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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, reserves and other 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 31 March 2006 and undertakes no obligation to update these statements.

IMPORTANT: THE BOARD AND THE SUPERVISORY COMMITTEE OF CHINA PETROLEUM & CHEMICAL CORPORATION (“SINOPEC CORP.”) AND ITS DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT 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 ANNUAL REPORT. MR. GAO JIAN, MR. FAN YIFEI, MR. HO TSU KWOK, CHARLES AND MR. ZHANG YOUCAI, DIRECTORS OF SINOPEC CORP., COULD NOT ATTEND THE TWENTY-FIFTH MEETING OF THE SECOND SESSION OF THE BOARD FOR REASON OF OFFICIAL DUTIES. MR. FAN YIFEI, DIRECTOR OF SINOPEC CORP., AUTHORISED MR. WANG JIMING, MR. GAO JIAN AND MR. HO TSU KWOK, CHARLES, DIRECTORS OF SINOPEC CORP., AUTHORISED MR. CHEN QINGTAI, MR. ZHANG YOUCAI, DIRECTOR OF SINOPEC CORP., AUTHORISED MR. SHI WANPENG, 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 TIANPU, PRESIDENT OF SINOPEC CORP., MR. ZHANG JIAREN, DIRECTOR & 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 a Chinese company listed in Hong Kong, New York, London and Shanghai, and is 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 turnover in 2005, 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-recognised 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.

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 2005

Items	For the year ended 31 December 2005 RMB millions
Profit before taxation	61,482
Net profit	39,558
Net profit before non-operating profits/losses	34,999
Profit from principal operations	113,714
Profit from other operations	839
Operating profit	56,856
Investment income	813
Subsidy income	9,415
Net non-operating income/expenses	5,602 (net expense)
Net cash flow from operating activities	84,963
Net decrease in cash and cash equivalents	2,636

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

Items	For the year ended 31 December 2005 (Income)/Expense RMB millions
Gain on disposal of long-term equity investments	(25)
Written back of provisions for impairment losses on assets provided in previous years	(1,115)
Non-operating expenses (excluding normal provisions on assets provided in accordance with the Accounting Regulations for Business Enterprises)	4,118
Of which: Loss on disposal of fixed assets	2,422
Employee reduction expenses	369
Donations	203
Non-operating income	(367)
Subsidy income	(9,415)
Tax effect	2,245
Total	(4,559)

PRINCIPAL FINANCIAL DATA AND INDICATORS (CONTINUED)

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

Items	Note	For the years ended 31 December		
		2005 RMB millions	2004 RMB millions	2003 RMB millions
Income from principal operations		799,115	590,632	417,191
Net profit		39,558	32,275	19,011
Earnings per share (RMB)				
Fully diluted	(i)	0.456	0.372	0.219
Weighted average	(ii)	0.456	0.372	0.219
Net cash flow from operating activities per share (RMB)		0.980	0.809	0.743
Return on net assets (%)				
Fully diluted	(iii)	18.346	17.320	11.667
Weighted average	(iv)	19.682	18.403	12.048
Return (before non-operating profits/losses) on net assets (%)				
Fully diluted		16.232	19.316	13.690
Weighted average		17.414	20.524	14.137

Items	At 31 December		
	2005 RMB millions	2004 RMB millions	2003 RMB millions
Total assets	520,572	460,081	390,213
Shareholders' funds (excluding minority interests)	215,623	186,350	162,946
Net assets per share (RMB)	2.487	2.149	1.879
Adjusted net assets per share (RMB)	2.426	2.102	1.850

Notes:

- i Fully diluted earnings per share = net profit for the year/total number of shares in issue at the end of the year
- ii 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 capitalisation 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))
- iii Fully diluted return on net assets = (net profit for the year/shareholders funds at the end of the year) x 100%

- iv Weighted average return on net assets = (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 capitalisation 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

Items	For the year ended 31 December 2005		For the year ended 31 December 2004	
	Return on net assets (%)		Return on net assets (%)	
	Fully diluted	Weighted average	Fully diluted	Weighted average
Profit from principal operations	52.74	56.58	61.83	65.70
Operating profit	26.37	28.29	33.78	35.90
Net profit	18.35	19.68	17.32	18.40
Net profit before non-operating profits/losses	16.23	17.41	19.32	20.52

Items	For the year ended 31 December 2005		For the year ended 31 December 2004	
	Earnings per share		Earnings per share	
	Fully diluted RMB	Weighted average RMB	Fully diluted RMB	Weighted average RMB
Profit from principal operations	1.312	1.312	1.329	1.329
Operating profit	0.656	0.656	0.726	0.726
Net profit	0.456	0.456	0.372	0.372
Net profit before non-operating profits/losses	0.404	0.404	0.415	0.415

(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	Unrecognised investment losses	Retained profits	Total shareholders' funds
Beginning of the year	86,702	37,121	9,558	9,558	7,000	(713)	37,124	186,350
Increase in the year	—	—	3,956	3,956	—	—	39,558	47,470
Decrease in the year	—	—	—	—	—	119	(18,316)	(18,197)
End of the year	86,702	37,121	13,514	13,514	7,000	(594)	58,366	215,623

The reasons for the changes are as follows:

- i Statutory surplus reserve at the end of 2005 was RMB 13,514 million, an increase by RMB 3,956 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 2005 in accordance with the PRC Accounting Rules and Regulations of RMB 39,558 million to the statutory surplus reserve.
- ii Statutory public welfare fund at the end of 2005 was RMB 13,514 million, an increase by RMB 3,956 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 2005 in accordance with the PRC Accounting Rules and Regulations of RMB 39,558 million to the statutory public welfare fund.
- iii Unrecognised investment losses at the end of 2005 was RMB 594 million, a decrease of RMB 119 million compared with RMB 713 million at the beginning of the year. The decrease represents a reversal of unrecognised investment losses which exceeded the carrying value of long-term equity investment.
- iv Consolidated retained profits at the end of 2005 was RMB 58,366 million, an increase by RMB 21,242 million compared with that at the beginning of the year. The increase was attributable to the realisation by Sinopec Corp. of a consolidated net profit for 2005 in accordance with the PRC Accounting Rules and Regulations of RMB 39,558 million, and taking into account of the deduction of RMB 7,912 million for the appropriation of statutory surplus reserve and statutory public welfare fund, and RMB 10,404 million declared and paid as interim dividend for 2005 and final dividend for 2004; and
- v Total shareholders' funds at the end of 2005 were RMB 215,623 million, an increase by RMB 29,273 million compared with that at the beginning of the year.

PRINCIPAL FINANCIAL DATA AND INDICATORS (CONTINUED)

(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	7,167	774	(918)	(371)	6,652
Of which: Allowance for doubtful accounts for accounts receivable	3,671	328	(503)	(356)	3,140
Allowance for doubtful accounts for other receivables	3,496	446	(415)	(15)	3,512
2 Provisions for impairment losses on short-term investments	—	—	—	—	—
3 Provisions for diminution in value of inventories	906	262	(180)	(96)	892
4 Provision for impairment losses on long-term equity investments	353	77	(17)	(86)	327
Of which: long-term equity investments	353	77	(17)	(86)	327
5 Provision for impairment losses on fixed assets	5,816	1,851	—	(1,433)	6,234
Of which: Land and buildings	331	79	—	(59)	351
Oil and gas properties	783	60	—	—	843
Oil depots, storage tanks and service stations	1,249	261	—	(593)	917
Plant, machinery, equipment, vehicles and others	3,453	1,451	—	(781)	4,123
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	—	—	—	—	—

(6) Significant changes of items in the financial statements

The table below sets forth reasons for those changes where the fluctuation was more than 30% during the reporting period, or such changes which constituted 5% or more of the total assets at the balance sheet date or more than 10% of the profit before taxation:

Items	At 31 December		Increased/(decreased)		Reasons of changes
	2005 RMB millions	2004	Amount RMB millions	Percentage (%)	
Accounts receivable	14,532	9,756	4,776	49.0	Mainly due to the increase in income from principal operations
Inventories	88,936	63,918	25,018	39.1	Due to the increase in price of crude oil and refined oil products
Deferred tax assets	5,701	4,166	1,535	36.8	Please refer to note 16 to the financial statements prepared in accordance with the PRC Accounting Rules and Regulations
Short-term loans	16,124	26,723	(10,599)	(39.7)	Please refer to note 17 to the financial statements prepared in accordance with the PRC Accounting Rules and Regulations
Accounts payable	52,967	23,792	29,175	122.6	Mainly due to the increase in processed volume of crude oil and crude oil prices, leading to increase in accounts payable in relation to crude oil procurement
Receipt in advance	14,086	8,605	5,481	63.7	Mainly due to increase in receipt in advance in relation to sales of refined oil products
Short-term debentures payable	9,921	—	9,921	N/A	Please refer to note 27 to the financial statements prepared in accordance with the PRC Accounting Rules and Regulations
Deferred tax liabilities	—	198	(198)	(100.0)	Please refer to note 16 to the financial statements prepared in accordance with the PRC Accounting Rules and Regulations

	For the years ended 31 December		Increased/(decreased)		Reasons of changes
	2005 RMB millions	2004	Amount RMB millions	Percentage (%)	
Income from principal operations	799,115	590,632	208,483	35.3	Please refer to Management's Discussion and Analysis
Cost of sales	668,249	459,207	209,042	45.5	Please refer to Management's Discussion and Analysis
Subsidy income	9,415	—	9,415	N/A	Please refer to note 37 to the financial statements prepared in accordance with the PRC Accounting Rules and Regulations
Non-operating income	367	665	(298)	(44.8)	Mainly due to decrease in net gains from disposal of fixed assets
Non-operating expenses	5,969	11,171	(5,202)	(46.6)	Please refer to note 38 to the financial statements prepared in accordance with the PRC Accounting Rules and Regulations
Minority interests	2,902	5,670	(2,768)	(48.8)	Please refer to Management's Discussion and Analysis
(Reversal of) unrecognised investment losses	(119)	470	(589)	(125.3)	Due to reversal of unrecognised investment losses which exceeded the carrying value of the long-term equity investment

PRINCIPAL FINANCIAL DATA AND INDICATORS (CONTINUED)

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

Unit: RMB millions

Items	For the years ended 31 December				
	2005	2004	2003	2002	2001
Turnover, other operating revenues and other income	832,532	619,783	449,001	350,078	326,424
Operating profit	66,814	63,069	38,883	29,301	27,311
Profit before taxation	63,228	59,606	35,041	24,916	23,930
Profit attributable to equity shareholders of the Company	40,920	36,019	22,424	16,296	15,503
Basic earnings per share (RMB)	0.472	0.415	0.259	0.188	0.182
Earnings per share (based on the total number of shares in issue at the year end) (RMB)	0.472	0.415	0.259	0.188	0.179
Return on capital employed (%)	11.99	12.84	9.01	6.90	6.26
Return on net assets (%)	18.30	18.66	13.07	9.77	9.72
Net cash flow from operating activities per share (RMB)	0.882	0.797	0.716	0.655	0.663

Unit: RMB millions

Items	At 31 December				
	2005	2004	2003	2002	2001
Non-current assets	392,030	354,323	317,145	301,614	286,093
Net current liabilities	25,358	26,006	26,233	18,759	16,574
Non-current liabilities	113,676	104,231	93,346	91,927	86,309
Minority interests	29,440	31,046	26,051	24,151	23,652
Total equity attributable to equity shareholders of the Company	223,556	193,040	171,515	166,777	159,558
Net assets per share (RMB)	2.578	2.226	1.978	1.924	1.840
Adjusted net assets per share (RMB)	2.518	2.187	1.950	1.910	1.820
Debt/equity ratio*(%)	32.37	33.58	33.73	34.25	34.03

