of the Group at 31 December 1999.

In connection with the Acquisition of Sinopec National Star, the property, plant and equipment of Sinopec National Star were revalued at 31 December 2000, by a firm of independent valuers and approved by the Ministry of Finance. The value of property, plant and equipment of Sinopec National Star pursuant to the valuation, based on a depreciated replacement cost basis, was determined at RMB 4,373 million, resulting in a surplus on revaluation of RMB 1,136 million, net of amounts allocated to minority interest.

In connection with the Acquisition of Ethylene Assets, the property, plant and equipment of Sinopec Maoming were revalued at 31 December 2003, by a firm of independent valuers in accordance with the relevant rules and regulations. The value of property, plant and equipment of Sinopec Maoming pursuant to the valuation, based on a depreciated replacement cost basis, was determined at RMB 5,100 million, which approximated the net historical carrying value of the assets.

In connection with the Acquisition of Refining Assets, the property, plant and equipment of the Refining Assets were revalued at 31 October 2003, by a firm of independent valuers in accordance with the relevant rules and regulations. The value of property, plant and equipment of the Refining Assets pursuant to the valuation, based on a depreciated replacement cost basis, was determined at RMB 461 million, which approximated the net historical carrying value of the assets.

In connection with the Acquisition of Petrochemical and Catalyst Assets, the property, plant and equipment of the Petrochemical and Catalyst Assets were revalued at 30 June 2004, by a firm of independent valuers in accordance with the relevant rules and regulations. The value of property, plant and equipment of the Petrochemical and Catalyst Assets pursuant to the valuation, based on a depreciated replacement cost basis, was determined at RMB 11,895 million, which approximated the net historical carrying value of the assets.

In accordance with IAS 16, subsequent to these revaluations, which was based on depreciated replacement costs, property, plant and equipment are carried at revalued amount, being the fair value at the date of the revaluation less any subsequent accumulated depreciation and impairment losses. Revaluation is performed periodically to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the balance sheet date. Based on a revaluation performed as of 31 December 2004, which was based on depreciated replacement costs, the carrying value of property, plant and equipment did not differ materially from their fair value.

### 18 CONSTRUCTION IN PROGRESS

#### The Group:

	Exploration and production RMB millions	Refining RMB millions	Marketing and distribution RMB millions	Chemicals RMB millions	Corporate and others RMB millions	Total RMB millions
Balance at 1 January 2004	5,535	8,470	7,941	6,957	451	29,354
Additions	22,808	13,479	15,123	10,711	1,381	63,502
Additions of jointly controlled entities	1,323	—	—	5,178	—	6,501
Less: Amount distributed to Sinopec Group Company in connection with the Acquisition of Petrochemical and Catalyst Assets	—	(1)	—	(216)	(15)	(232)
Dry hole costs written off	(2,976)	—	—	—	—	(2,976)
Transferred to property, plant and equipment	(17,428)	(13,489)	(9,283)	(9,460)	(304)	(49,964)
<b>Balance at 31 December 2004</b>	<b>9,262</b>	<b>8,459</b>	<b>13,781</b>	<b>13,170</b>	<b>1,513</b>	<b>46,185</b>

The Group's proportionate share of the jointly controlled entities' construction in progress at 31 December 2004 in the E&P and the chemicals segments reflected in the above table were RMB 2,053 million (2003: RMB 3,812 million) and RMB 8,171 million (2003: RMB 2,993 million), respectively.

#### The Company:

	Exploration and production RMB millions	Refining RMB millions	Marketing and distribution RMB millions	Chemicals RMB millions	Corporate and others RMB millions	Total RMB millions
Balance at 1 January 2004	4,501	7,424	6,680	1,594	432	20,631
Additions	13,346	10,497	11,911	4,442	1,381	41,577
Transferred from a subsidiary	—	76	—	—	—	76
Less: Amount distributed to Sinopec Group Company in connection with the Acquisition of Petrochemical and Catalyst Assets	—	(1)	—	(216)	(15)	(232)
Dry hole costs written off	(2,184)	—	—	—	—	(2,184)
Transferred to property, plant and equipment	(9,056)	(11,035)	(8,320)	(2,205)	(304)	(30,920)
<b>Balance at 31 December 2004</b>	<b>6,607</b>	<b>6,961</b>	<b>10,271</b>	<b>3,615</b>	<b>1,494</b>	<b>28,948</b>

## NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2004

### 19 INTERESTS IN SUBSIDIARIES

	The Company	
	2004	2003
	RMB millions	RMB millions
Share of net assets	118,451	96,707

Details of the Company's principal subsidiaries at 31 December 2004 are set out in Note 36.

### 20 INVESTMENTS

	The Group		The Company	
	2004	2003	2004	2003
	RMB millions	RMB millions	RMB millions	RMB millions
Unlisted investments, at cost	2,891	3,041	313	826
Less: Provision for impairment losses	(353)	(332)	(155)	(221)
	<b>2,538</b>	<b>2,709</b>	<b>158</b>	<b>605</b>

Unlisted investments represent the Group's interests in PRC domiciled enterprises which are mainly engaged in non-oil and gas activities and operations. The Group has no significant investments in marketable securities.

### 21 INTERESTS IN ASSOCIATES

	The Group		The Company	
	2004	2003	2004	2003
	RMB millions	RMB millions	RMB millions	RMB millions
Share of net assets	10,222	8,121	7,540	5,983

The Group's investments in associates are with companies primarily engaged in the oil and gas and chemical operations in the PRC. These investments are individually and in the aggregate not material to the Group's financial condition or results of operations for all periods presented. The principal investments in associates, all of which are incorporated in the PRC, are as follows:

Name of company	Form of business structure	Particulars of issued and paid up capital	Percentage of equity held		Principal activities
			held by the Company	by the Company's subsidiaries	
			%	%	
Shengli Oil Field Dynamic Company Limited ("Dynamic")*	Incorporated	364,027,608 ordinary shares of RMB 1.00 each	26.33	—	Exploration of crude oil and distribution of petrochemical products
Sinopec Shandong Taishan Petroleum Company Limited ("Taishan")*	Incorporated	480,793,320 ordinary shares of RMB 1.00 each	38.68	—	Trading of petroleum products and decoration of service gas stations
Sinopec Finance Company Limited	Incorporated	Registered capital RMB 2,500,000,000	32.00	8.22	Provision of non-banking financial services
Shanghai Petroleum National Gas Corporation	Incorporated	Registered capital RMB 900,000,000	30.00	—	Exploration and production of crude oil and natural gas
BASF-YPC Company Limited	Incorporated	Registered capital RMB 8,793,000,000	30.00	10.00	Manufacturing and distribution of petrochemical products
Shanghai Chemical Industry Park Development Company Limited	Incorporated	Registered capital RMB 2,372,439,000	—	38.26	Planning, development and operation of the Chemical Industry Park in Shanghai, the PRC
China Shipping & Sinopec Suppliers Company Limited	Incorporated	Registered capital RMB 876,660,000	—	50.00	Transportation of petroleum products

\* Shares of Dynamic and Taishan are listed on the Shenzhen Stock Exchange. Shares held by the Company are domestic state-owned A shares which are not admitted for trading in any stock exchange in the PRC. The market value of the Company's investments in Dynamic and Taishan based on the quoted market price are RMB 479 million (2003: RMB 783 million) and RMB 1,516 million (2003: RMB 1,971 million) respectively at 31 December 2004.

## NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2004

### 22 INTERESTS IN JOINTLY CONTROLLED ENTITIES

	The Company	
	2004	2003
	RMB millions	RMB millions
Share of net assets	<b>3,568</b>	<b>1,043</b>

The Group's investments in jointly controlled entities are primarily engaged in the oil and gas and chemical operations in the PRC, the principal interests in jointly controlled entities are as follows:

Name of company	Form of business structure	Particulars of issued and paid up capital	Percentage of equity held		Principal activities
			Percentage of equity held by the Company	Percentage of equity held by the Company's subsidiaries	
			%	%	
Shanghai Secco Petrochemical Company Limited	Incorporated	Registered capital USD 901,440,964	30.00	20.00	Manufacturing and distribution of petrochemical products
Yueyang Sinopec and Shell Coal Gasification Company Limited	Incorporated	Registered capital USD 45,588,700	50.00	—	Manufacturing and distribution of industrial gas
Block A Oil Field in the Western Area Chengda in Bohai Bay	Unincorporated	—	—	43.00	Exploration and production of crude oil and natural gas

The Group's proportionate share of the jointly controlled entities' current and non-current assets, current and non-current liabilities, and turnover and expenses is not material to the Group's financial condition or results of operations for all years presented.

### 23 LONG-TERM PREPAYMENTS AND OTHER ASSETS

Long-term prepayments and other assets primarily represent prepaid rental expenses over one year, computer software and catalysts.

### 24 TRADE ACCOUNTS AND BILLS RECEIVABLES

	The Group		The Company	
	2004	2003	2004	2003
	RMB millions	RMB millions	RMB millions	RMB millions
Third parties	10,989	9,820	5,179	5,074
Subsidiaries	—	—	5,026	2,956
Sinopec Group Company and fellow subsidiaries	2,349	2,928	858	1,712
Associates	89	81	19	23
	<b>13,427</b>	<b>12,829</b>	<b>11,082</b>	<b>9,765</b>
Less: Allowance for doubtful accounts	(3,671)	(3,350)	(2,837)	(2,454)
	<b>9,756</b>	<b>9,479</b>	<b>8,245</b>	<b>7,311</b>
Bills receivable	7,812	6,283	1,597	1,612
	<b>17,568</b>	<b>15,762</b>	<b>9,842</b>	<b>8,923</b>

The ageing analysis of trade accounts and bills receivables (net of allowance for doubtful accounts) is as follows:

	The Group		The Company	
	2004	2003	2004	2003
	RMB millions	RMB millions	RMB millions	RMB millions
Within one year	16,968	14,641	9,425	8,264
Between one and two years	225	463	127	237
Between two and three years	166	251	83	171
Over three years	209	407	207	251
	<b>17,568</b>	<b>15,762</b>	<b>9,842</b>	<b>8,923</b>

Sales are generally on a cash term. Credit is generally only available for major customers with well-established trading records. Amounts due from Sinopec Group Company and fellow subsidiaries are repayable under the same terms.

### 25 INVENTORIES

	The Group		The Company	
	2004	2003	2004	2003
	RMB millions	RMB millions	RMB millions	RMB millions
Crude oil and other raw materials	32,562	24,295	14,544	10,894
Work in progress	8,341	7,040	3,605	3,534
Finished goods	20,804	12,877	15,163	9,334
Spare parts and consumables	3,528	4,305	1,126	1,265
	<b>65,235</b>	<b>48,517</b>	<b>34,438</b>	<b>25,027</b>
Less: Allowance for diminution in value of inventories	(906)	(601)	(394)	(291)
	<b>64,329</b>	<b>47,916</b>	<b>34,044</b>	<b>24,736</b>

At 31 December 2004, the carrying amount of the Group's and the Company's inventories carried at net realisable value amounted to RMB 1,624 million (2003: RMB 1,551 million) and 504 million (2003: RMB 878 million), respectively.

The cost of inventories recognised as an expense in the consolidated income statement amounted to RMB 474,961 million for the year ended 31 December 2004 (2003: RMB 341,115 million).



## NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2004

### 26 PREPAID EXPENSES AND OTHER CURRENT ASSETS

	The Group		The Company	
	2004	2003	2004	2003
	RMB millions	RMB millions	RMB millions	RMB millions
Advances to third parties	1,600	2,726	740	1,342
Amounts due from Sinopec Group Company and fellow subsidiaries	5,585	9,409	5,002	8,476
Amounts due from subsidiaries	—	—	11,908	13,669
Other receivables	2,161	1,830	1,223	1,179
Purchase deposits	2,547	2,588	2,059	1,429
Prepayments in connection with construction work and equipment purchases	4,727	2,675	2,679	2,475
Prepaid value-added tax and customs duty	3,166	1,355	2,600	506
Amounts due from associates	308	331	260	331
	<b>20,094</b>	<b>20,914</b>	<b>26,471</b>	<b>29,407</b>

### 27 DEFERRED TAX ASSETS AND LIABILITIES

Deferred tax assets and deferred tax liabilities are attributable to the items detailed in the table below:

#### The Group

	Assets		Liabilities		Net balance	
	2004	2003	2004	2003	2004	2003
	RMB millions	RMB millions	RMB millions	RMB millions	RMB millions	RMB millions
<i>Current</i>						
Provisions, primarily for receivables and inventories	2,528	1,446	—	—	2,528	1,446
<i>Non-current</i>						
Property, plant and equipment	1,566	272	(1,704)	(981)	(138)	(709)
Accelerated depreciation	—	—	(3,932)	(3,618)	(3,932)	(3,618)
Tax value of losses carried forward, net of valuation allowance	66	923	—	—	66	923
Lease prepayments	366	373	—	—	366	373
Others	32	53	—	—	32	53
<b>Deferred tax assets/(liabilities)</b>	<b>4,558</b>	<b>3,067</b>	<b>(5,636)</b>	<b>(4,599)</b>	<b>(1,078)</b>	<b>(1,532)</b>

#### The Company

	Assets		Liabilities		Net balance	
	2004	2003	2004	2003	2004	2003
	RMB millions	RMB millions	RMB millions	RMB millions	RMB millions	RMB millions
<i>Current</i>						
Provisions, primarily for receivables and inventories	2,245	1,249	—	—	2,245	1,249
<i>Non-current</i>						
Property, plant and equipment	1,457	226	(983)	(439)	474	(213)
Accelerated depreciation	—	—	(1,042)	(986)	(1,042)	(986)
Tax value of losses carried forward, net of valuation allowance	—	670	—	—	—	670
Lease prepayments	16	16	—	—	16	16
Others	6	35	—	—	6	35
<b>Deferred tax assets/(liabilities)</b>	<b>3,724</b>	<b>2,196</b>	<b>(2,025)</b>	<b>(1,425)</b>	<b>1,699</b>	<b>771</b>

A valuation allowance on deferred tax assets is recorded if it is more likely than not that some portion or all of the deferred tax assets will not be realised through the recovery of taxes previously paid and/or future taxable income. The allowance is subject to ongoing adjustments based on changes in circumstances that affect the Group's assessment of the realisability of the deferred tax assets. The Group has reviewed its deferred tax assets at the balance sheet date. Based on this review, valuation allowances of RMB 409 million (2003: RMB 248 million) were provided for the year ended 31 December 2004. The Group determined the valuation allowance based on management's assessment of the probability that taxable profit will be available over the period which the deferred tax assets can be realised or utilised. In assessing the probability, both positive and negative evidence was considered, including whether it is more likely than not that the operations will have future taxable profits over the periods which the deferred tax assets are deductible or utilised and whether the tax losses result from identifiable causes which are unlikely to recur. Based on this assessment, a valuation allowance was provided to reduce the deferred tax asset to the amount that is more likely than not to be realised.

## NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2004

### 27 DEFERRED TAX ASSETS AND LIABILITIES (Continued)

Movements in the deferred tax assets and liabilities are as follows:

#### The Group

	Balance at 1 January 2003 RMB millions	Recognised in other reserves RMB millions	Recognised in consolidated income statement RMB millions	Balance at 31 December 2003 RMB millions
<i>Current</i>				
Provisions, primarily for receivables and inventories	275	—	1,171	1,446
<i>Non-current</i>				
Property, plant and equipment	(580)	—	(129)	(709)
Accelerated depreciation	(2,958)	—	(660)	(3,618)
Tax value of losses carried forward, net of valuation allowance	978	—	(55)	923
Lease prepayments	364	16	(7)	373
Others	2	—	51	53
<b>Net deferred tax (liabilities)/assets</b>	<b>(1,919)</b>	<b>16</b>	<b>371</b>	<b>(1,532)</b>

#### The Group

	Balance at 1 January 2004 RMB millions	Recognised in other reserves RMB millions	Recognised in consolidated income statement RMB millions	Balance at 31 December 2004 RMB millions
<i>Current</i>				
Provisions, primarily for receivables and inventories	1,446	—	1,082	2,528
<i>Non-current</i>				
Property, plant and equipment	(709)	—	571	(138)
Accelerated depreciation	(3,618)	—	(314)	(3,932)
Tax value of losses carried forward, net of valuation allowance (Note)	923	(266)	(591)	66
Lease prepayments	373	—	(7)	366
Others	53	—	(21)	32
<b>Net deferred tax (liabilities)/assets</b>	<b>(1,532)</b>	<b>(266)</b>	<b>720</b>	<b>(1,078)</b>

#### The Company

	Balance at 1 January 2003 RMB millions	Recognised in other reserves RMB millions	Recognised in income statement RMB millions	Balance at 31 December 2003 RMB millions
<i>Current</i>				
Provisions, primarily for receivables and inventories	57	—	1,192	1,249
<i>Non-current</i>				
Property, plant and equipment	(204)	—	(9)	(213)
Accelerated depreciation	(799)	—	(187)	(986)
Tax value of losses carried forward, net of valuation allowance	677	—	(7)	670
Lease prepayments	—	16	—	16
Others	12	—	23	35
<b>Net deferred tax (liabilities)/assets</b>	<b>(257)</b>	<b>16</b>	<b>1,012</b>	<b>771</b>

#### The Company

	Balance at 1 January 2004 RMB millions	Recognised in other reserves RMB millions	Recognised in income statement RMB millions	Balance at 31 December 2004 RMB millions
<i>Current</i>				
Provisions, primarily for receivables and inventories	1,249	—	996	2,245
<i>Non-current</i>				
Property, plant and equipment	(213)	—	687	474
Accelerated depreciation	(986)	—	(56)	(1,042)
Tax value of losses carried forward, net of valuation allowance (Note)	670	(266)	(404)	—
Lease prepayments	16	—	—	16
Others	35	—	(29)	6
<b>Net deferred tax (liabilities)/assets</b>	<b>771</b>	<b>(266)</b>	<b>1,194</b>	<b>1,699</b>

Note:

At 31 December 2004, deferred tax assets of RMB 266 million were distributed to Sinopec Group Company in connection with the Acquisition of Petrochemical and Catalyst Assets.

## NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2004

### 28 SHORT-TERM AND LONG-TERM DEBTS AND LOANS FROM SINOPEC GROUP COMPANY AND FELLOW SUBSIDIARIES

Short-term debts represent:

	The Group		The Company	
	2004	2003	2004	2003
	RMB millions	RMB millions	RMB millions	RMB millions
<b>Third parties' debts</b>				
Short-term bank loans	20,009	19,961	10,527	9,838
Short-term other loans	—	29	—	25
	<b>20,009</b>	<b>19,990</b>	<b>10,527</b>	<b>9,863</b>
Current portion of long-term bank loans	12,177	7,359	9,414	4,943
Current portion of long-term other loans	121	332	92	265
Current portion of convertible bonds	—	1,500	—	—
	<b>12,298</b>	<b>9,191</b>	<b>9,506</b>	<b>5,208</b>
	<b>32,307</b>	<b>29,181</b>	<b>20,033</b>	<b>15,071</b>
<b>Loans from Sinopec Group Company and fellow subsidiaries</b>				
Short-term loans	6,714	4,046	5,727	2,446
Current portion of long-term loans	2,000	819	2,000	819
	<b>8,714</b>	<b>4,865</b>	<b>7,727</b>	<b>3,265</b>
	<b>41,021</b>	<b>34,046</b>	<b>27,760</b>	<b>18,336</b>

The Group's and the Company's weighted average interest rates on short-term loans were 3.9% (2003: 3.2%) and 4.0% at 31 December 2004 (2003: 3.1%) respectively.

Long-term debts comprise:

Interest rate and final maturity	The Group		The Company		
	2004	2003	2004	2003	
	RMB millions	RMB millions	RMB millions	RMB millions	
<b>Third parties' debts</b>					
<b>Long-term bank loans</b>					
Renminbi denominated	Interest rates ranging from interest free to 6.2% per annum at 31 December 2004 with maturities through 2013	52,227	40,955	45,233	31,669
Japanese Yen denominated	Interest rates ranging from 2.6% to 5.8% per annum at 31 December 2004 with maturities through 2024	4,562	4,841	4,556	4,798
US Dollar denominated	Interest rates ranging from interest free to 7.4% per annum at 31 December 2004 with maturities through 2031	7,729	7,563	5,278	4,988
Euro denominated	Fixed interest rate at 6.7% per annum at 31 December 2004 with maturities through 2010	165	547	165	547
Hong Kong Dollar denominated	Floating rate at Hong Kong Prime Rate plus 0.3% per annum at 31 December 2004 with maturities through 2006	5	7	—	—
		<b>64,688</b>	<b>53,913</b>	<b>55,232</b>	<b>42,002</b>
<b>Long-term other loans</b>					
Renminbi denominated	Interest rates ranging from interest free to 5.0% per annum at 31 December 2004 with maturities through 2008	359	413	200	236
US Dollar denominated	Interest rates ranging from interest free to 4% per annum at 31 December 2004 with maturities through 2015	110	151	89	118
Euro denominated	Interest rates ranging from 1.8% to 8.1% per annum at 31 December 2003 with maturities through 2025; paid off as at 31 December 2004	—	21	—	21
		<b>469</b>	<b>585</b>	<b>289</b>	<b>375</b>

## NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2004

### 28 SHORT-TERM AND LONG-TERM DEBTS AND LOANS FROM SINOPEC GROUP COMPANY AND FELLOW SUBSIDIARIES (Continued)

Interest rate and final maturity	The Group		The Company	
	2004	2003	2004	2003
	RMB millions	RMB millions	RMB millions	RMB millions
<b>Convertible bonds</b>				
Renminbi denominated	Interest rate at 2.5% per annum at 31 December 2003 with maturity in July 2004 (a)			
	—	1,500	—	—
	<b>65,157</b>	<b>55,998</b>	<b>55,521</b>	<b>42,377</b>
<b>Corporate bonds</b>				
Renminbi denominated	Fixed interest rate at 4.61% per annum at 31 December 2004 with maturity in February 2014 (b)			
	3,500	—	3,500	—
<b>Long-term bank loans of jointly controlled entities</b>				
Renminbi denominated	Floating rate at 90% of PBOC's base lending rate per annum at 31 December 2004 with maturities through 2021			
	2,415	705	—	—
US Dollar denominated	Floating rate at London Interbank Offer Rate plus 0.7% per annum at 31 December 2004 with maturities through 202			
	2,048	745	—	—
	<b>4,463</b>	<b>1,450</b>	<b>—</b>	<b>—</b>
<b>Total third parties' long-term debts</b>				
	<b>73,120</b>	<b>57,448</b>	<b>59,021</b>	<b>42,377</b>
Less: Current portion				
	(12,298)	(9,191)	(9,506)	(5,208)
	<b>60,822</b>	<b>48,257</b>	<b>49,515</b>	<b>37,169</b>
<b>Long-term loans from Sinopec Group Company and fellow subsidiaries</b>				
Renminbi denominated	Interest free with maturity in 2020			
	35,561	35,561	35,561	35,561
Renminbi denominated	Interest rates ranging from interest free to 5.2% per annum at 31 December 2004 with maturities through 2009			
	3,204	4,285	2,756	4,200
US Dollar denominated	Floating rate at London Interbank Offer Rate plus 1.4% per annum at 31 December 2003 with maturities through 2005; paid off as at 31 December 2004			
	—	12	—	12
	<b>38,765</b>	<b>39,858</b>	<b>38,317</b>	<b>39,773</b>
Less: Current portion				
	(2,000)	(819)	(2,000)	(819)
	<b>36,765</b>	<b>39,039</b>	<b>36,317</b>	<b>38,954</b>
	<b>97,587</b>	<b>87,296</b>	<b>85,832</b>	<b>76,123</b>

(a) Convertible bonds amounting to RMB 1,500 million were issued by a subsidiary on 28 July 1999. Pursuant to the subsidiary's shareholders' approval at the Annual General Meeting held on 23 March 2004, the subsidiary decided not to undergo an initial public offering. The bonds were repaid in July 2004.