* Debt/equity ratio = long-term loans/(total equity attributable to equity shareholders of the Company + long-term loans) x 100%

3 MAJOR DIFFERENCES BETWEEN THE AUDITED FINANCIAL STATEMENTS PREPARED UNDER THE PRC ACCOUNTING RULES AND REGULATIONS AND IFRS

(1) Analysis of the effects of major differences between the net profit under the PRC Accounting Rules and Regulations and profit for the year under IFRS

	For the years ended 31 December	
	2005	2004
	RMB millions	RMB millions
Net profit under the PRC Accounting Rules and Regulations	39,558	32,275
Adjustments:		
Depreciation of oil and gas properties	751	761
Capitalisation of general borrowing costs, net of depreciation effect	507	480
Pre-operating expenditures	435	(288)
Equity investment differences	200	—
Unrecognised investment losses	119	(531)
Acquisition of Sinopec National Star	117	117
Acquisitions of Tianjin Petrochemical, Luoyang Petrochemical, Zhongyuan Petrochemical and Catalyst Plants	—	2,119
Reduced amortisation on revaluation of land use rights	24	19
Reduced depreciation on government grants	4	3
Impairment losses on revalued assets	—	709
Disposal of oil and gas properties, net of depreciation effect	(310)	2,110
Effects of the above adjustments on taxation	(485)	(1,755)
Minority interests	2,920	5,772
Profit for the year under IFRS	43,840	41,791

(2) Analysis of the effects of major differences between the shareholders' funds under the PRC Accounting Rules and Regulations and total equity under IFRS

	At 31 December	
	2005	2004
	RMB millions	RMB millions
Shareholders' funds under the PRC Accounting Rules and Regulations	215,623	186,350
Adjustments:		
Depreciation of oil and gas properties	12,233	11,482
Capitalisation of general borrowing costs	2,112	1,605
Pre-operating expenditures	(22)	(457)
Equity investment differences	200	—
Acquisition of Sinopec National Star	(2,578)	(2,695)
Revaluation of land use rights	(953)	(977)
Government grants	(588)	(592)
Disposal of oil and gas properties	3,060	3,370
Effects of the above adjustments on taxation	(5,531)	(5,046)
Minority interests	29,440	31,046
Total equity under IFRS	252,996	224,086

CHANGES IN SHARE CAPITAL AND SHAREHOLDINGS OF PRINCIPAL SHAREHOLDERS

1 CHANGES IN THE SHARE CAPITAL OF SINOPEC CORP.

UNIT: 1,000 SHARES

	Pre-movement		New shares issued	Increase/(decrease)			Sub-total	Post-movement	
	Numbers	Percentage %		Bonus issued	Conversion from reserves	Others		Number	Percentage %
Shares not listed	67,121,951	77.4	—	—	—	—	—	67,121,951	77.4
1 Promoter shares	58,885,561	67.9	—	—	—	2,871,764	2,871,764	61,757,325	71.2
Of which:									
State-owned shares	58,885,561	67.9	—	—	—	2,871,764	2,871,764	61,757,325	71.2
2 Raised legal person shares									
3 Internal employee shares									
4 Preferential shares or others *	8,236,390	9.5	—	—	—	(2,871,764)	(2,871,764)	5,364,626	6.2
Total listed outstanding shares	19,580,488	22.6	—	—	—	—	—	19,580,488	22.6
1 RMB ordinary shares	2,800,000	3.2	—	—	—	—	—	2,800,000	3.2
2 Shares traded in non-RMB currencies and listed domestically	—	—	—	—	—	—	—	—	—
3 Shares traded in non-RMB currencies and listed overseas	16,780,488	19.4	—	—	—	—	—	16,780,488	19.4
4 Others	—	—	—	—	—	—	—	—	—
Total Shares	86,702,439	100.0	—	—	—	—	—	86,702,439	100.0

* "Preferential shares or others" under "Shares not listed" refers to the balance of shares which were transferred from China Petrochemical Corporation, the promoter of Sinopec Corp., to domestic asset management corporations in 2000, after deducting the shares which were subsequently transferred to China Petrochemical Corporation.

2 NUMBER OF SHAREHOLDERS AND SHAREHOLDINGS OF PRINCIPAL SHAREHOLDERS

Number of shareholders of Sinopec Corp. as at 31 December 2005 was 224,808, including 215,258 holders of A Shares and 9,550 holders of H Shares.

(1) Top ten Shareholders

UNIT: 1,000 SHARES

Name of shareholders	Nature of shareholders	Percentage among total shares held at the end of reporting period	Number of shares held at the end of reporting period	Number of non-tradable shares	Number of pledges or lock-ups
China Petrochemical Corporation	State-owned shares	71.2%	61,757,325	61,757,325	
HKSCC (Nominees) Limited	H shares	19.2%	16,679,304		unknown
China Cinda Asset Management Corp.	State-owned shares	3.3%	2,848,886	2,848,886	
China Orient Asset Management Corp.	State-owned shares	1.5%	1,296,410	1,296,410	
China Development Bank	State-owned shares	0.7%	632,570	632,570	
Guo Tai Jun An Corp.	State-owned legal person shares + A Shares	0.7%	605,041*	586,760	548,530 (pledges)/ 38,230 (lock-ups)
Fortis Haitong Growth Investment Fund	A Shares	0.1%	89,668		
EFUND 50 Securities Investment Fund	A Shares	0.1%	70,984		
Shanghai Securities 50ETF Investment Fund	A Shares	0.1%	67,016		
Qingdao Port (Group) Co Ltd.	A Shares	0.1%	60,000		

* of which 586,760,000 shares are state-owned legal person shares and the remaining 18,281,000 shares are A share.

(2) Top ten shareholders with tradable shares

Unit: 1,000 shares

Name of shareholders	Number of tradable shares held	Type of shares held
HKSCC (Nominees) Limited	16,679,304	H Shares
Fortis Haitong Growth Investment Fund	89,668	A Shares
EFUND 50 Securities Investment Fund	70,984	A Shares
Shanghai Securities 50ETF Investment Fund	67,016	A Shares
Qingdao Port (Group) Co., Ltd.	60,000	A Shares
Boshi Selected Equity Securities Investment Fund	45,931	A Shares
Jingfu Securities Investment Fund	41,103	A Shares
Communication-Shroders Selected Equity Securities Investment Fund	40,019	A Shares
CITIC Classic Securities Co., Ltd.	38,850	A Shares
Tianyuan Securities Investment Fund	38,000	A Shares

We are not aware of any connection or activities in concert among the top ten shareholders and top ten shareholders with tradable shares or between them.

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

Name of shareholders	Capacity of interest held	Number of share interests held or regarded as held	Approximate percentage of Sinopec Corp.'s interests (H Share) (%)
Alliance Capital Management L.P.	Corporate interest	1,345,646,601(L)	8.02(L)
JPMorgan Chase & Co.	Beneficial owner	166,691,000	0.99(L)
	Investment manager	488,604,905	2.91(L)
	Custodian corporation	625,340,998	3.73(P)(L)
J.P. Morgan Chase & Co.	Beneficial owner	46,454,000	0.27(L)
	Investment manager	634,707,194	3.78(L)
	Others	347,184,277	2.07(P)(L)

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

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 authorised investment organisation and a State-owned company. Its registered capital is RMB 104.9 billion, and the legal representative is Mr. Chen Tonghai. Through reorganisation in 2000, Sinopec Group Company injected its principal petroleum and petrochemical operations

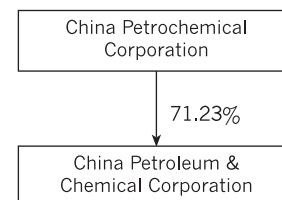
into Sinopec Corp. and retained certain petrochemical facilities and small-scale refineries. It provides well-drilling services, oil testing services, downhole operation services, services in connection with manufacturing and maintenance of production equipment, engineering construction, utility services 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
None.

(3) Basic information of the effective controller

China Petrochemical Corporation is the effective controller of Sinopec Corp.

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





Mr. Chen Tonghai, Chairman

Dear shareholders,

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

In 2005, the Company was confronted with soaring international crude oil prices, regulated domestic refined oil products prices and relatively large fluctuations in petrochemical

market, compounded by various pressures and difficulties such as maintaining refined oil products supply and overcoming transportation capacity constraints. Nevertheless, the Company fared well and achieved good operational results through leveraging on its overall strengths, optimising resource allocation and improving management in adherence to the guidelines of "reform, restructuring, innovation and development". The exploration & production

segment witnessed increases in both reserve and production, delivering remarkable earnings growth. The refining segment and marketing & distribution segment managed to mitigate impacts from the government's tight control over prices of refined oil products, and effectively ensured market supply through multiple sourcing of refined oil products. The chemicals segment achieved safe, stable, sustained, full load, optimal operations and maintained relatively sound profitability. Over the year, in addition to achieving relatively good operating results, the Company tried to lay a solid foundation for its organic growth and made significant contribution to the society.

According to the PRC Accounting Rules and Regulations, the Company's net profit was RMB 39.558 billion in 2005, up by 22.6% over 2004. According to the International Financial Reporting Standards (IFRS), the profit attributable to equity shareholders of the Company was RMB 40.92 billion, up by 13.6% over 2004. In consideration of the Company's earnings in 2005 and its long-term sustainable growth, the Board of Directors proposed a dividend of RMB 0.13 per share for the full year of 2005. After deducting the interim dividend of RMB 0.04 that has been paid, the year-end dividend for 2005 is RMB 0.09 per share.

Looking back over the second session of the Board of Directors, the Company has progressively improved corporate governance and aggressively initiated reforms on its management and operational mechanism. Based on achievements of the previous Board, and following its the guidelines of "reform, restructuring, innovation and development", the Board of Directors took the opportunities and made advisable decisions in light of market dynamics in conjunction with the Company's specific features in its course of development. Since 2002, the Company has been persistently implementing its strategies of "expanding resources, exploring markets, cost saving and prudent investment", and achieved significant growth from 2002 in all key areas: significant growth in the Company's scale of operations,

with operating revenue growing to RMB 823.1 billion from RMB 340 billion; remarkable profit increase, with profits attributable to equity shareholders of the Company rising from RMB 16.1 billion to RMB 40.9 billion; notable improvement in asset structure and quality, with core competitive strengths generating more advantages, and return on capital employed (ROCE) rising from 7% to 12%. As of the end of 2005, enterprise value of the Company has grown significantly and the aggregate dividend distribution over the three years would likely reach RMB 29.5 billion, showing a good return to our shareholders.

During the tenure of the current Board, the Company has gradually improved its corporate governance mechanism characterised with effective checks and balances, informed decision making and orchestrated operations. The Company reinforced efficacy of the Board of Directors, giving full play to the roles of the Strategic Committee, Audit Committee and Remuneration & Examination Committee, as well as independent directors. Particularly, in order to meet regulatory requirements and the need for improving management, the Company has established and implemented its internal control system on trial basis since 2003, and formally adopted the system on 1 January 2005. Moreover, at the end of 2005, the Company conducted a full-scale review and examination on the efficacy of internal control system and further revised the system based on the findings, thus laying a solid foundation for the Company to make informed management decisions and effectively prevent operational risks.

Acknowledging the new requirements posed by reform and development efforts over the corporate system and mechanism, the Company has actively and progressively streamlined its organisation, reduced workforce, and flattened managerial hierarchies with a view to improving efficiency. In this regard, the Company has reduced the workforce by approximately 54,000 employees and cut approximately 1,263 mid-level management positions through various measures during the tenure of the current

Board. In the meantime, considering capital market situation and its own development needs, the Company has timely privatised Beijing Yanshan Petrochemical Company Ltd. and Zhenhai Refining and Chemical Co., Ltd. Presently, the Company is privatising four A share-listed subsidiaries in an effort to remove impediments in the management structure. Furthermore, the Company has undergone massive consolidation of its businesses and branding. Based on the experience from its centralised management of lubricant business, the Company has set up Chemical Sales Company in May 2005, which transformed the former long-existent separate sales practices and eliminated internal rivalry. Consolidation of international trading operations under the refining and chemical subsidiaries has been consummated. China International United Petroleum & Chemicals Co., Ltd. ("Unipecc") has been changed from a controlled subsidiary into a wholly owned subsidiary. In response to fierce competition, the Company has developed strategic alliances with major clients, service providers and suppliers, with the aim of expanding the markets and securing supply.

In accordance with the characteristics of the Company's own industrial structure and layout, the current Board pursued asset restructuring as the focus of development, giving priority to its core businesses. With regard to investment, the Company adhered to the principle of "giving priority to core businesses, taking on investment based on cash flow, and being attentive to returns", and incurred total capital expenditure of RMB 168.5 billion over the past three years. As a result, the Company managed to adjust its assets structure, rationalised its strategic layout and regional integration. In addition, the Company's two ethylene production joint ventures at Shanghai SECCO and BASE-YBC have been put to stream on schedule. Meanwhile, through shedding non-core business and establishing effective exit mechanism, the Company endeavored to strengthen its core competitiveness. The Company has acquired assets such as petrol stations, ethylene and aromatics plants from China Petrochemical Corporation and sold off some of its non-core

businesses such as down-hole operations. Low efficiency assets were either shut down, suspended production or disposed. The total value of disposed assets amounted to RMB 12.7 billion during the past three years. As a result, the size, quality and profitability of the Company assets all improved significantly. At the end of 2005, the Company's total assets reached RMB 537.3 billion, up by 42.9% over the tenure of the current Board. In the past three years, the upstream reserve sequence was improved, achieving over 100 percent of reserve to production ratio. Crude oil and natural gas production rose by 3.3% and 24.1%, respectively. Refining capacity increased by 19.1%, with refining throughput rising by 33.3%. The quality of refined oil products has been upgraded. Sales volume of refined oil products rose by 49.2%, with the percentage of sales volume to end-users reaching 80.24%. Ethylene production rose by 95.8% in the past three years, with production of higher value added chemicals rose accordingly.

During the tenure of the current Board, with the focus on value accretion on capital, the Company effectively utilised the technological advancements in increasing reserves and productions, asset restructuring, quality upgrading and cost saving, hence provided strong technical support for its core businesses development. Over the three years, the Company has applied for 2,450 patents, of which 1,871 patents have been granted. At the end of 2005, the Company held 5,466 valid patents. In the upstream business, through major breakthroughs in marine facies exploration theory and technology, the Company discovered the largest and most abundant domestic marine gas field. According to the Ministry of Land and Resources, the gas reserves of the field are estimated at 251.1 billion cubic meters, which would provide a solid resource base for the future development of the Company's natural gas business. In the refining business, the Company upgraded refined oil product quality to GB2 standard (equivalent to Euro II) nationwide, and JB standard (equivalent to Euro III) in Beijing at low cost through development of proprietary technology. In the chemical business, the Company has introduced and absorbed

internationally advanced technologies, and has gradually improved its manufacturing standards. In particular, the Company pioneered the industrial application of non-crystal alloy catalyst with the stable magnetic bed reactor, which has won the only grand prize in the National Technology Invention Prizes in 2005, thereby laying a solid foundation for the development of new chemical reaction engineering technologies. Moreover, the Company attaches great importance to upgrading traditional industries by employing information technologies. Application of ERP and other information technologies have strongly underpinned the Company's reform, development, operations and management activities.

The Company places great emphasis on nurturing and developing human resources. During the tenure of the current Board, the Company strengthened the training of its managers in the different areas of its operation and has completed the succession to its senior management of young executives. Attentive to launching training programs for senior management, sophisticated professionals and experts engaged in international businesses, the Company has trained more than five thousand personnel in total. Meanwhile, more training programs have been provided to a range of skilled workers. With the establishment of human resource development and management systems, which is composed of three formations of talents, namely managerial experts, professionals and skilled workers, a rich talent pool has been formed for long term development. Additionally, the Company has continued to reform its internal remuneration system. Pegged to labor market prices, the Company has established a long term incentive system, and formulated a reasonable internal remuneration framework, which is conducive in stimulating and retaining various talents. Through human resource management, the Company has created a favorable environment for personal advancement and career development. This has resulted in the Company becoming more attractive as an employer and has contributed to the integrity and creativity of the Company, and to the continuing growth of our employees' loyalty with the Company.

As a major integrated energy and chemicals company, the Company has consciously fulfilled its social responsibilities with initiatives aimed at resource conservation and environmental protection, and has strenuously promoted HSE and implemented its sustainable growth strategies. Over the years, the Company has improved the living environment for its field working force and improved labor protection standards. Meanwhile, it has reinforced safety awareness and management, hence realised safe, stable, sustained, full load and optimal operations. In addition, the Company has been providing cleaner fuels with higher product standard and better product quality to the public. Notwithstanding significant growth in its total production and sales volume, COD emission decreased by 15.6%, consumption of fresh water decreased by 8.2%, recycling rate of water for industrial use risen by 3.55 percentage points and the unit energy consumption has gradually declined during the tenure of the current Board. The Company has also actively supported and participated in the causes of public welfare in various ways, making contributions to the harmonious development of the society.

Through reform and development over the years, the Company has established an organisational framework for its managerial system and mechanism necessitated by market economy and corporate governance. The Company now stands at a new starting point which will lead to a higher destination. These achievements are brought by our adherence to existing strategies and aggressive reform efforts. The Board of Directors is drawing near to the end of its current term in the second half of May 2006. Throughout the tenure of the Board, each director has performed his duties consciously and diligently. Because of age, change of position and regulatory requirements, Vice-chairman Mr. Wang Jiming, director Mr. Mou Shuling, Mr. Zhang Jiaren, Mr. Cao Xianghong

and Mr. Liu Genyuan, external director Mr. Gaojian, independent director Mr. Chen Qingtai, Mr. Ho Tsu Kwok, Charles and Mr. Zhang Youcai, employee representative director Mr. Cao Yaofeng will not be nominated for the next session of the Board of Directors. During their tenure, they have made significant contributions to the Company. I would like to extend my appreciation to these directors and other members of the Board, as well as to our supervisors, executive officers and employees.

Looking forward, we enjoy a favorable domestic market that have shown steady increase in fundamental demand for energy and chemicals. Yet, the future is also fraught with various uncertainties, such as market fluctuations and increasing competition, both overseas and domestically. All other members of the Board and I believe that, under the leadership of the next session of the Board, and in pursuit of building up an integrated energy and chemical company with strong competitive edges in the international market, Sinopec Corp. will continue to grow with the strategy of "expanding resources, exploring markets, increasing competitiveness" that are centered around corporate reforms, and strive for a balanced and sustainable development, which are the common interests of our shareholders, customers, employees, society and the Company.



Chen Tonghai
Chairman

Beijing, China
31 March 2006





BUSINESS REVIEW

In 2005, the Chinese economy continued to grow at a steady and rapid rate, with a GDP growth rate of 9.9%, and domestic demand for petroleum and petrochemical products kept increasing. In a market environment characterised with soaring international crude oil price, tight government control of domestic refined oil products prices and volatile petrochemical market, the Company managed to achieve satisfactory operating results, maintained growth in production and profitability and improved asset quality by relying on the collective efforts of its employees, leveraging on its overall advantages, strengthening internal management and optimising production operations with a market-based approach and a focus on profits.

1. Review of Market Environment

(1) Crude oil market

In 2005, international crude oil prices were fluctuating at high levels. The Platts' Brent spot price averaged US\$ 54.53 per barrel, up by 42.5% compared with 2004. The domestic crude oil price basically followed the trend in the international market. Average realised crude oil price produced by the Company was RMB 2,664.7 per tonne in 2005, up by 36.2% compared with 2004.

(2) Refined oil products market

In 2005, domestic demand for refined oil products maintained a moderate growth. According to the Company's statistics, the apparent domestic consumption of refined oil products (inclusive of gasoline, diesel and kerosene including jet fuel) in 2005 was 164.44 million tonnes, up by 4.7% compared with 2004. International refined oil prices experienced a significant increase following the trend in the international crude oil market. However, due to tight control over the domestic prices of refined oil products, there was a significant gap between domestic and international prices of refined oil products.

(3) Chemicals market

In 2005, domestic demand for chemicals continued to show a relatively strong growth. According to the Company's statistics, the apparent consumption of synthetic fibers and synthetic rubbers increased by 10.2% compared with 2004 while domestic ethylene equivalent consumption increased by 8.6% compared with 2004. Domestic chemicals prices witnessed a similar trend as that of the international market. However, due to the rise of chemical feedstock prices in the second half of 2005, the gross profit margin of chemicals declined noticeably.



Mr. Wang Tianpu, President

2 Production and Operation

(1) Exploration and production

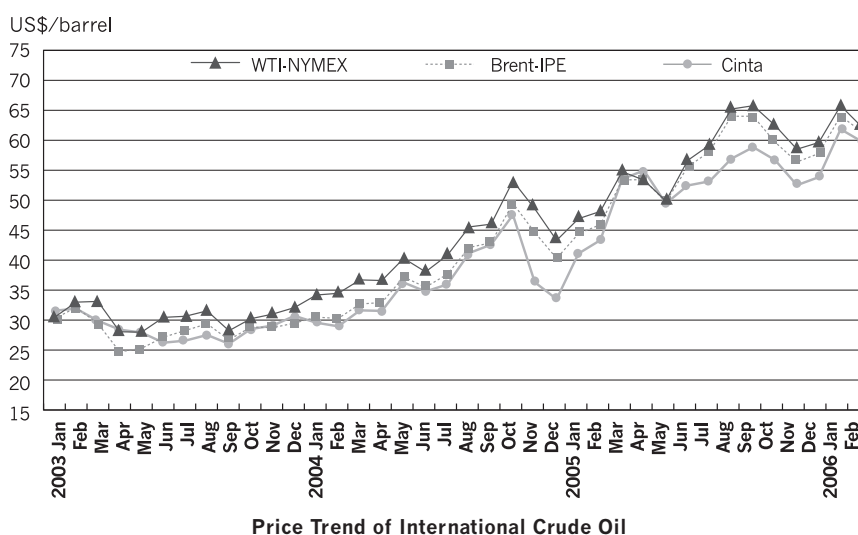
In 2005, the Company achieved good results in oil and gas exploration and production by intensifying its exploration activities, optimising and adjusting its exploration and production plans.

In connection with exploration activities, the Company attached great importance to new discoveries in both mature and new blocks, completed 15,380 kilometers of 2D seismic and 7,164 square kilometers of 3D seismic, and drilled 545 exploration wells with a total

footage of 1,467 kilometers. Relying on theoretical innovation and technological advances, the Company discovered the largest and most abundant gas field in marine facies carbonate structure ever found in China, the Puguang Gas Field. Important discoveries were also made in exploration activities in mature blocks in east China as well as in Junger and Tahe blocks, achieving over 100% replacement of oil and gas reserves and laying a solid foundation for future resources.