(b) The Company issued ten years corporate bonds of RMB 3.5 billion to PRC citizens as well as PRC legal and non-legal persons on 24 February 2004, guaranteed by Sinopec Group Company, with a fixed interest rate at 4.61% per annum.

Third parties' loans of RMB 40 million of the Group at 31 December 2004 (2003: RMB 103 million) were secured by certain of the Group's property, plant and equipment. The net book value of property, plant and equipment of the Group pledged as security amounted to RMB 123 million at 31 December 2004 (2003: RMB 519 million).

Third parties' loans of RMB 9 million of the Company at 31 December 2004 (2003: RMB 9 million) were secured by certain of the Company's property, plant and equipment. The net book value of property, plant and equipment of the Company pledged as security amounted to RMB 10 million at 31 December 2004 (2003: RMB 14 million).

The aggregate maturities of long-term debts and loans from Sinopec Group Company and fellow subsidiaries are as follows:

	The Group		The Company	
	2004	2003	2004	2003
	RMB millions	RMB millions	RMB millions	RMB millions
Within one year	14,298	10,010	11,506	6,027
Between one and two years	15,886	14,479	12,363	10,480
Between two and five year	36,041	30,334	31,279	24,794
After five years	45,660	42,483	42,190	40,849
	<b>111,885</b>	<b>97,306</b>	<b>97,338</b>	<b>82,150</b>

## NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2004

### 29 TRADE ACCOUNTS AND BILLS PAYABLES

	The Group		The Company	
	2004	2003	2004	2003
	RMB millions	RMB millions	RMB millions	RMB millions
Third parties	22,265	22,122	10,435	4,042
Subsidiaries	—	—	9,876	13,825
Sinopec Group Company and its fellow subsidiaries	1,527	1,153	826	735
Associates	—	44	—	44
	<b>23,792</b>	<b>23,319</b>	<b>21,137</b>	<b>18,646</b>
Bills payable	30,797	24,267	21,589	18,170
	<b>54,589</b>	<b>47,586</b>	<b>42,726</b>	<b>36,816</b>

Amounts due to Sinopec Group Company and fellow subsidiaries are repayable in accordance with normal commercial terms.

The ageing analysis of trade accounts and bills payables are as follows:

	The Group		The Company	
	2004	2003	2004	2003
	RMB millions	RMB millions	RMB millions	RMB millions
Due within 1 month or on demand	25,444	21,540	21,839	18,430
Due after 1 month but within 6 months	28,877	25,792	20,807	17,931
Due after 6 months	268	254	80	455
	<b>54,589</b>	<b>47,586</b>	<b>42,726</b>	<b>36,816</b>

### 30 ACCRUED EXPENSES AND OTHER PAYABLES

	The Group		The Company	
	2004	2003	2004	2003
	RMB millions	RMB millions	RMB millions	RMB millions
Amounts due to Sinopec Group Company and its fellow subsidiaries	10,897	15,072	7,336	8,504
Amounts due to subsidiaries	—	—	15,010	10,157
Accrued expenditures	17,213	12,208	11,801	5,689
Taxes other than income tax	3,717	4,327	2,079	2,182
Receipts in advance	7,387	5,509	5,013	3,685
Advances from third parties	1,009	979	961	864
Others	5,053	5,466	3,365	4,256
	<b>45,276</b>	<b>43,561</b>	<b>45,565</b>	<b>35,337</b>

### 31 SHARE CAPITAL

	The Group and the Company	
	2004	2003
	RMB millions	RMB millions
Registered, issued and fully paid		
67,121,951,000 domestic state-owned A shares of RMB 1.00 each	67,122	67,122
16,780,488,000 overseas listed H shares of RMB 1.00 each	16,780	16,780
2,800,000,000 domestic listed A shares of RMB 1.00 each	2,800	2,800
	<b>86,702</b>	<b>86,702</b>

The Company was established on 25 February 2000 with a registered capital of 68.8 billion domestic state-owned shares with a par value of RMB 1.00 each. Such shares were issued to Sinopec Group Company in consideration for the assets and liabilities of the Predecessor Operations transferred to the Company (Note 1).

Pursuant to the resolutions passed at an Extraordinary General Meeting held on 25 July 2000 and approvals from relevant government authorities, the Company is authorised to increase its share capital to a maximum of 88.3 billion shares with a par value of RMB 1.00 each and offer not more than 19.5 billion shares with a par value of RMB 1.00 each to investors outside the PRC. Sinopec Group Company is authorised to offer not more than 3.5 billion shares of its shareholdings in the Company to investors outside the PRC. The shares sold by Sinopec Group Company to investors outside the PRC would be converted into H shares.

In October 2000, the Company issued 15,102,439,000 H shares with a par value of RMB 1.00 each, representing 12,521,864,000 H shares and 25,805,750 American Depositary Shares ("ADSs", each representing 100 H shares), at prices of HK\$ 1.59 per H share and US\$ 20.645 per ADS, respectively, by way of a global initial public offering to Hong Kong and overseas investors. As part of the global initial public offering, 1,678,049,000 domestic state-owned ordinary shares of RMB 1.00 each owned by Sinopec Group Company were converted into H shares and sold to Hong Kong and overseas investors.

In July 2001, the Company issued 2.8 billion domestic listed A shares with a par value of RMB 1.00 each at RMB 4.22 by way of a public offering to natural persons and institutional investors in the PRC.

All A shares and H shares rank pari passu in all material aspects.

## NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2004

### 32 COMMITMENTS AND CONTINGENT LIABILITIES

#### Operating lease commitments

The Group leases service stations and other equipment through non-cancellable operating leases. These operating leases do not contain provisions for contingent lease rentals. None of the rental agreements contain escalation provisions that may require higher future rental payments.

At 31 December 2004 and 2003, the future minimum lease payments under operating leases are as follows:

	The Group		The Company	
	2004 RMB millions	2003 RMB millions	2004 RMB millions	2003 RMB millions
Within one year	3,452	3,276	3,272	3,175
Between one and two years	3,343	3,229	3,237	3,133
Between two and three years	3,278	3,200	3,213	3,114
Between three and four years	3,245	3,175	3,188	3,095
Between four and five years	3,225	3,162	3,170	3,087
Thereafter	97,527	99,619	95,968	98,253
	<b>114,070</b>	<b>115,661</b>	<b>112,048</b>	<b>113,857</b>

#### Capital commitments

At 31 December 2004 and 2003, capital commitments are as follows:

	2004	2003
	RMB millions	RMB millions
<b>The Group</b>		
Authorised and contracted for	43,001	48,175
Authorised but not contracted for	60,173	48,130
	<b>103,174</b>	<b>96,305</b>
<b>Jointly controlled entities</b>		
Authorised and contracted for	3,157	6,923
Authorised but not contracted for	2,088	3,432
	<b>5,245</b>	<b>10,355</b>
<b>The Company</b>		
Authorised and contracted for	28,143	32,228
Authorised but not contracted for	37,619	36,403
	<b>65,762</b>	<b>68,631</b>

These capital commitments relate to oil and gas exploration and development, refining and petrochemical production capacity expansion projects, the construction of service stations and oil depots, and capital contributions to the Group's investments and interests in associates.

#### Exploration and production licenses

Exploration licenses for exploration activities are registered with the Ministry of Land and Resources. The maximum term of the Group's exploration licenses is 7 years, and may be renewed twice within 30 days prior to expiration of the original term with each renewal being for a two-year term. The Group is obligated to make progressive annual minimum exploration investment relating to the exploration blocks in respect of which the license is issued. The Ministry of Land and Resources also issues production licenses to the Group on the basis of the reserve reports approved by relevant authorities. The maximum term of a full production license is 30 years unless a special dispensation was given by the State Council. The maximum term of production licenses issued to the Group is 55 years as a special dispensation was given to the Group by the State Council. The Group's production license is renewable upon application by the Group 30 days prior to expiration.

The Group is required to make payments of exploration license fees and production right usage fees to the Ministry of Land and Resources annually which are expensed as incurred. Payments incurred were approximately RMB 189 million for the year ended 31 December 2004 (2003: RMB 97 million).

Estimated future annual payments are as follows:

	The Group		The Company	
	2004 RMB millions	2003 RMB millions	2004 RMB millions	2003 RMB millions
Within one year	90	87	60	69
Between one and two years	120	117	85	88
Between two and three years	75	87	47	54
Between three and four years	67	72	55	42
Between four and five years	74	65	64	52
Thereafter	279	361	143	212
Total payments	<b>705</b>	<b>789</b>	<b>454</b>	<b>517</b>

## NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2004

### 32 COMMITMENTS AND CONTINGENT LIABILITIES (Continued)

#### Contingent liabilities

- (a) The Company has been advised by its PRC lawyers that, except for liabilities constituting or arising out of or relating to the business assumed by the Company in the Reorganisation, no other liabilities were assumed by the Company, and the Company is not jointly and severally liable for other debts and obligations incurred by Sinopec Group Company prior to the Reorganisation.
- (b) At 31 December 2004 and 2003, guarantees given to banks in respect of banking facilities granted to the parties below were as follows:

	The Group		The Company	
	2004	2003	2004	2003
	RMB millions	RMB millions	RMB millions	RMB millions
Subsidiaries	—	—	2,656	173
Associates and jointly controlled entities	4,828	4,955	12,059	12,084
Third parties	—	118	—	118
	<b>4,828</b>	<b>5,073</b>	<b>14,715</b>	<b>12,375</b>

The Group monitors the conditions that are subject to the guarantees to identify whether it is probable that a loss has occurred, and recognise any such losses under guarantees when those losses are estimable. At 31 December 2004 and 2003, it is not probable that the Group will be required to make payments under the guarantees. Thus no liability has been accrued relating to the Group's obligation under these guarantee arrangements.