In oil and gas production, the Company intensified its progressive exploration activities and oil reserve evaluation, and effectively developed proved reserves. Under the high oil price environment, the company actively developed low yield reserves and improved the quality and

efficiency of new capacity construction in the new blocks to increase oil and gas production. The Company also put a premium on application of new processes and new technologies to the development of mature blocks, continually improving recovery rate in mature blocks. In 2005, 2,348 development wells were drilled with total drilling footage of 5,109 kilometers, and new capacities totaling 5.79 million tonnes per annum and 2.1 billion cubic meters per annum. In 2005, the Company's production of crude oil and natural gas reached 278.82 million barrels and 221.9 billion cubic feet, respectively, representing an increase of 1.7% and 7.2%, respectively, compared with 2004.



BUSINESS REVIEW AND PROSPECTS (CONTINUED)

Summary of Operations of the Exploration and Production Segment

	2005	2004	2003	Change from 2004 to 2005 (%)
Crude oil production (mmbbls)	278.82	274.15	270.96	1.70
Natural gas production (bcf)	221.9	207.0	187.7	7.20
Newly added proved reserves of crude oil (mmbbls)	306	284	208	7.75
Newly added proved reserves of natural gas (bcf)	140.6	352.0	(254.3)	(60.05)
Year-end proved reserves of crude oil (mmbbls)	3,294	3,267	3,257	0.83
Year-end proved reserves of natural gas (bcf)	2,951.7	3,033.0	2,887.6	(2.68)
Year-end proved reserves of crude oil and natural gas (mmboe)	3,786	3,773	3,738	0.34

Summary of Production and Operations of Shengli Oil Field

	2005	2004	2003	Change from 2004 to 2005 (%)
Crude oil production (mmbbls)	191.31	189.88	189.25	0.75
Natural gas production (bcf)	31.1	31.8	28.6	(2.20)
Newly added proved reserves of crude oil (mmbbls)	247	225	196	9.78
Newly added proved reserves of natural gas (bcf)	(3.6)	79.9	70.1	(104.51)
Year-end proved reserves of crude oil (mmbbls)	2,362	2,306	2,271	2.43
Year-end proved reserves of natural gas (bcf)	322.4	357.1	308.9	(9.72)
Year-end proved reserves of crude oil and natural gas (mmboe)	2,415	2,366	2,322	2.07

Note: crude oil volume is converted at 1 tonne to 7.1 barrels, and gas volume is converted at 1 cubic meter to 35.31 cubic feet

(2) Refining

In 2005, the Company actively worked on full-load operations to meet market demand. Crude oil throughput reached 139.94 million tonnes, up by 5.26% compared with 2004. The Company endeavored to reduce crude oil purchase costs by optimising crude oil procurement, allocation and transportation

efficiency, and by increasing the processing ratio of high sulphur and heavy crude oil. The Company strived to increase the sales volume of higher value-added products through optimised production plan and product mix. It intensified technical revamping of refining facilities and upgraded gasoline and diesel quality on schedule. The

Company also improved its main technical and economic performance indicators in the refining segment by relying on strengthened management and advances in technologies. As a result, both light products yield and overall refining yield went up.

Sources of Crude oil

Unit: million tonnes

	2005	2004	2003	Change from 2004 to 2005 (%)
Self-supplied	28.62	28.14	28.20	1.71
PetroChina Company Ltd.	8.75	10.31	13.08	(15.13)
CNOOC Ltd.	5.05	6.69	5.57	(24.51)
Imported	99.13	89.03	71.14	11.34
Total	141.55	134.17	117.99	5.50

Summary of Production of the Refining Segment

	2005	2004	2003	Change from 2004 to 2005 (%)
Crude throughput (mbbls/day)	2,817.9	2,677.2	2,350.0	5.26
of which sour crude throughput (mbbls/day):	698.8	551.1	478.7	26.80
Refining utilisation rate (%)	94.01	93.43	88.10	0.58 percentage point
Gasoline, diesel and kerosene including jet fuel (million tonnes)	84.53	80.83	69.01	4.58
of which: Gasoline (million tonnes)	22.98	23.58	21.79	(2.54)
Diesel (million tonnes)	54.92	50.89	41.91	7.92
Kerosene including jet fuel (million tonnes)	6.63	6.36	5.31	4.25
Light chemical feedstock (million tonnes)	21.10	17.70	16.46	19.21
Light products yield (%)	74.16	74.02	73.80	0.14 percentage point
Overall refining yield (%)	93.24	93.09	92.63	0.15 percentage point

Note: (1) Crude oil processing volume is converted at 1 tonne to 7.35 barrels.

(2) The operational data for 2003 include operational results of Xi'an Petrochemical and Tahe Petrochemical.

(3) Marketing and distribution

In 2005, while maintaining full-load operations of its refining facilities to increase production of refined oil products, the Company increased procurement of refined oil products from other sources to meet the market demand. It also endeavored to reduce storage and transportation costs by fully leveraging its modern logistics systems and optimising resource allocation.

It further expanded retail and direct sales by improving service-oriented awareness, service quality and standards as well as marketing structure. The sales of refined oil products for 2005 exceeded 100 million tonnes for the first time, representing a year on year increase of 10.54%, of which retail volume increased by 19.29%. The efficiency of petrol stations continued to improve with the annual throughput per petrol station

exceeding 2,321 tonnes, up by 15.88% compared with 2004. Retail and direct sales volume of refined oil products accounted for 80.24% of the total domestic sales volume. In addition, the Company is actively marketing its petrol IC cards, which allows customers to use one single card at its petrol stations across the nation.

Summary of Operations of Marketing and Distribution Segment

	2005	2004	2003	Change from 2004 to 2005 (%)
Total domestic sales of refined oil products (million tonnes)	104.56	94.59	75.92	10.54
Of which: Retail volume (million tonnes)	63.52	53.25	38.85	19.29
Direct sales volume (million tonnes)	20.38	19.65	15.33	3.72
Wholesale volume (million tonnes)	20.66	21.69	21.74	(4.75)
Average annual throughput per petrol station (tonne/station)	2,321	2,003	1,686	15.88
Total number of petrol stations under SINOPEC brand	29,647	30,063	30,242	(1.38)
Of which: Number of COCO petrol stations	27,367	26,581	24,506	2.96
Number of franchised petrol stations	2,280	3,482	5,736	(34.52)
Retail volume/total domestic sales volume (%)	60.7	56.3	51.2	4.4 percentage points

(4) Chemicals

In 2005, the Company achieved safe, stable, sustained, full-load and optimal operation of its core facilities. The Company's two major ethylene joint ventures, Shanghai Secco and BASF-YPC, were put into commercial operation on schedule, and as a result, the Company's ethylene capacity significantly

increased. The Company produced 5.319 million tonnes of ethylene in 2005, up by 30.56% from 2004. The Company proactively tried to improve its chemicals product mix with more higher value-added products, which allowed the Company to further increase its production of performance compound resins and

differential fibres. The Company also established a specialised sales company for chemical products to enhance its overall competitiveness and gradually integrate or centralise its marketing strategies, market development, logistics, resource allocations, sales practices and branding.

Production of Major Chemicals

Unit: 1,000 tonnes

	2005	2004	2003	Change from 2004 to 2005 (%)
Ethylene	5,319	4,074	3,982	30.56
Synthetic resins	7,605	6,221	5,805	22.25
of which: performance compound resins	3,498	3,034	2,707	15.29
Synthetic rubbers	626	561	553	11.59
Monomers and polymers for synthetic fibres	6,725	6,021	5,633	11.69
Synthetic fibre,	1,570	1,654	1,659	(5.08)
of which: differential fibres	811	753	623	7.70
Urea	1,780	2,630	2,028	(32.32)

Note: (1) The operational data for 2003 and 2004 include the production of Maoming Ethylene, and, also that of various chemical assets acquired from Sinopec Group in 2004.

(2) The operational data for 2005 include the production of the two joint venture ethylene facilities, Shanghai Secco and BASF-YPC.

(5) Research and development

In 2005, the Company adhered to the application of research and engineering design into production, focused on technological innovation and development of key technologies, achieved a string of important scientific and technological results and obtained 706 domestic and international patents. The technologies in non-crystal state alloy catalyst and stable magnetic bed reactor were used for commercial application for the first time in the world, generating significant economic benefits due to its lower catalyst consumption. With greater air velocity ratio, which is 5 to 10 times of that of the traditional reactor bed. Its catalyst consumption only accounts for 30% of the amount consumed with traditional technologies. The technology was the only grand prize awarded by the National Technology Invention Prizes in 2005. Another ten technologies including the geo-

steering drilling technology, a new catalyst cracking process which can increase production of propylene while reducing olefin content in gasoline, and a 200,000 tonne per annum EB/styrene, were successfully developed and put into commercial application. Breakthroughs were made in researches over 20 technologies, including technologies in the field of oil reserve geophysics. A series of technologies, including a catalytic cracking technology to maximise isoalkane production, and aromatics extraction technology, were applied extensively, generating meaningful economic benefits.

Information technologies were applied to improve management. Applications of ERP and other IT systems are playing increasingly important roles in the Company's business development and operation management.

(6) Cost saving

In 2005, the Company took various measures to reduce cost, such as reducing transportation costs by optimising resource allocation and leveraging on existing logistics system, reducing crude procurement cost by further increasing the processing volume of sour and heavy crude oil and reducing consumption of energy and materials in the production process by optimising operation of the facilities. In 2005, the Company effectively saved RMB 2.762 billion in cost, which exceeded the original target of RMB 2.5 billion by RMB 262 million. Of the total cost saved, the exploration and production segment, the refining segment, the marketing and distribution segment and the chemicals segment achieved cost saving of RMB 638 million, RMB 706 million, RMB 712 million, and RMB 706 million, respectively.

(7) Capital expenditure

In 2005, the Company adjusted and optimised its investment allocation in line with its development strategy and core businesses based on market conditions, and worked for better organisation and implementation of major projects. The total capital expenditure in 2005 was RMB 58.726 billion. Among which, the expenditure for exploration and production segment was RMB 23.095 billion. With the investment, significant amount of oil and gas reserves were discovered in some major exploratory areas, including Jiyang Depression, Tahe and northeast Sichuan. Newly built crude oil and gas production capacity increased by 5.79 million tonnes per annum and 2.1 billion cubic meters per annum respectively. The newly built proved crude oil reserves reached 305.62 million barrels and realised increases in both oil and gas reserves and production. The expenditure for refining segment was RMB 14.127 billion. With the investment, newly added crude oil processing capacity, hydrofining capacity and coking capacity increased by 6.7 million tonnes per annum, 3.73 million tonnes per annum and 2.8 million tonnes per annum, respectively; the revamping of facilities for upgrading refined oil product quality was completed on schedule and Ningbo-Shanghai-Nanjing pipeline for imported crude oil was completed and put into operation. The expenditure for marketing and distribution segment was RMB 10.954 billion. With the investment, the Southwest refined oil pipeline was fully completed and put into operation, the refined oil products sales network further improved by way of construction, acquisition and renovation of petrol stations. The Company's leading position in the strategic market was further solidified, with a net increase of 786 self-operated petrol stations. The expenditure for chemicals segment was RMB 9.386 billion. With the investment, Maoming Ethylene expansion project, PTA revamping project at Shanghai Petrochemical and Yangzi Petrochemical progressed smoothly, the coal gasification projects for fertiliser production was on schedule. The expenditure for corporate and others was RMB 1.164 billion.

With the investment, construction of the information technology systems made new progresses.

In addition, the Company's two large joint ventures, Shanghai Secco and BASF-YPC, with a total capital expenditure of RMB 2.602 billion, were successfully put into commercial operation.