#### Environmental contingencies

To date, the Group has not incurred any significant expenditures for environmental remediation, is currently not involved in any environmental remediation, and has not accrued any amounts for environmental remediation relating to its operations. Under existing legislation, management believes that there are no probable liabilities that will have a material adverse effect on the financial position or operating results of the Group. The PRC government, however, has moved, and may move further towards more rigorous enforcement of applicable laws, and towards the adoption of more stringent environmental standards. Environmental liabilities are subject to considerable uncertainties which affect the Group's ability to estimate the ultimate cost of remediation efforts. These uncertainties include i) the exact nature and extent of the contamination at various sites including, but not limited to refineries, oil fields, service stations, terminals and land development areas, whether operating, closed or sold, ii) the extent of required cleanup efforts, iii) varying costs of alternative remediation strategies, iv) changes in environmental remediation requirements, and v) the identification of new remediation sites. The amount of such future cost is indeterminable due to such factors as the unknown magnitude of possible contamination and the unknown timing and extent of the corrective actions that may be required. Accordingly, the outcome of environmental liabilities under proposed or future environmental legislation cannot reasonably be estimated at present, and could be material. The Group paid normal routine pollutant discharge fees of approximately RMB 248 million for the year ended 31 December 2004 (2003: RMB 245 million).

#### Legal contingencies

The Group is a defendant in certain lawsuits as well as the named party in other proceedings arising in the ordinary course of business. While the outcomes of such contingencies, lawsuits or other proceedings cannot be determined at present, management believes that any resulting liabilities will not have a material adverse effect on the financial position or operating results of the Group.

### 33 RELATED PARTY TRANSACTIONS

Companies are considered to be related if one company has the ability, directly or indirectly, to control the other company or exercise significant influence over the other company in making financial and operating decisions. Companies are also considered to be related if they are subject to common control or common significant influence.

The Group is part of a larger group of companies under Sinopec Group Company and has significant transactions and relationships with the Sinopec Group Company and fellow subsidiaries. Because of these relationships, it is possible that the terms of these transactions are not the same as those that would result from transactions among wholly unrelated parties. Sinopec Group Company itself is owned by the PRC government. There are also many other enterprises directly or indirectly owned or controlled by the PRC government ("state-owned enterprises"). Under IFRS, state-owned enterprises, other than Sinopec Group Company and fellow subsidiaries, are not considered related parties. Related parties refer to enterprises over which Sinopec Group Company is able to exercise significant influence.

The Group conducts business with state-owned enterprises. Furthermore, the PRC government itself represents a significant customer of the Group both directly through its numerous authorities and indirectly through its numerous affiliates and other organisations. Sales of certain products to PRC government authorities and affiliates and other state-owned enterprises may be at regulated prices, which differ from market prices. The Group considers that these sales are activities in the ordinary course of business in the PRC and has not disclosed such sales as related party transactions.

## NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2004

### 33 RELATED PARTY TRANSACTIONS (Continued)

The principal related party transactions with Sinopec Group Company, which were carried out in the ordinary course of business, are as follows:

	Note	2004 RMB millions	2003 RMB millions
Sales of goods	(i)	63,507	32,134
Purchases	(ii)	36,828	31,964
Transportation and storage	(iii)	2,003	1,572
Exploration and development services	(iv)	14,446	13,699
Production related services	(v)	9,036	8,421
Ancillary and social services	(vi)	1,740	1,783
Operating lease charges	(vii)	3,297	2,924
Agency commission income	(viii)	41	41
Intellectual property license fee paid	(ix)	10	10
Interest received	(x)	59	114
Interest paid	(xi)	622	583
Net deposits placed with/(withdrawn from) related parties	(xii)	340	(1,634)
Net loans obtained from/(paid to) related parties	(xiii)	1,575	(24)

The amounts set out in the table above in respect of the years ended 31 December 2004 and 2003 represent the relevant costs to the Group as determined by the corresponding contracts with the related parties.

At 31 December 2004 and 2003, there were no guarantees given to banks by the Group in respect of banking facilities to Sinopec Group Company and fellow subsidiaries.

The directors of the Company are of the opinion that the above transactions with related parties were conducted in the ordinary course of business and on normal commercial terms or in accordance with the agreements governing such transactions, and this has been confirmed by the independent non-executive directors.

Notes:

- (i) Sales of goods represent the sale of crude oil, intermediate petrochemical products, petroleum products and ancillary materials.
- (ii) Purchases represent the purchase of material and utility supplies directly related to the Group's operations such as the procurement of raw and ancillary materials and related services, supply of water, electricity and gas.
- (iii) Transportation and storage represent the cost for the use of railway, road and marine transportation services, pipelines, loading, unloading and storage facilities.
- (iv) Exploration and development services comprise direct costs incurred in the exploration and development activities such as geophysical, drilling, well testing and well measurement services.
- (v) Production related services represent ancillary services rendered in relation to the Group's operations such as equipment repair and general maintenance, insurance premium, technical research, communications, fire fighting, security, product quality testing and analysis, information technology, design and engineering, construction which includes the construction of oilfield ground facilities, refineries and chemical plants, manufacture of replacement parts and machinery, installation, project management and environmental protection.
- (vi) Ancillary and social services represent expenditures for social welfare and support services such as educational facilities, media communication services, sanitation, accommodation, canteens, property maintenance and management services.
- (vii) Operating lease charges represent the rental paid to Sinopec Group Company for operating leases in respect of land, buildings and service stations.
- (viii) Agency commission income represents commission earned for acting as an agent in respect of sales of products of and purchase of material for certain entities owned by Sinopec Group Company.
- (ix) Intellectual property license fee represents reimbursement paid to Sinopec Group Company for fees required to maintain the validity of licenses for trademarks, patents, technology and computer software.
- (x) Interest received represents interest received from deposits placed with Sinopec Finance Company Limited, a finance company controlled by Sinopec Group Company. The applicable interest rate is determined in accordance with the prevailing saving deposit rate. The balance of deposits at 31 December 2004 was RMB 4,671 million (2003: RMB 4,331 million).
- (xi) Interest paid represents interest charges on the loans and advances obtained from Sinopec Group Company and Sinopec Finance Company Limited.
- (xii) Deposits were placed with/withdrawn from Sinopec Finance Company Limited.
- (xiii) The Group obtained/repaid loans from/to Sinopec Group Company and Sinopec Finance Company Limited.



## NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2004

### 33 RELATED PARTY TRANSACTIONS (Continued)

In connection with the Reorganisation, the Company and Sinopec Group Company entered into a number of agreements under which 1) Sinopec Group Company will provide goods and products and a range of ancillary, social and supporting services to the Group and 2) the Group will sell certain goods to Sinopec Group Company. The terms of these agreements are summarised as follows:

- (a) The Company has entered into a non-exclusive Agreement for Mutual Provision of Products and Ancillary Services (“Mutual Provision Agreement”) with Sinopec Group Company effective from 1 January 2000 under which Sinopec Group Company has agreed to provide the Group with certain ancillary production services, construction services, information advisory services, supply services and other services and products. While each of Sinopec Group Company and the Company is permitted to terminate the Mutual Provision Agreement upon at least six months notice, Sinopec Group Company has agreed not to terminate the agreement if the Group is unable to obtain comparable services from a third party. The pricing policy for these services and products provided by Sinopec Group Company to the Group is as follows:
- the government-prescribed price;
  - where there is no government-prescribed price, the government-guidance price;
  - where there is neither a government-prescribed price nor a government-guidance price, the market price; or
  - where none of the above is applicable, the price to be agreed between the parties, which shall be based on a reasonable cost incurred in providing such services plus a profit margin not exceeding 6%.
- (b) The Company has entered into a non-exclusive Agreement for Provision of Cultural and Educational, Health Care and Community Services with Sinopec Group Company effective from 1 January 2000 in which Sinopec Group Company has agreed to provide the Group with certain cultural, educational, health care and community services on the same pricing terms and termination conditions as agreed to in the above Mutual Provision Agreement.
- (c) The Company has entered into a series of lease agreements with Sinopec Group Company to lease certain land and buildings at a rental of approximately RMB 2,447 million and RMB 567 million, respectively, per annum. The Company and Sinopec Group Company can renegotiate the rental amount every three years for land and every year for buildings, such amount not to exceed the market price as determined by an independent third party. The Group has the option to terminate these leases upon six months notice to Sinopec Group Company.
- (d) The Company has entered into agreements with Sinopec Group Company effective from 1 January 2000 under which the Group has been granted the right to use certain trademarks, patents, technology and computer software developed by Sinopec Group Company. The Group will reimburse Sinopec Group Company for fees required to maintain the validity of these licenses.
- (e) The Company has entered into agency agreements effective from 1 January 2000 with certain entities owned by Sinopec Group Company under which the Group acts as a sole agent in respect of the sale of all the products of these entities. In exchange for the Group’s sales agency services, Sinopec Group Company has agreed to pay the Group a commission of between 0.2% and 1.0% of actual sales receipts depending on the products and to reimburse the Group for reasonable costs incurred in the capacity as its sales agent.
- (f) The Company has entered into a service stations franchise agreement with Sinopec Group Company effective from 1 January 2000 under which its service stations and retail stores would exclusively sell the refined products supplied by the Group.

As discussed in Note 1, pursuant to the resolutions passed at the Extraordinary General Meeting held on 21 December 2004, the Group acquired the equity interests of Tianjin Petrochemical, Luoyang Petrochemical, Zhongyuan Petrochemical, Guangzhou Petrochemical and Catalyst Plants from Sinopec Group Company for a total consideration payable of RMB 3,128 million. In addition, the Group acquired certain individual assets and liabilities from Sinopec Group Company for a total consideration payable of RMB 2,232 million. In connection with these acquisitions, the Group disposed of certain property, plant and equipment, with net book value of RMB1,857 million, and certain other assets and liabilities, related to its oilfield downhole operation (the “Downhole Assets”) to Sinopec Group Company for a consideration receivable of RMB 1,712 million, which approximated the net carrying value of the assets and liabilities, resulting in a net cash consideration of RMB 3,648 million payable to Sinopec Group Company.

### 34 EMPLOYEE BENEFITS PLAN

As stipulated by the regulations of the PRC, the Group participates in various defined contribution retirement plans organised by municipal and provincial governments for its staff. The Group is required to make contributions to the retirement plans at rates ranging from 17.0% to 30.0% of the salaries, bonuses and certain allowances of its staff. A member of the plan is entitled to a pension equal to a fixed proportion of the salary prevailing at his or her retirement date. The Group has no other material obligation for the payment of pension benefits associated with these plans beyond the annual contributions described above. The Group’s contributions for the year ended 31 December 2004 were RMB 2,242 million (2003: RMB 1,882 million).

The Company implemented a plan of share appreciation rights for members of its senior management in order to provide further incentives to these employees. Under this plan, share appreciation rights were granted in units with each unit representing one H share. No shares will be issued under the share appreciation rights plan.

Under the plan, all share appreciation rights have an exercise period of five years. A recipient of share appreciation rights may not exercise the rights in the first three years after the date of grant. As at each of the third, fourth and fifth anniversary of the date of grant, the total number of share appreciation rights exercisable may not in aggregate exceed 30%, 70% and 100%, respectively, of the total share appreciation rights granted to such person.

During 2003, the Company granted 258.6 million share appreciation right units to eligible employees.

The exercise price of share appreciation rights initially granted is the initial public offering price of the Company’s H shares. Upon exercise of the share appreciation rights, a recipient will receive, subject to any applicable withholding tax, a cash payment in RMB, translated from the Hong Kong dollar amount equal to the product of the number of share appreciation rights exercised and the difference between the exercise price and average market price of the Company’s H shares for the exercise period based on the applicable exchange rate between RMB and Hong Kong dollar at the date of the exercise.

The Company recognises compensation expense of the share appreciation rights over the applicable vesting period. For the year ended 31 December 2004, compensation expense recognised was RMB 150 million (2003: RMB 120 million).

## NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2004

### 35 SEGMENTAL REPORTING

The Group has five operating segments as follows:

- (i) Exploration and production, which explores and develops oil fields, produces crude oil and natural gas and sells such products to the refining segment of the Group and external customers.
- (ii) Refining, which processes and purifies crude oil, which is sourced from the exploration and production segment of the Group and external suppliers, and manufactures and sells petroleum products to the chemicals and marketing and distribution segments of the Group and external customers.
- (iii) Marketing and distribution, which owns and operates oil depots and service stations in the PRC, and distributes and sells refined petroleum products (mainly gasoline and diesel) in the PRC through wholesale and retail sales networks.
- (iv) Chemicals, which manufactures and sells petrochemical products, derivative petrochemical products and other chemical products mainly to external customers.
- (v) Corporate and others, which largely comprise the trading activities of the import and export companies of the Group and research and development undertaken by other subsidiaries.

The segments were determined primarily because the Group manages its exploration and production; refining; marketing and distribution; chemicals; and corporate and others businesses separately. The reportable segments are each managed separately because they manufacture and/or distribute distinct products with different production processes and due to their distinct operating and gross margin characteristics. 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 the performance and allocates resources to its operating segments on an operating income basis, without considering the effects of finance costs or investment income. The accounting policies of the Group's segments are the same as those described in the principal accounting policies (see Note 2). Corporate administrative costs and assets are not allocated to the operating segments; instead, operating segments are billed for direct corporate services. Inter-segment transfer pricing is based on cost plus an appropriate margin, as specified by the Group's policy.

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

	2004	2003
	RMB millions	RMB millions
<b>Turnover</b>		
Exploration and production		
External sales	15,970	14,936
Inter-segment sales	60,053	47,287
	<b>76,023</b>	<b>62,223</b>
Refining		
External sales	63,388	51,445
Inter-segment sales	289,699	217,755
	<b>353,087</b>	<b>269,200</b>
Marketing and distribution		
External sales	342,840	238,210
Inter-segment sales	2,831	2,602
	<b>345,671</b>	<b>240,812</b>
Chemicals		
External sales	126,013	91,964
Inter-segment sales	12,510	7,415
	<b>138,523</b>	<b>99,379</b>
Corporate and others		
External sales	48,986	33,394
Inter-segment sales	32,046	30,371
	<b>81,032</b>	<b>63,765</b>
Elimination of inter-segment sales	(397,139)	(305,430)
<b>Turnover</b>	<b>597,197</b>	<b>429,949</b>
<b>Other operating revenues</b>		
Exploration and production	9,283	8,039
Refining	5,186	4,573
Marketing and distribution	755	548
Chemicals	6,170	4,461
Corporate and others	1,192	1,431
<b>Other operating revenues</b>	<b>22,586</b>	<b>19,052</b>
<b>Turnover and other operating revenues</b>	<b>619,783</b>	<b>449,001</b>

## NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2004

### 35 SEGMENTAL REPORTING (Continued)

	2004	2003
	RMB millions	RMB millions
<b>Result</b>		
<b>Operating profit</b>		
By segment		
— Exploration and production	25,614	19,160
— Refining	5,943	6,073
— Marketing and distribution	14,716	11,943
— Chemicals	18,721	3,543
— Corporate and others	(1,925)	(1,836)
<b>Total operating profit</b>	<b>63,069</b>	<b>38,883</b>
<b>Share of profits less losses from associates</b>		
— Exploration and production	447	293
— Refining	58	(1)
— Marketing and distribution	302	43
— Chemicals	(164)	(41)
— Corporate and others	154	102
<b>Aggregate share of profits less losses from associates</b>	<b>797</b>	<b>396</b>
<b>Finance costs</b>		
Interest expense	(4,583)	(4,365)
Interest income	374	322
Foreign exchange losses	(223)	(450)
Foreign exchange gains	61	30
<b>Net finance costs</b>	<b>(4,371)</b>	<b>(4,463)</b>
Gain from issuance of shares by a subsidiary	—	136
Investment income	111	89
<b>Profit from ordinary activities before taxation</b>	<b>59,606</b>	<b>35,041</b>
Taxation	(17,815)	(10,645)
<b>Profit from ordinary activities after taxation</b>	<b>41,791</b>	<b>24,396</b>
Minority interests	(5,772)	(1,972)
<b>Profit attributable to shareholders</b>	<b>36,019</b>	<b>22,424</b>

Assets and liabilities dedicated to a particular segment's operations are included in that segment's total assets and liabilities. Assets which benefit more than one segment or are considered to be corporate assets are not allocated. "Unallocated assets" consists primarily of cash and cash equivalents, time deposits with financial institutions, investments and deferred tax assets. "Unallocated liabilities" consists primarily of short-term and long-term debts, loans from Sinopec Group Company and fellow subsidiaries, income tax payable, deferred tax liabilities and other liabilities.

Interests in and earnings from associates are included in the segments in which the associates operate. Information on associates is included in Note 21. Additions to long-lived assets by operating segment are included in Notes 17 and 18.

	2004	2003
	RMB millions	RMB millions
<b>Assets</b>		
<b>Segment assets</b>		
— Exploration and production	110,509	101,303
— Refining	111,878	96,839
— Marketing and distribution	93,722	73,942
— Chemicals	105,032	101,130
— Corporate and others	17,574	14,445
<b>Total segment assets</b>	<b>438,715</b>	<b>387,659</b>
Interests in associates		
— Exploration and production	1,396	1,233
— Refining	314	136
— Marketing and distribution	2,410	1,815
— Chemicals	4,315	3,517
— Corporate and others	1,787	1,420
<b>Aggregate interests in associates</b>	<b>10,222</b>	<b>8,121</b>
<b>Unallocated assets</b>	<b>25,657</b>	<b>24,404</b>
<b>Total assets</b>	<b>474,594</b>	<b>420,184</b>
<b>Liabilities</b>		
<b>Segment liabilities</b>		
— Exploration and production	16,241	15,733
— Refining	28,130	25,729
— Marketing and distribution	23,419	21,091
— Chemicals	16,528	18,951
— Corporate and others	15,547	10,022
<b>Total segment liabilities</b>	<b>99,865</b>	<b>91,526</b>
<b>Unallocated liabilities</b>	<b>150,643</b>	<b>131,092</b>
<b>Total liabilities</b>	<b>250,508</b>	<b>222,618</b>

## NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2004

### 35 SEGMENTAL REPORTING (Continued)

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 year.

	2004	2003
	RMB millions	RMB millions
<b>Capital expenditure</b>		
Exploration and production	21,234	20,628
Refining	14,272	9,788
Marketing and distribution	16,678	6,826
Chemicals	11,025	7,680
Corporate and others	1,550	518
	<b>64,759</b>	<b>45,440</b>
<b>Capital expenditure of jointly controlled entities</b>		
Exploration and production	1,323	1,200
Chemicals	5,178	2,993
	<b>6,501</b>	<b>4,193</b>
<b>Depreciation, depletion and amortisation</b>		
Exploration and production	12,066	9,413
Refining	7,730	6,434
Marketing and distribution	2,759	2,431
Chemicals	9,325	9,149
Corporate and others	462	524
	<b>32,342</b>	<b>27,951</b>
<b>Impairment losses on long-lived assets recognised in income statement</b>		
Exploration and production	98	310
Refining	14	114
Marketing and distribution	1,769	—
Chemicals	2,038	453
	<b>3,919</b>	<b>877</b>
<b>Impairment losses on long-lived assets recognised in shareholders' funds</b>		
Chemicals	709	—

### 36 PRINCIPAL SUBSIDIARIES

At 31 December 2004, the following list contains the particulars of subsidiaries which principally affected the results or assets of the Group.

Name of company	Particulars of issued capital (millions)	Type of legal entity	Percentage of equity		Principal activities
			held by the Company %	held by Subsidiary %	
China Petrochemical International Company Limited	RMB 1,400	Limited company	100.00	—	Trading of crude oil and petrochemical products
Sinopec Beijing Yanhua Petrochemical Company Limited	RMB 3,374	Limited company	70.01	—	Manufacturing of chemical products
Sinopec Sales Company Limited	RMB 1,700	Limited company	100.00	—	Marketing and distribution of refined petroleum products
Sinopec Shengli Oilfield Company Limited	RMB 29,000	Limited company	100.00	—	Exploration and production of crude oil and natural gas
Sinopec Fujian Petrochemical Company Limited (i)	RMB 2,253	Limited company	50.00	—	Manufacturing of plastics, intermediate petrochemical products and petroleum products
Sinopec Qilu Petrochemical Company Limited	RMB 1,950	Limited company	82.05	—	Manufacturing of intermediate petrochemical products and petroleum products
Sinopec Shanghai Petrochemical Company Limited	RMB 7,200	Limited company	55.56	—	Manufacturing of synthetic fibres, resin and plastics, intermediate petrochemical products and petroleum products
Sinopec Shijiazhuang Refining-Chemical Company Limited	RMB 1,154	Limited company	79.73	—	Manufacturing of intermediate petrochemical products and petroleum products
Sinopec Kantons Holdings Limited	HK\$104	Limited company	—	72.40	Trading of crude oil and petroleum products
Sinopec Wuhan Petroleum Group Company Limited (i)	RMB 147	Limited company	46.25	—	Marketing and distribution of refined petroleum products
Sinopec Wuhan Phoenix Company Limited (i)	RMB 519	Limited company	40.72	—	Manufacturing of petrochemical products and petroleum products
Sinopec Yangzi Petrochemical Company Limited	RMB 2,330	Limited company	84.98	—	Manufacturing of intermediate petrochemical products and petroleum products

## NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2004

### 36 PRINCIPAL SUBSIDIARIES (Continued)

Name of company	Particulars of issued capital (millions)	Type of legal entity	Percentage of equity held by the Company %	Percentage of equity held by Subsidiary %	Principal activities
Sinopec Yizheng Chemical Fibre Company Limited (i)	RMB 4,000	Limited company	42.00	—	Production and sale of polyester chips and polyester fibres
Sinopec Zhenhai Refining and Chemical Company Limited	RMB 2,524	Limited company	71.32	—	Manufacturing of intermediate petrochemical products and petroleum products
Sinopec Zhongyuan Petroleum Company Limited	RMB 875	Limited company	70.85	—	Exploration and production of crude oil and natural gas
Zhongyuan Petrochemical Company Limited	RMB 2,400	Limited company	93.51	—	Manufacturing of chemical products
Sinopec Shell (Jiangsu) Petroleum Marketing Company Limited	RMB 455	Limited company	60.00	—	Marketing and distribution of refined petroleum products
BP Sinopec (Zhejiang) Petroleum Company Limited	RMB 647	Limited company	60.00	—	Marketing and distribution of refined petroleum products

Except for Sinopec Kantons Holdings Limited, which is incorporated in Bermuda, all of the above principal subsidiaries are incorporated in the PRC.

(i) The Group consolidated the results of the entity because the Group controlled the board of this entity and had the power to govern its financial and operating policies.

### 37 FINANCIAL INSTRUMENTS

Financial assets of the Group include cash and cash equivalents, time deposits with financial institutions, investments, trade accounts receivable, bills receivable, amounts due from Sinopec Group Company and fellow subsidiaries, advances to third parties, amounts due from associates, and other receivables. Financial liabilities of the Group include bank and other loans, loans from Sinopec Group Company and fellow subsidiaries, trade accounts payable, bills payable, amounts due to Sinopec Group Company and fellow subsidiaries, receipts in advance, and advances from third parties. The Group has no derivative instruments that are designated and qualified as hedging instruments at 31 December 2004 and 2003.