BUSINESS PROSPECT

1 Market Outlook

Looking forward for 2006, China's economy is expected to maintain a stable and rapid growth, which would help sustain a stable growth of domestic demand for oil and petrochemical products, providing good market conditions for the Company. The international crude oil prices are expected to continue to maintain at a high price level. The domestic prices of refined oil products are expected to gradually reflect the international prices following the integrated reform of crude oil pricing mechanism, but currently the refining segment would likely to continue facing challenges. While the prices for chemicals are expected to continue to stay at relatively high level, but due to the expected increase of feedstock cost, the gross profit margin for chemicals segment may experience further decline. Meanwhile, with the opening of the domestic wholesale market of refined oil products, competitions in domestic refined oil products market may be stronger.

2 Production and Operation

Faced with the complicated market environment in 2006, the Company intends to adopt flexible operating strategies and focus on the following areas:

Exploration and production segment: The Company will make further efforts to develop economic reserves, complement the construction of production capacity in new blocks and accelerate construction of natural gas production capacity, trial production and marketing to ensure stable growth of oil and gas production and to improve the recovery rate and commodity rate of oil and gas as well as total production and economic benefits. The

Company plans to produce 39.8 million tonnes of crude oil and 7 billion cubic meters of natural gas in 2006.

Refining segment: The Company intends to optimise the existing systems while increasing throughput of sour and heavy oil to reduce crude oil costs. It intends to more efficiently utilise the capacity of large wharfs, ports and pipeline transportation to reduce transportation costs. It intends to optimise the processing plans of each refinery to strive for more flexible adjustment of processing volume in line with the demand of each regional market and the overall situations of crude supply and demand, while endeavoring to adjust product mix and increase production of higher value-added products. The Company plans to process 146 million tonnes of crude oil in 2006.

Marketing and distribution segment: The Company intends to better deploy its marketing networks to improve service quality and increase the percentage of retail and direct sales. Moreover, it intends to better deploy its refined oil product pipelines to reduce storage and transportation costs. The Company plans to have a total sales volume of refined oil products of 110 million tonnes, including a retail sales volume of 66.2 million tonnes.

Chemicals segment: The Company intends to strengthen its management to ensure safe, stable and high load operation of its chemical facilities, and intends to produce more higher value-added products. Priority will be given to test run and commercial operation of those revamping facilities including Maoming Ethylene revamping. It intends to fully leverage on the strengths of its chemicals sales subsidiary to improve competitiveness by optimising operational process, improving sales networks and solidifying the linkage between production and sales. In 2006, the Company plans to produce 5.92 million tonnes of ethylene, 8.15 million tonnes of synthetic resins, 0.6 million tonnes of synthetic rubbers, 1.53 million tonnes of synthetic fibers and 7.14 million tonnes of synthetic fiber monomers and polymers.

Research and development: In line with the needs of production and development, the Company intends to further refine exploration technologies for uncovering operational process oil and gas in the mature blocks in eastern China, strengthen its research over key technologies, and accelerate theoretical innovation as well as key technological innovation in marine facies oil and gas exploration in western China. The Company also intends to intensify its efforts in technologies for enhancing the quality of gasoline and diesel and production technologies for increasing higher value-added new chemical products, while accelerating application of technological achievements and providing technical support for improving the Company's core competitiveness.

Cost saving: In 2005, the Company intends to rely on scientific and technological advancement and reinforced management practices to 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 of RMB 600 million, refining segment RMB 600 million, chemicals segment RMB 700 million, and marketing and distribution segment RMB 600 million.

Capital expenditure: The Company's planned capital expenditure is RMB 70 billion for 2006. The projected expenditure for exploration and production segment is RMB 29.8 billion, for refining segment is RMB 14.6 billion, for chemicals segment is RMB 12.5 billion, for marketing and distribution segment is RMB 11 billion and for corporate and others is RMB 2.1 billion. The capital expenditure will be primarily invested in the following activities within each of the various segments: in the exploration and production segment, the Company will continue to pursue the principle of "coordination of reserves, production, investment and returns", under which the concept of oil reserve management will be strengthened, construction of oil and gas production capacity in western China and development of Puguang Gas Field in northeastern

Sichuan will be accelerated. The Company will also endeavor to enhance overall deployment of its production capacity, increase the production in low-yield reserves and maintain a positive balance between the production and newly found reserves. In the refining segment, the Company will continue to refine and accelerate construction of crude oil pipeline and related receiving and unloading facilities, ensure the smooth progress of the revamping efforts at refining facilities in Guangzhou, Yanshan and other areas aimed at upgrading oil product quality, and push forward Qingdao oil refining project and Fujian integrated project. In the chemicals segment, the Company will focus on the successful commencement of operation of the revamped facilities at Maoming Ethylene, the PX and PTA facilities at Yangzi Petrochemical and three fertiliser facilities, and the orderly commencement of construction of the ethylene facilities at Fujian, Tianjin and Zhenhai. In the marketing and distribution segment, the Company will continue to optimise and adjust the sales network, accelerate construction of refined oil product pipelines, and construct more petrol stations in central cities, new urban districts and along expressways.

Employee reduction: The Company plans to reduce its number of employee by over 6,000 employees in 2006 so that the total number of employee will be controlled at approximately 358,500 as of the end of 2006, which would make the total employees reduction exceed 150,000 since the establishment of the Company.

In 2006, the Company will strive to overcome various difficulties and meet operational objectives of 2006 in line with the operating policies set forth by the Board of Directors, and will endeavor to set new records, deliver sound performances in its business operations and maintain sustainable development.

The Company has long been dedicated to achieving a coordinated development between health, safety and environment (HSE) and economic growth and has instituted a mechanism for effective long-term operations. While maintaining full load and longer cycle production, the Company in 2005 continued to focus on operational safety and improved environmental protection and made continuous efforts to care for the health of its employees and its relations with the communities to achieve harmonious growth.

1 Steady improvement of HSE management

Since the institution of HSE management system, the Company and each of the subsidiaries and affiliates have worked for its smooth operation. In 2005, the company organised HSE supervision, inspection and evaluation at various levels to review and evaluate implementation and follow-up of the HSE system so as to achieve continual improvement.

2 Pursuit of a caring approach to create a harmonious and healthy working environment

In 2005, the Company continued to strengthen firm-wide HSE education and training to continually improve employees' operational skills and strengthen occupational health management. Warning signs were posted in the workplace and monitoring and measurement results were publicly displayed. Regular occupational health checkups were arranged for relevant employees and working conditions were continually improved to ensure employee safety and health.

3 Implementation of a prevention-based policy; assessment of safety and environmental risks of newly built facilities and construction-in-progress

In 2005, the Company performed safety and environmental risk assessments over a number of newly built projects, including Tianjin Petrochemical Integration Project, and continued to perform risk assessments over operating facilities as well as public facilities. Rectification of potentially risky areas was subject to continuous monitoring throughout the process, while random monitoring was instituted for major facilities and key areas under the oversight of a specially designated person. The Company overhauled its emergency response plans for major and extreme emergencies and its capacity for confronting emergencies was continually improved.

4 Active promotion of clean production to save water and reduce effluents

In 2005, the Company standardised its environmental management in line with HSE management system, strengthened performance evaluation and its control of polluting sources and endeavored to achieve conservation of energy and water reduction of pollution and consumption.

Notwithstanding significant increase in the Company's production, as compared to 2004, amount of major effluents was further reduced, while industrial water consumption being reduced by 4% and COD content in its discharged waste water by 6%.





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 2005, the Company's turnover, other operating revenues and other income were RMB 832.5 billion, and the operating profit was RMB 66.8 billion, representing an increase of 34.3% and 5.9%, respectively, over those in the previous year. These results were largely attributable to the following factors: International crude oil prices continued to be volatile and remained at a

high level; chemical products prices remained at a high level; the Company strived to mitigate the effect of the tight price control over refined oil products, proactively developed the market, increased oil and gas production, optimised crude oil processing and output structure, increased chemicals production and sales of refined oil products. In addition, the Company received a one-time compensation of RMB

9.4 billion from the central government to compensate the Company's inability to fully pass the increased crude oil costs to the refined oil products due to the tight government control over prices of domestic refined oil products, which to some extent relieved the pressures imposed by the increased crude oil costs and contributed to the comparatively good operating results.

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

	Years Ended 31 December		Rate of Change (%)
	2005	2004	
	(RMB in millions)		
Turnover, other operating revenues and other income	832,532	619,783	34.3
Of which: Turnover	799,115	597,197	33.8
Other operating revenues	24,002	22,586	6.3
Other income	9,415	—	N/A
Operating expenses	(765,718)	(556,714)	37.5
Of which:			
Purchased crude oil, products, and operating supplies and expenses	(653,056)	(443,590)	47.2
Selling, general and administrative expenses	(33,709)	(31,843)	5.9
Depreciation, depletion and amortisation	(31,413)	(32,342)	(2.9)
Exploration expenses (including dry holes)	(6,411)	(6,396)	0.2
Personnel expenses	(18,483)	(18,634)	(0.8)
Employee reduction expenses	(369)	(919)	(59.8)
Taxes other than income tax	(17,152)	(16,324)	5.1
Other operating expenses, net	(5,125)	(6,666)	(23.1)
Operating profit	66,814	63,069	5.9
Net finance costs	(4,621)	(4,371)	5.7
Investment income and share of profit less losses from associates	1,035	908	14.0
Profit before tax	63,228	59,606	6.1
Taxation	(19,388)	(17,815)	8.8
Profit for the year	43,840	41,791	4.9
Attributable to:			
Equity shareholders of the Company	40,920	36,019	13.6
Minority interests	2,920	5,772	(49.4)

(1) Turnover, Other Operating Revenues and Other Income

In 2005, the Company's turnover, other operating revenues and other income were RMB 832.5 billion, of which, the turnover was RMB 799.1 billion, representing an increase of 33.8% over 2004. These results were largely attributable to the increase in international prices of crude oil and chemical products, and the Company's

efforts in expanding the sales volume of our petroleum and chemical products and optimising our sales and marketing structure. In 2005, the Company's other operating revenues went up to RMB 24 billion, representing an increase of 6.3% compared with 2004.

In 2005, the Company received from the central government a one-time compensation of RMB 9.4 billion to

compensate the Company's inability to fully pass the increased crude oil costs to refined oil products due to the tight government control over prices of domestic refined petroleum products.

The following table sets forth the Company's external sales volume, average realised prices and the respective rate of changes from 2004 to 2005 for the Company's major products.

	Sales Volume (thousand tonnes)			Average realised prices (RMB per tonne, RMB per thousand cubic meters)		
	2005	2004	Rate of Change (%)	2005	2004	Rate of change (%)
Crude oil	5,289	6,012	(12.0)	2,680	1,872	43.2
Natural gas (million cubic meters)	4,356	3,775	15.4	673	609	10.5
Gasoline	30,191	27,353	10.4	4,432	3,765	17.7
Diesel	67,247	60,419	11.3	3,772	3,221	17.1
Kerosene	6,003	5,680	5.7	3,710	2,923	26.9
Basic chemical feedstock	8,658	6,664	29.9	4,846	4,429	9.4
Monomers and polymers for synthetic fiber	2,993	2,704	10.7	8,879	8,022	10.7
Synthetic resin	6,343	5,401	17.4	9,005	7,986	12.8
Synthetic fiber	1,585	1,741	(9.0)	11,123	10,818	2.8
Synthetic rubber	678	556	21.9	13,040	10,238	27.4
Chemical fertiliser	1,822	2,622	(30.5)	1,539	1,355	13.6

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 2005, the turnover from crude oil and natural gas that were sold externally amounted to RMB 19.9 billion, representing an increase of 24.4% over 2004, accounting for 2.4% of the Company's total turnover, other operating revenues and other income. The increase was mainly due to the increase in crude oil prices and expansion of natural gas business.