#### Credit risk

The carrying amounts of cash and cash equivalents, time deposits with financial institutions, trade accounts and bills receivables, and other current assets, except for prepayments, represent the Group's maximum exposure to credit risk in relation to financial assets.

The majority of the Group's trade accounts receivable relate to sales of petroleum and chemical products to related parties and third parties operating in the petroleum and chemical industries. The Group performs ongoing credit evaluations of its customers' financial condition and generally does not require collateral on trade accounts receivable. The Group maintains an allowance for doubtful accounts and actual losses have been within management's expectations. No single customer accounted for greater than 10% of total revenues.

No other financial assets carry a significant exposure to credit risk.

#### Currency risk

Substantially all of the revenue-generating operations of the Group are transacted in Renminbi, which is not fully convertible into foreign currencies. On 1 January 1994, the PRC government abolished the dual rate system and introduced a single rate of exchange as quoted by the People's Bank of China. However, the unification of the exchange rate does not imply convertibility of Renminbi into United States dollars or other foreign currencies. All foreign exchange transactions continue to take place either through the People's Bank of China or other banks authorised to buy and sell foreign currencies at the exchange rates quoted by the People's Bank of China. Approval of foreign currency payments by the People's Bank of China or other institutions requires submitting a payment application form together with suppliers' invoices, shipping documents and signed contracts.

#### Interest rate risk

The interest rates and terms of repayment of short-term and long-term debts of the Group are disclosed in Note 28.

The disclosures of the fair value estimates, methods and assumptions, set forth below for the Group's financial instruments, are made to comply with the requirements of IAS 32 and IAS 39 and should be read in conjunction with the Group's consolidated financial statements and related notes. The estimated fair value amounts have been determined by the Group using market information and valuation methodologies considered appropriate. However, considerable judgment is required to interpret market data to develop the estimates of fair value. Accordingly, the estimates presented herein are not necessarily indicative of the amounts the Group could realise in a current market exchange. The use of different market assumptions and/or estimation methodologies may have a material effect on the estimated fair value amounts.

The Group has not developed an internal valuation model necessary to make the estimate of the fair value of loans from Sinopec Group Company and fellow subsidiaries as it is not considered practicable to estimate their fair value because the cost of obtaining discount and borrowing rates for comparable borrowings would be excessive based on the Reorganisation of the Group, its existing capital structure, and the terms of the borrowings.

## NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2004

### 37 FINANCIAL INSTRUMENTS (Continued)

The following table presents the carrying amount and fair value of the Group's long-term indebtedness other than loans from Sinopec Group Company and fellow subsidiaries at 31 December 2004 and 2003:

	2004	2003
	RMB millions	RMB millions
Carrying amount	73,120	57,448
Fair value	73,263	57,546

The fair value of long-term indebtedness is estimated by discounting future cash flows thereon using current market interest rates offered to the Group for debts with substantially the same characteristics and maturities.

Investments in unlisted equity securities have no quoted market prices in the PRC. Accordingly, a reasonable estimate of fair value could not be made without incurring excessive costs.

The fair values of all other financial instruments approximate their carrying amounts due to the nature or short-term maturity of these instruments.

### 38 POST BALANCE SHEET EVENT

On 29 December 2004, the Group announced its proposal to privatise Sinopec Beijing Yanhua Petrochemical Company Limited ("Beijing Yanhua"), a non-wholly owned subsidiaries in which the Group holds approximately 70% of the equity interests. According to the proposal, the Group will acquire the entire 1,012,000,000 H shares, representing approximately 30% of the issued share capital of Beijing Yanhua at HK\$ 3.80 per share. The total consideration required to be paid by the Group was approximately HK\$ 3,846 million which will be settled in cash.

Pursuant to the resolution passed in the Special General Meeting of Beijing Yanhua on 4 March 2005, the shareholders of the H shares in Beijing Yanhua agreed to dispose of and sell their shares in Beijing Yanhua to the Group at the above mentioned price, subject to the approval from the relevant PRC governmental and regulatory bodies.

### 39 ULTIMATE HOLDING COMPANY

The directors consider the ultimate holding company of the Group at 31 December 2004 to be Sinopec Group Company, a state-owned enterprise established in the PRC.

## (C) DIFFERENCES BETWEEN FINANCIAL STATEMENTS PREPARED UNDER THE PRC ACCOUNTING RULES AND REGULATIONS AND IFRS

Other than the differences in the classifications of certain financial statements captions and the accounting for the items described below, there are no material differences between the Group's financial statements prepared under the PRC Accounting Rules and Regulations and IFRS. The major differences are:

### (i) Disposal of oil and gas properties

Under the PRC Accounting Rules and Regulations, gains and losses arising from the retirement or disposal of an individual item of oil and gas properties are recognised as income or expense in the income statement and are measured as the difference between the estimated net disposal proceeds and the carrying amount of the asset.

Under IFRS, gains and losses on the retirement or disposal of an individual item of proved oil and gas properties are not recognised unless the retirement or disposal encompasses an entire property. The costs of the asset abandoned or retired are charged to accumulated depreciation with the proceeds received on disposals credited to the carrying amounts of oil and gas properties.

### (ii) Acquisitions of Sinopec National Star, Sinopec Maoming, Xi'an Petrochemical, Tahe Petrochemical, Tianjin Petrochemical, Luoyang Petrochemical, Zhongyuan Petrochemical and Catalyst Plants

Under the PRC Accounting Rules and Regulations, the acquisitions of Sinopec National Star, Sinopec Maoming, Xi'an Petrochemical, Tahe Petrochemical, Tianjin Petrochemical, Luoyang Petrochemical, Zhongyuan Petrochemical and Catalyst Plants (the "Acquisitions") are accounted for by the acquisition method. Under the acquisition method, the income of an acquiring enterprise includes the operations of the acquired enterprise subsequent to the acquisition. The difference between the cost of acquiring Sinopec National Star and the fair value of the net assets acquired is capitalised as an exploration and production right, which is amortised over 27 years. The costs of acquiring Sinopec Maoming, Xi'an Petrochemical, Tahe Petrochemical, Tianjin Petrochemical, Luoyang Petrochemical, Zhongyuan Petrochemical and Catalyst Plants approximated the fair value of the net assets acquired.

Under IFRS, as the Group, Sinopec National Star, Sinopec Maoming, Xi'an Petrochemical, Tahe Petrochemical, Tianjin Petrochemical, Luoyang Petrochemical, Zhongyuan Petrochemical and Catalyst Plants are under the common control of Sinopec Group Company, the Acquisitions are considered "combination of entities under common control" which are accounted in a manner similar to a pooling-of-interests ("as-if pooling-of-interests accounting"). Accordingly, the assets and liabilities of Sinopec National Star, Sinopec Maoming, Xi'an Petrochemical, Tahe Petrochemical, Tianjin Petrochemical, Luoyang Petrochemical, Zhongyuan Petrochemical and Catalyst Plants acquired have been accounted for at historical cost and the financial statements of the Group for periods prior to the Acquisitions have been restated to include the financial condition and results of operations of Sinopec National Star, Sinopec Maoming, Xi'an Petrochemical, Tahe Petrochemical, Tianjin Petrochemical, Luoyang Petrochemical, Zhongyuan Petrochemical and Catalyst Plants on a combined basis. The considerations paid by the Group are treated as equity transactions.

### (iii) Depreciation of oil and gas properties

Under the PRC Accounting Rules and Regulations, oil and gas properties are depreciated on a straight-line basis. Under IFRS, oil and gas properties are depreciated on the unit of production method.

### (iv) Impairment losses on revalued assets

Under the PRC Accounting Rules and Regulations, impairment losses on property, plant and equipment are recognised as expense in the income statement. Under IFRS, impairment loss on a revalued asset is recognised directly against any related revaluation reserve to the extent that the impairment loss does not exceed the amount held in the revaluation reserve for that same asset.

### (v) Capitalisation of general borrowing costs

Under the PRC Accounting Rules and Regulations, only borrowing costs on funds that are specifically borrowed for construction are capitalised as part of the cost of property, plant and equipment. Under IFRS, to the extent that funds are borrowed generally and used for the purpose of obtaining a qualifying asset, the borrowing costs should be capitalised as part of the cost of that asset.

### (vi) Revaluation of land use rights

Under the PRC Accounting Rules and Regulations, land use rights are carried at revalued amount. Under IFRS, land use rights are carried at historical cost less amortisation. Accordingly, the surplus on the revaluation of land use rights, credited to revaluation reserve, was eliminated.

### (vii) Government grants

Under the PRC Accounting Rules and Regulations, government grants should be credited to capital reserve. Under IFRS, government grants relating to the purchase of equipment used for technology improvements are initially recorded as long term liabilities and are offset against the cost of assets to which the grants related when construction commences. Upon transfer to property, plant and equipment, the grants are recognised as an income over the useful life of the property, plant and equipment by way of reduced depreciation charge.

### (viii) Unrecognised losses of subsidiaries

Under the PRC Accounting Rules and Regulations, the results of subsidiaries are included in the Group's consolidated income statement to the extent that the subsidiaries' accumulated losses do not result in their carrying amount being reduced below zero, without the effect of minority interests. Further losses are debited to a separate reserve in the shareholders' funds.

Under IFRS, the results of subsidiaries are included in the Group's consolidated income statement from the date that control effectively commences until the date that control effectively ceases.

### (ix) Pre-operating expenditures

Under the PRC Accounting Rules and Regulations, expenditures incurred during the start-up period are aggregated in long-term deferred expenses and charged to the income statement when operations commence. Under IFRS, expenditures on start-up activities are recognised as an expense when they are incurred.

### (x) Gain from issuance of shares by a subsidiary

Under the PRC Accounting Rules and Regulations, the increase in the Company's share of net assets of a subsidiary after the sale of additional shares by the subsidiary is credited to capital reserve. Under IFRS, such increase is recognised as income.

**(C) DIFFERENCES BETWEEN FINANCIAL STATEMENTS PREPARED UNDER THE PRC ACCOUNTING RULES AND REGULATIONS AND IFRS (CONTINUED)**

**(xi) Gain from debt restructuring**

Under the PRC Accounting Rules and Regulations, gain from debt restructuring resulting from the difference between the carrying amount of liabilities extinguished or assumed by other parties and the amount paid is credited to capital reserve. Under IFRS, the gain resulting from such difference is recognised as income.

**(xii) Impairment losses on long-lived assets**

Under the PRC Accounting Rules and Regulations and IFRS, impairment charges are recognised when the carrying value of long-lived assets exceeds the higher of their net selling price and the value in use which incorporates discounting the asset's estimated future cash flows. Due to the difference in the depreciation method of oil and gas properties discussed in (iii) above, the provision for impairment losses and reversal of impairment loss under the PRC Accounting Rules and Regulations are measured differently from the amounts recorded under IFRS.

Effects of major differences between the PRC Accounting Rules and Regulations and IFRS on net profit are analysed as follows:

	Note	2004 RMB millions	2003 RMB millions
Net profit under the PRC Accounting Rules and Regulations		32,275	19,011
Adjustments:			
Disposal of oil and gas properties, net of depreciation effect	(i)	2,110	1,260
Acquisitions of Sinopec Maoming, Xi'an Petrochemical, Tahe Petrochemical, Tianjin Petrochemical, Luoyang Petrochemical, Zhongyuan Petrochemical and Catalyst Plants	(ii)	1,499	1,157
Acquisition of Sinopec National Star	(ii)	117	117
Depreciation of oil and gas properties	(iii)	761	1,784
Impairment losses on revalued assets	(iv)	709	—
Capitalisation of general borrowing costs	(v)	480	389
Revaluation of land use rights	(vi)	19	18
Government grants	(vii)	3	—
Unrecognised losses of subsidiaries	(viii)	(531)	(182)
Pre-operating expenditures	(ix)	(288)	(169)
Gain from issuance of shares by a subsidiary	(x)	—	136
Gain from debt restructuring	(xi)	—	82
Effects of the above adjustments on taxation		(1,135)	(1,179)
<b>Net profit under IFRS*</b>		<b>36,019</b>	<b>22,424</b>

Effects of major differences between the PRC Accounting Rules and Regulations and IFRS on shareholders' funds are analysed as follows:

	Note	2004 RMB millions	2003 RMB millions
Shareholders' funds under the PRC Accounting Rules and Regulations		186,350	162,946
Adjustments:			
Disposal of oil and gas properties	(i)	3,370	1,260
Acquisitions of Tianjin Petrochemical, Luoyang Petrochemical, Zhongyuan Petrochemical and Catalyst Plants	(ii)	—	3,616
Acquisition of Sinopec National Star	(ii)	(2,695)	(2,812)
Depreciation of oil and gas properties	(iii)	11,646	10,885
Capitalisation of general borrowing costs	(v)	1,605	1,125
Revaluation of land use rights	(vi)	(851)	(870)
Government grants	(vii)	(592)	(326)
Effect of minority interests on unrecognised losses of subsidiaries	(viii)	—	61
Pre-operating expenditures	(ix)	(457)	(169)
Impairment losses on long-lived assets	(xii)	(113)	(113)
Effects of the above adjustments on taxation		(5,223)	(4,088)
<b>Shareholders' funds under IFRS *</b>		<b>193,040</b>	<b>171,515</b>

\* The above figure is extracted from the financial statements prepared in accordance with IFRS which have been audited by KPMG.



The Group's accounting policies conform with IFRS which differ in certain significant respects from accounting principles generally accepted in the United States of America ("US GAAP"). Information relating to the nature and effect of such differences are set out below. The US GAAP reconciliation presented below is included as supplemental information, is not required as part of the basic financial statements and does not include differences related to classification, display or disclosures.

**(a) Foreign exchange gains and losses**

In accordance with IFRS, foreign exchange differences on funds borrowed for construction are capitalised as property, plant and equipment to the extent that they are regarded as an adjustment to interest costs during the construction period. Under US GAAP, all foreign exchange gains and losses on foreign currency debts are included in current earnings. Accordingly, the US GAAP adjustments represent the amortisation effect of such originating adjustments described above.

**(b) Capitalisation of property, plant and equipment**

In the years prior to those presented herein, certain adjustments arose between IFRS and US GAAP with regard to the capitalisation of interest and pre-production results under IFRS that were reversed and expensed under US GAAP. For the years presented herein, there were no adjustments related to the capitalisation of interest and pre-production results. Accordingly, the US GAAP adjustments represent the amortisation effect of such originating adjustments described above.

**(c) Revaluation of property, plant and equipment**

As required by the relevant PRC regulations with respect to the Reorganisation, the property, plant and equipment of the Group were revalued at 30 September 1999. In addition, the property, plant and equipment of Sinopec National Star, Sinopec Maoming, Refining Assets, and Petrochemical and Catalyst Assets were revalued at 31 December 2000, 30 June 2003, 31 October 2003 and 30 June 2004, respectively, in connection with the Acquisitions. Under IFRS, such revaluations result in an increase in shareholders' funds with respect to the increase in carrying amount of certain property, plant and equipment above their historical cost bases and a charge to income with respect to the reduction in carrying amount of certain property, plant and equipment below their historical cost bases.

Under US GAAP, property, plant and equipment are stated at their historical cost less accumulated depreciation. However, as a result of the tax deductibility of the net revaluation surplus, a deferred tax asset related to the reversal of the revaluation surplus is created under US GAAP with a corresponding increase in shareholders' funds.

In addition, under IFRS, on disposal of a revalued asset, the related revaluation surplus is transferred from the revaluation reserve to retained earnings. Under US GAAP, the gain and loss on disposal of an asset is determined with reference to the asset's historical carrying amount and included in current earnings.

**(d) Exchange of assets**

During 2002, the Company and Sinopec Group Company entered into an asset swap transaction. Under IFRS, the cost of property, plant and equipment acquired in an exchange for a dissimilar item of property, plant and equipment is measured at fair value. Under US GAAP, as the exchange of assets was between entities under common control, the assets received from Sinopec Group Company are measured at historical cost. The difference between the historical cost of the net assets transferred and the net assets received is accounted for as an equity transaction. Accordingly, the US GAAP adjustments represent the amortisation effect of such originating adjustments described above.

**(e) Impairment of long-lived assets**

Under IFRS, impairment charges are recognised when a long-lived asset's carrying amount exceeds the higher of an asset's net selling price and value in use, which incorporates discounting the asset's estimated future cash flows.

Under US GAAP, determination of the recoverability of a long-lived asset is based on an estimate of undiscounted future cash flows resulting from the use of the asset and its eventual disposition. If the sum of the expected future cash flows is less than the carrying amount of the asset, an impairment loss is recognised. Measurement of an impairment loss for a long-lived asset is based on the fair value of the asset.

In addition, under IFRS, a subsequent increase in the recoverable amount of an asset is reversed to the consolidated income statement to the extent that an impairment loss on the same asset was previously recognised as an expense when the circumstances and events that led to the write-down or write-off cease to exist. The reversal is reduced by the amount that would have been recognised as depreciation had the write-off not occurred. Under US GAAP, an impairment loss establishes a new cost basis for the impaired asset and the new cost basis should not be adjusted subsequently other than for further impairment losses.

The US GAAP adjustment represents the effect of reversing the recovery of previous impairment charges recorded under IFRS.

**(f) Capitalised interest on investment in associates**

Under IFRS, investment accounted for by the equity method is not considered a qualifying asset for which interest is capitalised. Under US GAAP, an investment accounted for by the equity method while the investee has activities in progress necessary to commence its planned principal operations, provided that the investee's activities include the use of funds to acquire qualifying assets for its operations, is a qualifying asset for which interest is capitalised.

**(g) Goodwill amortisation**

Under IFRS, goodwill and negative goodwill are amortised on a systematic basis over their useful lives.

Under US GAAP, with reference to Statement of Financial Accounting Standards No.142, "Goodwill and Other Intangible Assets" ("SFAS No.142"), goodwill is no longer amortised beginning 1 January 2002. Instead, goodwill is reviewed for impairment upon adoption of SFAS No.142 and annually thereafter.

**(h) Companies included in consolidation**

Under IFRS, the Group consolidates less than majority owned entities in which the Group has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities, and proportionately consolidates jointly controlled entities in which the Group has joint control with other venturers. However, US GAAP requires that any entity of which the Group owns 20% to 50% of total outstanding voting stock not be consolidated nor proportionately consolidated, but rather be accounted for under the equity method. Accordingly, certain of the Group's subsidiaries, of which the Group owns between 40.72% to 50% of the outstanding voting stock, and the Group's jointly controlled entities are not consolidated nor proportionately consolidated under US GAAP and instead accounted for under the equity method. This exclusion does not affect the profit attributable to shareholders or shareholders' funds reconciliations between IFRS and US GAAP.

Presented below is summarised financial information prepared in accordance with US GAAP of such subsidiaries and jointly controlled entities.

	Years ended 31 December	
	2004	2003
	RMB millions	RMB millions
Revenues	28,004	21,735
Profit before taxation	1,373	1,329
Net profit	969	1,090

	At 31 December	
	2004	2003
	RMB millions	RMB millions
Current assets	7,084	4,986
Total assets	41,213	27,607
Current liabilities	7,222	5,902
Total liabilities	16,452	9,238
Total equity	24,761	18,369

**(i) Related party transactions**

Under IFRS, transactions of state-controlled enterprises with other state-controlled enterprises are not required to be disclosed as related party transactions. Furthermore, government departments and agencies are deemed not to be related parties to the extent that such dealings are in the normal course of business. Therefore, related party transactions as disclosed in Note 33 in the financial statements prepared under IFRS only refers to transactions with enterprises over which Sinopec Group Company is able to exercise significant influence.

Under US GAAP, there are no similar exemptions. Although the majority of the Group's activities are with PRC government authorities and affiliates and other PRC state-owned enterprises, the Group believes that it has provided meaningful disclosure of related party transactions in Note 33 to the financial statements prepared under IFRS.

**(j) Recently issued accounting standards****SFAS No. 123R**

In December 2004, the FASB issued SFAS No. 123 (revised 2004), "Share-based payment". SFAS No. 123R addresses the accounting for share-based payment transactions in which an enterprise receives employee services in exchange for equity instruments of the enterprise or liabilities that are based on the fair value of the enterprise's equity instruments or that may be settled by the issuance of such equity instruments. SFAS No. 123R requires an entity to recognize the grant-date fair-value of stock options and other equity-based compensation issued to employees in the income statement. The revised statement generally requires that an entity account for those transactions using the fair-value-based method, and eliminates an entity's ability to account for share-based compensation transactions using the intrinsic value method of accounting, which was permitted under Statement 123, as originally issued. For the Group, SFAS No. 123R is effective for fiscal years beginning after 15 June 2005. Currently, the Group does not expect the application of this statement will have a material impact on its consolidated financial statements.

**SFAS No. 151**

In November 2004, the FASB issued SFAS No. 151, "Inventory costs". SFAS No. 151 clarifies accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage). The statement requires that those items be recognised as current period charges. Additionally, SFAS No. 151 requires that allocation of fixed production overheads to the costs of conversion based on normal capacity of the production facilities. For the Group, SFAS No. 151 is effective for fiscal years beginning after 15 June 2005. Currently, the Group does not expect the application of this statement will have a material impact on its consolidated financial statements.

**SFAS No. 153**

In December 2004, the FASB issued No. 153, "Exchanges of Non-monetary Assets". SFAS No. 153 addresses the accounting for non-monetary exchanges of productive assets. The statement requires non-monetary exchanges to be accounted for at fair value, recognising any gains or losses, if the fair value is determinable within reasonable limits and the transaction has commercial substance. For the Group, SFAS No. 153 is effective for fiscal years beginning after 15 June 2005. Currently, the Group does not expect the application of this statement will have a material impact on its consolidated financial statements.

The effect on profit attributable to shareholders of significant differences between IFRS and US GAAP is as follows:

	Reference in note above	Years ended 31 December		
		2004 US\$ millions	2004 RMB millions	2003 RMB millions
Profit attributable to shareholders under IFRS		4,352	36,019	22,424
US GAAP adjustments:				
Foreign exchange gains and losses	(a)	7	57	76
Capitalisation of property, plant and equipment	(b)	1	12	12
Reversal of deficit on revaluation of property, plant and equipment, net of depreciation effect	(c)	(1)	(8)	86
Depreciation on revalued property, plant and equipment	(c)	462	3,825	3,998
Disposal of property, plant and equipment	(c)	228	1,891	1,316
Exchange of assets	(d)	3	23	23
Reversal of impairment of long-lived assets, net of depreciation effect	(e)	4	29	47
Capitalised interest on investments in associates	(f)	25	205	141
Goodwill amortisation for the year	(g)	1	7	—
Deferred tax effect of US GAAP adjustments		(252)	(2,085)	(1,715)
<b>Profit attributable to shareholders under US GAAP</b>		<b>4,830</b>	<b>39,975</b>	<b>26,408</b>
<b>Basic and diluted earnings per share under US GAAP</b>		<b>US\$0.06</b>	<b>RMB0.46</b>	<b>RMB0.30</b>
<b>Basic and diluted earnings per ADS under US GAAP*</b>		<b>US\$5.57</b>	<b>RMB46.11</b>	<b>RMB30.46</b>

\* Basic and diluted earnings per ADS is calculated on the basis that one ADS is equivalent to 100 shares.