The Company's refining segment and marketing and distribution segment sell refined oil products (mainly consisting of gasoline, diesel, jet fuel, kerosene and other refined oil products) to third parties. In 2005, the external sales

revenue of refined oil products by these two segments were RMB 542.1 billion, representing an increase of 33.5% over 2004, accounting for 65.1% of the Company's turnover, other operating revenues and other income. The increase was mainly due to the rise of refined oil products price, and our proactive efforts in increasing sales volume, optimising sales and marketing structure and expanding the market of other refined oil products. The sales revenues of gasoline, diesel and kerosene were RMB 409.7 billion, representing an increase of 30.4% over 2004, and accounting for 75.6% of the total sales revenues of refined oil products. The sales revenues of other refined oil products were RMB 132.4 billion, representing an increase of 43.9% over 2004, accounting for 24.4% of the total sales revenues of refined oil products.

The Company's external sales revenues of chemical products were RMB 160.8 billion, representing an increase of 27.6% over 2004, accounting for 19.3% of the Company's total turnover, other operating revenues and other income. The increase was mainly due to the fact that the Company captured the opportunity of the high level price of chemical products and increased its sales volume accordingly.

(2) Operating expenses

In 2005, the Company's operating expenses amounted to RMB 765.7 billion, representing an increase of 37.5% compared with 2004. The operating expenses mainly consisted of the following:

Purchased Crude Oil, Products, and Operating Supplies and Expenses

In 2005, the Company's purchased crude oil, products and operating supplies and

expenses were RMB 653.1 billion, representing an increase of 47.2% over 2004, accounting for 85.3% of the total operating expenses, of which:

- Purchased crude oil expenses were RMB 338.2 billion, representing an increase of 45.4% compared with 2004, accounting for 44.2% of the total operating expenses, up by 2.4 percentage points over 2004. To meet the increasing market demands in the fast growing Chinese economy, the Company increased its throughput of crude oil purchased from third parties. In 2005, the throughput of the Company's crude oil purchased externally was RMB 107.95 million tonnes (excluding amounts processed for third parties), representing an increase of 7.3% compared with 2004. Average cost for crude oil purchased externally in 2005 was RMB 3,133 per tonne (approximately US\$ 52.11 per barrel), representing an increase of 35.5% compared with 2004.
- In 2005, the Company's other purchase expenses were RMB 314.9 billion, representing an increase of 49.2% compared with 2004, accounting for 41.1% of the total operating expenses. The increase was mainly due to the increased costs of refined petroleum products and chemical feedstock purchased externally.

Selling, general and administrative expenses

In 2005, the Company's selling, general and administrative expenses totaled RMB 33.7 billion, representing an increase of 5.9% compared with 2004. The increase was largely due to:

- An increase of RMB 1.5 billion in the selling expenses, such as transportation costs, compared with 2004, resulted from the increase in the total sales volume of refined petroleum products and chemical products, and

increased sales volume through retail and direct distribution;

- An increase of RMB 1.2 billion in operating lease expenses compared with 2004 mainly due to the increased lease of operating facilities to increase sales volume;
- A decrease in repairing and maintenance expenses by RMB 800 million, mainly as a result of the increased maintenance carried out in 2004 for petrol stations.

Depreciation, depletion and amortisation

In 2005, the Company's depreciation, depletion and amortisation were RMB 31.4 billion, down by 2.9% compared with 2004. The decrease was mainly due to disposal of, and impairment loss on, less efficient assets in the previous years.

Exploration expenses

In 2005, the Company's exploration expenses were RMB 6.4 billion, maintaining at the same level as in 2004.

Personnel expenses

In 2005, the Company's personnel expenses were RMB 18.5 billion, down by 0.8% compared with 2004. The decrease was mainly due to the reduction of operating personnel resulting from the disposal of downhole operation assets in 2004.

Employee reduction expenses

In 2005, in accordance with the Company's voluntary employee reduction plan, the Company recorded employee reduction expenses of approximately RMB 370 million.

Taxes other than income tax

In 2005, the Company's taxes other than income tax were RMB 17.2 billion, representing an increase of 5.1% compared with 2004. The increase was

largely due to the increased consumption tax and associated surcharges as a result of the increase in the sales volume of gasoline and diesel.

Other operating expenses, net

In 2005, the Company's other operating expenses, net were RMB 5.1 billion, representing a decrease of 23.1% compared with 2004. The decrease was largely due to the decrease of RMB 2.1 billion in impairment loss on long-lived assets and an increase of RMB 400 million in net losses of disposal of assets compared with 2004.

(3) Operating profit

In 2005, the Company's operating profit was RMB 66.8 billion, representing an increase of 5.9% compared with 2004.

(4) Net finance costs

In 2005, the Company's net finance costs were RMB 4.6 billion, representing an increase of 5.7% over 2004. The increase was mainly due to the following factors:

- An increase of RMB 1.3 billion in net interest expenses as a result of the increase in long term loans borrowed in accordance with the investment plans, and the increase in short term debts attributable to the increased working capital requirement, as a result of the increased crude oil price and the expansion of production and operation;
- An increase of RMB 1.1 billion in net foreign exchange gains due to fluctuation of the foreign exchange rate.

(5) Profit before income tax

In 2005, the Company's profit from ordinary activities before income tax was RMB 63.2 billion, representing an increase of 6.1% compared with 2004.

(6) Taxation

In 2005, the Company's taxation was RMB 19.4 billion, representing an increase of 8.8% compared with 2004.

(7) Profit attributable to minority interests

In 2005, the Company's profit attributable to minority interests was RMB 2.9 billion, representing a decrease of 49.4% compared with 2004. The decrease was largely due to the decreased profit in certain subsidiaries and our privatisation of Beijing Yanhua.

(8) Profit attributable to equity shareholders to the Company

In 2005, the Company's profit attributable to equity shareholders of the Company was RMB 40.9 billion, up by 13.6% over 2004.

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 inter-segment transactions have not been eliminated in the financial data discussed in this section. In addition, the operating revenue data of each segment have included the "other operating revenues" and "other income" of the segment.

The following table sets forth 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.

	Operating Revenues		As a Percentage of the Consolidated Operating Revenues Before Elimination of Inter-segment Sales		As a Percentage of the Consolidated Operating Revenues, After Elimination of Inter-segment Sales	
	Years Ended 31 December		Inter-segment Sales		Inter-segment Sales	
	2005	2004	2005	2004	2005	2004
	RMB in millions		%		%	
Exploration and Production Segment						
External sales ⁽¹⁾	30,607	25,253	2.2	2.5	3.7	4.1
Inter-segment sales	84,423	60,053	6.2	5.9		
Operating revenues	115,030	85,306	8.4	8.4		
Refining Segment						
External sales ⁽¹⁾	97,646	68,574	7.2	6.7	11.7	11.1
Inter-segment sales	386,456	289,699	28.3	28.5		
Operating revenues	484,102	358,273	35.5	35.2		
Marketing and Distribution Segment						
External sales ⁽¹⁾	460,650	343,595	33.8	33.8	55.3	55.4
Inter-segment sales	3,172	2,831	0.2	0.3		
Operating revenues	463,822	346,426	34.0	34.1		
Chemicals Segment						
External sales ⁽¹⁾	166,624	132,183	12.2	13.0	20.0	21.3
Inter-segment sales	12,199	12,510	0.9	1.2		
Operating revenues	178,823	144,693	13.1	14.2		
Corporate and others						
External sales ⁽¹⁾	77,005	50,178	5.7	4.9	9.3	8.1
Inter-segment sales	44,897	32,046	3.3	3.2		
Operating revenues	121,902	82,224	9.0	8.1		
Operating revenues before elimination of inter-segment sales	1,363,679	1,016,922	100.0	100.0		
Elimination of inter-segment sales	(531,147)	(397,139)				
Consolidated operating revenues	832,532	619,783			100.0	100.0

Note: (1) include other operating revenues and other income.

MANAGEMENT'S DISCUSSION AND ANALYSIS (CONTINUED)

The following table sets forth the operating revenues, operating expenses and operating profit by each segment before elimination of the inter-segment transactions for the periods indicated, and the rate of changes from 2004 to 2005.

	Years Ended 31 December		Rate of Change (%)
	2005	2004	
	(RMB in millions)		
Exploration and Production Segment			
Operating revenues	115,030	85,306	34.8
Operating expenses	68,159	59,692	14.2
Operating profit	46,871	25,614	83.0
Refining Segment			
Operating revenues	484,102	358,273	35.1
Operating expenses	487,607	352,330	38.4
Operating (loss) profit	(3,505)	5,943	(159.0)
Marketing and Distribution Segment			
Operating revenues	463,822	346,426	33.9
Operating expenses	453,472	331,710	36.7
Operating profit	10,350	14,716	(29.7)
Chemicals Segment			
Operating revenues	178,823	144,693	23.6
Operating expenses	164,527	125,972	30.6
Operating profit	14,296	18,721	(23.6)
Corporate and others			
Operating revenues	121,902	82,224	48.3
Operating expenses	123,100	84,149	46.3
Operating loss	(1,198)	(1,925)	(37.8)

(1) Exploration and production segment

Most of the crude oil and a small portion of the natural gas produced by the exploration and production segment were used for the Company's refining and chemicals production. Most of the natural gas and a small portion of crude oil produced were sold to refineries owned by Sinopec Group Company and other customers.

In 2005, the operating revenues of this segment were RMB 115 billion, representing an increase of 34.8% over 2004, largely due to the increase in the sales price and volume of crude oil compared with those in 2004.

In 2005, this segment sold 36.86 million tonnes of crude oil and 4.44 billion cubic meters of natural gas, representing an increase of 1.7% and 14.7% respectively

compared with those in 2004. The average realised price of crude oil was RMB 2,665 per tonne (approximately US\$ 45.9 per barrel), representing an increase of 36.2% over 2004. The average realised price of natural gas was RMB 673 per thousand cubic meters, representing an increase of 9.3% compared with 2004.

In 2005, the operating expenses of this segment were RMB 68.2 billion, representing an increase of 14.2% compared with 2004. The increase was mainly due to:

- The rise of raw materials and utilities costs attributed to approximately RMB 2.2 billion in the increase of operating expenses compared with 2004;

- The increase of approximately RMB 1.6 billion in other operating expenses including expenses related to the sales of materials compared with 2004;
- The increase of RMB 1.5 billion resulted from the increased production activities in this segment to take advantage of the high crude oil price environment.
- The increase of approximately RMB 700 million in resources tax due to the change of tax rate, and the increased construction tax, education surcharges as well as mineral resources compensation fees associated with the increased sales revenues of crude oil.

In 2005, in light of the high crude oil price, the Company increased its oil production in higher cost areas, which, together with the increased water and electricity rates for oil and gas production, contributed to the increase of the lifting cost of crude oil and natural gas by 20.8% from US\$ 6.72 per barrel in 2004 to US\$ 8.12 per barrel in 2005.

In 2005, this segment's operating profit was RMB 46.9 billion, representing an increase of 83.0% compared with 2004.

(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 oil products, selling gasoline, diesel and kerosene to marketing and distribution segment, selling a portion of

chemical feedstock to chemicals segment and selling other refined oil products to domestic and foreign customers.

In 2005, this segment's operating revenues were approximately RMB 484.1 billion, representing an increase of 35.1% compared with 2004. The increase was

mainly due to the increased sales prices and sales volume of various refined petroleum products.

The following table sets forth the sales volumes, average realised prices and the respective rate of changes of the Company's major refined oil products of the segment from 2004 to 2005.

	Sales Volume (thousand tonnes)		Rate of Change (%)	Average Realised Prices (RMB per tonne)		Rate of Change (%)
	2005	2004		2005	2004	
Gasoline	21,520	21,420	0.5	3,763	2,977	26.4
Diesel	54,128	50,271	7.7	3,462	2,890	19.8
Chemical feedstock	26,446	23,165	14.2	3,734	2,682	39.2
Other refined petroleum products	32,724	31,710	3.2	3,121	2,583	20.8

In 2005, the sales revenues of gasoline by the segment were RMB 81 billion, representing an increase of 27.0% compared with 2004, accounting for 16.7% of this segment's operating revenues.

In 2005, the sales revenues of diesel by the segment were RMB 187.4 billion, representing an increase of 29.0% compared with 2004, accounting for 38.7% of this segment's operating revenues.

In 2005, the sales revenues of chemical feedstock by the segment were RMB 98.8 billion, representing an increase of 58.9% compared with 2004, accounting for 20.4% of this segment's operating revenues. The increase in the sales revenues of chemical feedstock was more than that in the sales revenues of gasoline and diesel, which was primarily due to the smaller increase in gasoline and diesel prices as compared with chemical feedstock prices as a result of tight government control over domestic gasoline and diesel prices. In addition, the segment also increased the sales volume of chemical feedstock.

In 2005, the sales revenues of refined petroleum products other than gasoline, diesel and chemical feedstock were RMB 102.1 billion, representing an increase of

24.7% compared with 2004, accounting for 21.1% of this segment's operating revenues.

In 2005, the operating expenses of the segment were RMB 487.6 billion, representing an increase of 38.4% compared with 2004. The increase was primarily due to the increase in crude oil price and throughput.

In 2005, the average crude oil cost was RMB 3,064 per tonne (approximately US\$ 50.96 per barrel), representing an increase of 35.5% compared with 2004. Refining throughput was 136.08 million tonnes (excluding amounts processed for third parties) in 2005, representing an increase of 5.6% compared with 2004. The total crude oil costs in 2005 were RMB 416.9 billion, representing an increase of 43.1% compared with 2004, accounting for 85.5% of the total operating expenses of the segment, up by 2.8 percentage points over 2004.

In 2005, although crude oil prices remaining at a high level; the Chinese government implemented tight control over domestic prices of refined oil products, as a result, the Company's refining segment incurred significant loss. To ensure our refining segment's normal operation, the Company

strived to lower its production cost and controlled the internal transfer prices between the different segments. In addition, through timely communication with the government, the Company received a one-time financial grant in the amount of RMB 9.4 billion. In 2005, the operating losses of the segment were RMB 3.5 billion, representing a decrease in operating profit of RMB 9.4 billion compared with 2004. The refining margin was US\$ 1.32 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) in 2005, representing a decrease of US\$ 2.54 per barrel, or 65.8%, from US\$ 3.86 per barrel in 2004.

In 2005, the refining cash operating cost (defined as operating expenses less the purchase costs of crude oil and refining feedstock, depreciation and amortisation, taxes other than income tax, other business expenses and adjustments; and divided by the throughput of crude oil and refining feedstock) was US\$ 1.91 per barrel, representing a decrease of US\$ 0.07 per barrel, or 3.5%, compared with 2004. This change was mainly due to the continued reduction of costs and increased throughput in this segment.

(3) Marketing and distribution segment

The business activities of marketing and distribution segment include purchasing refined oil products from the refining segment and third parties, and wholesale selling of refined oil products to domestic customers, directly selling and retail distributing the refined oil products through the retail network owned by this segment and provision of related services.

In 2005, the operating revenues of this segment were RMB 463.8 billion, representing an increase of 33.9% compared with 2004. The increase was primarily due to the increases in sales

volume and prices of gasoline, diesel and kerosene including jet fuel, the continuous optimisation of marketing structure to further increase the percentage of retail sales in the total sales volume of gasoline and diesel.

In 2005, the operating revenues from sales of gasoline and diesel were RMB 390.2 billion, accounting for 84.1% of the operating revenues of this segment. The percentage of retail sales in the total sales volume of gasoline and diesel increased from 54.6% in 2004 to 59.5% in 2005, up by 5.0 percentage points. The percentage of sales of gasoline and diesel by direct sales

in the total sales volume decreased from 20.3% in 2004 to 19.1% in 2005, down by 1.2 percentage points. The percentage of wholesale sales in the total sales volume of gasoline and diesel decreased from 25.1% in 2004 to 21.3% in 2005, down by 3.8 percentage points.

The following table sets forth the sales volumes, average realised prices and the respective rate of changes of the four major product categories in 2004 and 2005 in different forms of sales channels for gasoline and diesel.

	Sales Volume (thousand tonnes)			Average Realised Prices (RMB per tonne)		
	2005	2004	Rate of Change (%)	2005	2004	Rate of Change (%)
Gasoline	30,319	27,508	10.2	4,430	3,762	17.8
Of which: Retail	21,629	18,416	17.4	4,562	3,911	16.6
Direct Sales	2,839	2,890	(1.8)	4,206	3,536	18.9
Wholesale	5,851	6,202	(5.7)	4,050	3,426	18.2
Diesel	67,925	61,097	11.2	3,767	3,215	17.2
Of which: Retail	36,896	29,997	23.0	3,885	3,351	15.9
Direct Sales	15,909	15,123	5.2	3,786	3,211	17.9
Wholesale	15,120	15,978	(5.4)	3,458	2,963	16.7
Kerosene	5,955	5,623	5.9	3,710	2,923	26.9
Fuel oil	13,334	9,685	37.7	2,374	1,793	32.4

In 2005, the segment's operating expenses were RMB 453.5 billion, representing an increase of 36.7% compared with 2004. The increase was mainly due to the increase in purchase expenses, of which, purchase expenses for gasoline and diesel were RMB 355.5 billion, up by 36.3% over 2004, accounting for 78.4% of the segment's operating expenses. In 2005, average purchase prices of gasoline and diesel increased by 27.3% and 20.9%, respectively, to RMB 3,844 per tonne and RMB 3,518 per tonne compared with 2004. The purchase volume of gasoline and diesel increased by 10.2% and 11.2%, respectively, compared with 2004 to 30.32 million tonnes and 67.93 million tonnes.

In 2005, the segment's cash selling cost (defined as the operating expenses less the purchasing costs, taxes other than income tax, depreciation and amortisation, and divided by the sales volume) was RMB 162.55 per tonne, representing a decrease by 2.7% compared with 2004. This decrease was primarily due to the segment's continuous effort in cost saving and the scale effect of increase in sales volume.

In 2005, the segment's operating profit was RMB 10.4 billion, representing a decrease of 29.7% compared with 2004.

(4) Chemicals Segment

The business activities of the chemicals segment include purchasing chemical feedstock from the refining segment and third parties, and producing, marketing and distribution of petrochemical products and inorganic chemical products.

In 2005, the segment's operating revenues were RMB 178.8 billion, representing an increase of 23.6% compared with 2004,

which was primarily due to the increases in prices and sales volume of major chemical products.

In 2005, the sales revenues of the Company's six major categories of chemical products (i.e. basic organic chemicals, monomers and polymers for synthetic fiber, synthetic resin, synthetic fiber, synthetic rubber and chemical fertiliser) totaled approximately RMB 159.5 billion,

representing an increase of 27.9% compared with 2004, accounting for 89.2% of the total operating revenues of this segment.

The following table sets forth the sales volume, average realised price and the respective rate of changes for each of these six categories of chemical products of this segment from 2004 to 2005.

	Sales Volume (thousand tonnes)			Average Realised Prices (RMB/Tonne)		
	2005	2004	Rate of Change (%)	2005	2004	Rate of Change (%)
Basic organic chemicals	9,509	7,384	28.8	4,828	4,292	12.5
Monomers and polymers for synthetic fiber	3,003	2,704	11.1	8,872	8,022	10.6
Synthetic resin	6,366	5,402	17.8	9,007	7,986	12.8
Synthetic fiber	1,585	1,741	(9.0)	11,123	10,818	2.8
Synthetic rubber	703	563	24.9	13,000	10,247	26.9
Chemical fertiliser	1,824	2,659	(31.4)	1,539	1,355	13.6

In 2005, the operating expenses of the segment were RMB 164.5 billion, representing an increase of 30.6% compared with 2004. The increase was primarily due to the price increases of various raw materials, the increased consumption of various raw materials and auxiliary materials, the increased utilities expenses and other variable expenses and fixed costs, all associated with the increased production of the chemical products. More specifically:

- Affected by the increase in the consumption of raw materials and their unit prices, the costs for raw materials increased by RMB 37.6 billion compared with 2004. Consumption of naphata and other cracking materials increased by 2.43 million tonnes over 2004, and unit price of raw materials was RMB 3,704 per tonne, up by RMB 1,160 per tonne over 2004.

- Due to increased sales volume of chemical products, selling expenses, such as transportation costs, increased by RMB 700 million compared with 2004.

In 2005, the segment's operating profit was RMB 14.3 billion, representing a decrease of RMB 4.4 billion compared with 2004.

(5) Corporate and others

The business activities of corporate and others mainly consist of the import and export businesses of the subsidiaries, research and development activities of the Company and managerial activities of its headquarters.

In 2005, the operating revenues of corporate and others were RMB 121.9 billion, representing an increase of 48.3% compared with 2004. The increase was due

to the fact that China Petrochemical International Co., Ltd. and its subsidiaries increased their trading volume in importing and exporting crude oil and petrochemical products and other business transactions.

In 2005, the segment's operating expenses were RMB 123.1 billion, representing an increase of 46.3% compared with 2004. The increase was primarily due to the increased purchase expenses of China Petrochemical International Co., Ltd. and its subsidiaries associated with the increase in their revenues.

The segment's operating losses were RMB 1.2 billion, representing a decrease of RMB 700 million compared with 2004.

3 ASSETS, LIABILITIES, EQUITY AND CASH FLOWS

The Company's primary sources of funding were from 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 borrowings.

(1) Assets, liabilities and equity

Unit: RMB in millions

	As of 31 December		Amount Changes
	2005 RMB millions	2004 RMB millions	
Total assets	537,321	474,594	62,727
Current assets	145,291	120,271	25,020
Non-current assets	392,030	354,323	37,707
Total liabilities	284,325	250,508	33,817
Current liabilities	170,649	146,277	24,372
Non-current liabilities	113,676	104,231	9,445
Equity attributable to equity shareholders of the Company	223,556	193,040	30,516
Share capital	86,702	86,702	—
Reserves	136,854	106,338	30,516
Minority interests	29,440	31,046	(1,606)
Total equity	252,996	224,086	28,910

The Company's total assets were RMB 537.321 billion, representing an increase of RMB 62.727 billion compared with those at the end of 2004, of which:

- The current assets increased by RMB 25.02 billion from those at the end of 2004 to RMB 145.291 billion. The increase was mainly due to the increases in inventories of crude oil and refined oil products as a result of the increase in prices and volume of crude oil and refined oil products.
- The non-current assets increased by RMB 37.707 billion from those at the end of 2004 to RMB 392.03 billion. The increase was mainly due to the increase of RMB 30.45 billion in property, plant and equipment and the increase of RMB 2.082 billion in construction in progress.