The effect on shareholders' funds of significant differences between IFRS and US GAAP is as follows:

	Reference in note above	At 31 December		
		2004 US\$ millions	2004 RMB millions	2003 RMB millions
Shareholders' funds under IFRS		23,324	193,040	171,515
US GAAP adjustments:				
Foreign exchange gains and losses	(a)	(36)	(295)	(352)
Capitalisation of property, plant and equipment	(b)	—	—	(12)
Revaluation of property, plant and equipment	(c)	(820)	(6,783)	(12,943)
Deferred tax adjustments on revaluation	(c)	254	2,101	4,004
Exchange of assets	(d)	(64)	(532)	(555)
Reversal of impairment of long-lived assets	(e)	(64)	(532)	(561)
Capitalised interest on investments in associates	(f)	64	526	321
Goodwill	(g)	3	24	17
Deferred tax effect of US GAAP adjustments		36	301	398
<b>Shareholders' funds under US GAAP</b>		<b>22,697</b>	<b>187,850</b>	<b>161,832</b>

Note: United States dollar equivalents

For the convenience of readers, amounts in Renminbi have been translated into United States dollars at the rate of US\$1.00 = RMB8.2765 being the noon buying rate in New York City on 31 December 2004 for cable transfers in Renminbi as certified for customs purposes by the Federal Reserve Bank of New York. No representation is made that the Renminbi amounts could have been, or could be, converted into United States dollars at that rate.

## (E) SUPPLEMENTAL INFORMATION ON OIL AND GAS PRODUCING ACTIVITIES (UNAUDITED)

In accordance with the United States Statement of Financial Accounting Standards No. 69, "Disclosures about Oil and Gas Producing Activities" ("SFAS No. 69"), this section provides supplemental information on oil and gas exploration and producing activities of the Group at 31 December 2004 and 2003, and for the years then ended in the following six separate tables. Tables I through III provide historical cost information under US GAAP pertaining to capitalised costs related to oil and gas producing activities; costs incurred in exploration and development; and results of operations related to oil and gas producing activities. Tables IV through VI present information on the Group's estimated net proved reserve quantities; standardised measure of discounted future net cash flows; and changes in the standardised measure of discounted future net cash flows.

**Table I: Capitalised costs related to oil and gas producing activities**

	2004	2003
	RMB millions	RMB millions
Property cost	—	—
Wells and related equipment and facilities	158,422	143,492
Supporting equipment and facilities	12,324	13,140
Uncompleted wells, equipment and facilities	9,262	5,535
<b>Total capitalised costs</b>	<b>180,008</b>	<b>162,167</b>
Accumulated depreciation, depletion, amortisation and impairment allowances	(79,541)	(70,726)
<b>Net capitalised costs</b>	<b>100,467</b>	<b>91,441</b>

**Table II: Cost incurred in exploration and development**

	2004	2003
	RMB millions	RMB millions
Exploration	8,272	8,109
Development	20,681	19,852
<b>Total cost incurred</b>	<b>28,953</b>	<b>27,961</b>

**Table III: Results of operations for oil and gas producing activities**

	2004	2003
	RMB millions	RMB millions
Revenues		
Sales	11,833	11,850
Transfers	60,053	47,287
	<b>71,886</b>	<b>59,137</b>
Production costs excluding taxes	(17,182)	(16,187)
Exploration expenses	(6,396)	(6,133)
Depreciation, depletion, amortisation and impairment provisions	(11,457)	(8,684)
Taxes other than income tax	(1,144)	(970)
<b>Income before income tax</b>	<b>35,707</b>	<b>27,163</b>
Income tax expense	(11,783)	(8,964)
<b>Results of operations from producing activities</b>	<b>23,924</b>	<b>18,199</b>

The results of operations for producing activities for the years ended 31 December 2004 and 2003 are shown above. Revenues include sales to unaffiliated parties and transfers (essentially at third-party sales prices) to other segments of the Group. All revenues reported in this table do not include royalties to others as there were none. In accordance with SFAS No. 69, income taxes are based on statutory tax rates, reflecting allowable deductions and tax credits. General corporate overhead and interest income and expense are excluded from the results of operations.

**Table IV: Reserve quantities information**

The Group's estimated net proved underground oil and gas reserves and changes thereto for the years ended 31 December 2004 and 2003 are shown in the following table.

Proved oil and gas reserves are the estimated quantities of crude oil, natural gas, and natural gas liquids which geological and engineering data demonstrate with reasonable certainty to be recoverable in future years from known reservoirs under existing economic and operating conditions, i.e., prices and costs as of the date the estimate is made. Prices include consideration of changes in existing prices provided only by contractual arrangements, but not on escalations based upon future conditions. Due to the inherent uncertainties and the limited nature of reservoir data, estimates of underground reserves are subject to change as additional information becomes available.

Proved reserves do not include additional quantities recoverable beyond the term of the relevant production licenses, or that may result from extensions of currently proved areas, or from application of improved recovery processes not yet tested and determined to be economical. The Group's estimated proved reserves do not include any quantities that are recoverable through application of tertiary recovery techniques.

**Table IV: Reserve quantities information (continued)**

Proved developed reserves are the quantities expected to be recovered through existing wells with existing equipment and operating methods.

“Net” reserves exclude royalties and interests owned by others and reflect contractual arrangements in effect at the time of the estimate.

	2004	2003
<b>Proved developed and undeveloped reserves (oil) (million barrels)</b>		
Beginning of year	3,257	3,320
Revisions of previous estimates	23	(81)
Improved recovery	127	143
Extensions and discoveries	134	146
Production	(274)	(271)
<b>End of year</b>	<b>3,267</b>	<b>3,257</b>
<b>Proved developed reserves</b>		
<b>Beginning of year</b>	<b>2,786</b>	<b>2,732</b>
<b>End of year</b>	<b>2,808</b>	<b>2,786</b>
<b>Proved developed and undeveloped reserves (gas) (billion cubic feet)</b>		
Beginning of year	2,888	3,329
Revisions of previous estimates	(95)	(649)
Extensions and discoveries	447	396
Production	(207)	(188)
<b>End of year</b>	<b>3,033</b>	<b>2,888</b>
<b>Proved developed reserves</b>		
<b>Beginning of year</b>	<b>1,249</b>	<b>1,056</b>
<b>End of year</b>	<b>1,398</b>	<b>1,249</b>

**Table V: Standardised measure of discounted future net cash flows**

The standardised measure of discounted future net cash flows, related to the above proved oil and gas reserves, is calculated in accordance with the requirements of SFAS No. 69. Estimated future cash inflows from production are computed by applying year-end prices for oil and gas to year-end quantities of estimated net proved reserves. Future price changes are limited to those provided by contractual arrangements in existence at the end of each reporting year. Future development and production costs are those estimated future expenditures necessary to develop and produce year-end estimated proved reserves based on year-end cost indices, assuming continuation of year-end economic conditions. Estimated future income taxes are calculated by applying appropriate year-end statutory tax rates to estimated future pre-tax net cash flows, less the tax basis of related assets. Discounted future net cash flows are calculated using 10% midperiod discount factors. This discounting requires a year-by-year estimate of when the future expenditure will be incurred and when the reserves will be produced.

The information provided does not represent management's estimate of the Group's expected future cash flows or value of proved oil and gas reserves. Estimates of proved reserve quantities are imprecise and change over time as new information becomes available. Moreover, probable and possible reserves, which may become proved in the future, are excluded from the calculations. The arbitrary valuation prescribed under SFAS No. 69 requires assumptions as to the timing and amount of future development and production costs. The calculations are made for the years ended 31 December 2004 and 2003 and should not be relied upon as an indication of the Group's future cash flows or value of its oil and gas reserves.

	2004	2003
	RMB millions	RMB millions
Future cash flows	1,003,511	799,658
Future production costs	(350,012)	(311,568)
Future development costs	(25,577)	(23,838)
Future income tax expenses	(174,060)	(130,224)
<b>Undiscounted future net cash flows</b>	<b>453,862</b>	<b>334,028</b>
10% annual discount for estimated timing of cash flows	(204,183)	(146,726)
<b>Standardised measure of discounted future net cash flows</b>	<b>249,679</b>	<b>187,302</b>

**Table VI: Changes in the standardised measure of discounted future net cash flows**

	2004	2003
	RMB millions	RMB millions
Sales and transfers of oil and gas produced, net of production costs	(46,145)	(41,802)
Net changes in prices and production costs	69,305	11,923
Net change due to extensions, discoveries and improved recoveries	36,209	27,721
Revisions of previous quantity estimates	2,204	(5,951)
Previously estimated development costs incurred during the year	7,148	6,865
Accretion of discount	16,176	15,242
Net change in income taxes	(22,733)	(2,992)
Others	213	(543)
<b>Net change for the year</b>	<b>62,377</b>	<b>10,463</b>

**STATUTORY NAME**

中国石油化工股份有限公司

**ENGLISH NAME**

China Petroleum &amp; Chemical Corporation

**CHINESE ABBREVIATION**

中國石化

**ENGLISH ABBREVIATION**

Sinopec Corp.

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Mr. Chen Tonghai

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**NEWSPAPERS FOR INFORMATION DISCLOSURE**

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Hong Kong Stock Exchange  
Stock name: Sinopec Corp  
Stock code: 0386

*ADSS:*

New York Stock Exchange  
Stock name: SINOPEC CORP  
Stock code: SNP

London Stock Exchange  
Stock name: SINOPEC CORP  
Stock code: SNP

*A Shares:*

Shanghai Stock Exchange  
Stock name: Sinopec Corp  
Stock code: 600028

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Overseas Auditors : KPMG Certified Public  
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## DOCUMENTS FOR INSPECTION

The following documents will be available for inspection during normal business hours after 25 March 2005 (Friday) at the statutory address of Sinopec Corp. upon requests by the relevant regulatory authorities and shareholders in accordance with the Articles of Association of Sinopec Corp. and the Company Law of the PRC:

- a) The original annual report signed by the Chairman and the President;
- b) The original audited financial statements and audited consolidated financial statements of Sinopec Corp. prepared in accordance with IFRS and the PRC Accounting Rules and Regulations for the year ended 31 December 2004 signed by the Chairman, the President, the Chief Financial Officer and the head of the accounting division of Sinopec Corp.;
- c) The original auditors' reports in respect of the above financial statements signed by the auditors;
- d) The latest Articles of Association of Sinopec Corp. and its appendices which were approved at the Annual General Meeting for the year 2003; and
- e) All the original copies of the documents and announcements Sinopec Corp. published in the newspapers stipulated by the CSRC during the reporting period.

By Order of the Board

**Chen Tonghai**  
*Chairman*

Beijing, PRC, 25 March 2005

**This annual report is published in both English and Chinese languages. The Chinese version shall prevail.**