The total liabilities were RMB 284.325 billion, representing an increase of RMB 33.817 billion compared with those at the end of 2004, of which :

- The current liabilities increased by RMB 24.372 billion from those at the end of 2004 to RMB 170.649 billion. The increase was mainly due to the increase of RMB 29.175 billion in accounts payable associated with the expansion of production and operation, and the decrease of RMB 7.554 billion in bills payable resulted from adjustment of financing structures.
- The non-current liabilities increased by RMB 9.445 billion from those at the end of 2004 to RMB 113.676 billion. The decrease was mainly due to the fact that long-term loans of the Company increased by RMB 9.405 billion compared with those at the end of 2004.

The equity attributable to equity shareholders of the Company was RMB 223.556 billion, representing an increase of RMB 30.516 billion in reserves compared with those at the end of 2004.

(2) Cash flow

In 2005, the Company's cash and cash equivalent decreased by RMB 2.614 billion, which, together with the decrease of RMB 22 million due to the change in foreign exchange rates, contributed to the net decrease of RMB 2.636 billion, down from RMB 16.381 billion as of 31 December, 2004 to RMB 13.745 billion as of 31 December 2005.

The following table sets forth the major items on the consolidated cash flow statements in 2004 and 2005.

Major items of cash flows

Unit: RMB in millions

	Years Ended 31 December	
	2005	2004
Net cash flow from operating activities	76,497	69,081
Net cash flow from investing activities	(71,051)	(73,992)
Net cash flow from financing activities	(8,060)	5,028
Net (decrease)/increase in cash and cash equivalent	(2,614)	117

Net cash flow from operating activities was RMB 76.497 billion.

In 2005, profit before taxation was RMB 63.228 billion; after adjusting the non-cash expenses items, the adjusted cash flow from operating activities was RMB 105.23 billion. Major non-cash expense items included: depreciation, depletion and amortisation of RMB 31.413 billion, dry holes costs of RMB 2.992 billion, net losses from disposal of properties, plants and equipments of RMB 2.095 billion, and impairment losses on long-lived assets of RMB 1.851 billion.

The changes in operating-related accounts receivable and payable items reduced cash inflow of RMB 1.828 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 settlement increased, of which, the changes in inventory led to a decreased cash inflow of RMB 24.998 billion, the increase in accounts payable due to the increase in operation and purchase costs led to an increased cash inflow of RMB 28.97 billion, and the increase in accounts receivable and other assets led to a decreased cash inflow of RMB 5.8 billion.

After adjusting the non-cash expense items and accounts receivable and payable items with regard to the profit before taxation, and deducting the cash outflow for payment of income tax totaling RMB 20.998 billion, and the net cash outflow for net interests paid as well as the dividend received totaling RMB 5.907 billion, the net cash flow from operating activities was RMB 76.497 billion.

Net cash flow for investing activities was RMB 71.051 billion.

The net cash flow for investing activities mainly represented cash outflows of RMB 63.135 billion for capital expenditures and RMB 4.324 billion for acquisition of minority interests in subsidiaries such as Beijing Yanhua by the Company, and cash outflows of RMB 2.474 billion for capital expenditures by the Company's jointly controlled entities.

Net cash flow for financing activities was RMB 8.06 billion.

The net cash outflow for financing activities increased because the amount of newly added bank loans and other loans by the Company and its jointly controlled entities was less than

the amount of repayment of bank loans and other loans, resulting in a cash outflow of RMB 2.921 billion. The net cash outflow for financing activities was further increased by the distribution of final dividend for 2004 and interim dividend for 2005 totaling RMB 10.404 billion; and the distribution of cash in connection with petrochemical assets and catalyst assets totaling RMB 3.128 billion. On the other hand, the cash outflow was partially offset by the proceeds from the issuance of short term financial bonds totaling RMB 9.875 billion.

During 2005, the Company captured the opportunity of robust market demand to steadily increase cash flow from operating activities. At the same time, the Company tightened its control over integrated cash management and strictly controlled the scale of cash and cash equivalents to decrease the amount of idle cash, and accelerate capital turnover. As a result, the overall cash 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 recognised during the period in which they incurred. In 2005, the Company's research and development expenses were RMB 2.243 billion.

Environmental expenses refer to the normal routine pollutant discharge fees paid by the Company, excluding any capitalised costs of pollutant discharge facilities. In 2005, the Company's environmental expenses were RMB 493 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 IFRS and those under the PRC Accounting Rules and Regulations are set out in Section C of the financial statements of the Company on pages 164 to page 165 of this report.

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

Unit: RMB in millions

	Years Ended 31 December	
	2005	2004
	RMB in millions	RMB in millions
Income from principal operations		
Exploration and Production Segment	104,285	76,023
Refining Segment	469,266	352,548
Marketing and Distribution Segment	462,464	345,671
Chemicals Segment	172,982	122,118
Others	121,265	79,145
Elimination of inter-segment sales	(531,147)	(384,873)
Consolidated income from principal operations	799,115	590,632
Cost of sales, sales taxes and surcharges		
Exploration and Production Segment	40,118	36,073
Refining Segment	477,843	340,360
Marketing and Distribution Segment	427,308	306,309
Chemicals Segment	149,431	96,994
Others	118,152	78,410
Elimination of inter-segment cost of sales	(527,451)	(382,736)
Consolidated cost of sales, sales taxes and surcharges	685,401	475,410
Profit from principal operations		
Exploration and Production Segment	59,732	37,997
Refining Segment	(7,838)	12,005
Marketing and Distribution Segment	35,156	39,362
Chemicals Segment	23,551	25,123
Others	3,113	735
Consolidated profit from principal operations	113,714	115,222
Net profit	39,558	32,275

Profit from principal operation: in 2005, the Company's realised profit from principal operations was RMB 113.714 billion, representing a decrease of RMB 1.508 billion compared with 2004. The decrease was mainly due to the fact that crude oil price continued to be volatile and remained at a high level in international market, and the Chinese government implemented tight price control over domestic refined oil product, resulting in smaller increase in the price of refined oil products as compared with that in crude oil price. The Company strived to expand sales volume and

optimise marketing and distribution structures, but was still unable to completely offset the pressure from the increased crude oil costs. As a result, profit from principal operations declined compared with 2004.

Net profit: in 2005, the net profit realised by the Company was RMB 39.558 billion, representing an increase of RMB 7.283 billion, or 22.57%, over that in 2004.

Financial data prepared under the PRC Accounting Rules and Regulations:

Unit: RMB in millions

	At 31 December		Changes
	2005	2004	
Total assets	520,572	460,081	60,491
Long-term liabilities	107,774	98,407	9,367
Shareholders' funds	215,623	186,350	29,273

Analysis of changes:

Total assets: in 2005, the total assets increased by RMB 60.491 billion from those at the end of 2004 to RMB 520.572 billion. The increase was primarily due to a number of factors, of which, the fixed assets increased by RMB 32.706 billion as a result of the Company's implementation of a prudent investment policy to meet the market demands; the current assets increased by RMB 24.84 billion resulted from increases in inventories of crude oil and refined oil products in line with the rise of price and expansion of production and operation; other assets, including intangible assets, increased by RMB 2.945 billion.

Long-term liabilities: the Company's long-term liabilities were RMB 107.774 billion as of 31 December 2005, representing an increase of RMB 9.367 billion from those as of 31 December 2004, which was primarily due to the

increase in long term borrowings in line with investment plans.

Shareholders' funds: At the end of 2005, shareholders' funds of the Company was RMB 215.623 billion, representing an increase of RMB 29.273 billion compared with those at the end of 2004. This increase was primarily due to: first, the realised net profit in 2005 amounted to RMB 39.558 billion; second, in 2005, the distribution of the final dividend of 2004 amounted to RMB 6.936 billion and the interim dividend for 2005 totaled RMB 3.468 billion.

(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 166 to page 168 of this report.



SIGNIFICANT EVENTS

1 DISCOVERY OF LARGE-SCALE MARINE FACIES GAS FIELD - PUGUANG GAS FIELD

The Company discovered the largest and most abundant marine facies natural gas field (Puguang Gas Field) in China, which is located in northeast Sichuan Province. According to the appraisal undertaken by the Mineral Resource Reserve Evaluation Center under the Ministry of Land and Resources, reserve in place in the Puguang Gas Field is estimated at 251.071 billion cubic meters, with technical recoverable reserve of 188.304 billion cubic meters. Puguang Gas Field meets the conditions for commercial development. Sinopec Corp. has prepared a Phase I Development Plan, which plans to achieve commercial production of more than 4 billion cubic meters per annum of gas by 2008 and 8 billion cubic meters per annum by 2010. In connection with the contemplated project, a natural gas pipeline from northeast Sichuan Province to Jinan, Shandong Province will be constructed. The government has approved Sinopec Corp. to proceed with preparatory work for the project. The discovery of Puguang Gas Field is attributable to the innovations in marine facies exploration theory, exploration methodology, exploration technology and management innovation, representing a major breakthrough in marine facies exploration theory and practices in China. The discovery expanded the Company's exploration territory, thereby paving the way for future growth in both reserve and production.

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

At the end of the reporting period, the major undertakings given by Sinopec Group Company to the Company included:

- i Complying with agreements regarding 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 Reorganisation Agreement (as defined in the Prospectus for the Issuance of H Shares);
- iv Granting licenses for intellectual property rights;
- v Refraining from involvement in competition within the industry; and
- vi Withdrawing from the business competition and conflict of interests with Sinopec Corp.

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

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

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 for the acquisition of Sinopec National Star 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 and RMB 814 million was used for building the Ningbo-Shanghai-Nanjing crude oil pipeline. RMB 1.061 billion was used in 2004 for the southwest oil products pipeline project. RMB 611 million was used during this reporting period for the southwest oil products pipeline project. As of 30 June 2005, the proceeds from issuance of A shares were exhausted.

4 ISSUANCE OF CORPORATE BONDS AND INTEREST PAYMENT

On February 24, 2004, Sinopec Corp. successfully issued domestic 10-year term corporate bonds which amounted to RMB 3.5 billion with a credit rating of AAA and a fixed coupon rate of 4.61%. On September 28, 2004, the aforementioned corporate bonds were listed on the Shanghai Stock Exchange. For further details, please refer to Sinopec Corp.'s announcement published in China Securities Journal, Shanghai Securities News, and Securities Times in Mainland China, and South China Morning Post and Hong Kong Economic Times in Hong Kong on February 24, 2004 and September 28, 2004, respectively. The balance of the outstanding principal under the corporate bond issuance was RMB 3.5 billion as of December 31, 2005. As of February 24, 2006, Sinopec Corp. had repaid the full amount of coupon interest for the second interest payment year.

5 ISSUANCE OF SHORT-TERM COMMERCIAL PAPER

On September 19, 2005, Sinopec Corp. convened the first Extraordinary General Meeting of Shareholders for 2005, at which a resolution was passed for issuance of short term commercial paper. For details, please refer to Sinopec Corp.'s announcements published in China Securities Journal, Shanghai Securities News, and Securities Times in Mainland China, and Hong Kong Economic Times and South China Morning Post in Hong Kong on September 20, 2005. The tranche of six-month 2.54% commercial paper was issued on October 24, 2005 to institutional investors in PRC inter-bank bond market (excluding investors prohibited by relevant PRC laws and regulations), raising a total of RMB 10 billion.

6 ESTABLISHMENT OF SINOPEC CHEMICALS SALES COMPANY

Sinopec Chemicals Sales Company was established on May 10, 2005 in Beijing. To meet the requirements posed by the new system and mechanism, the Chemicals Sales Company will integrate the Company's marketing strategy, branding strategy, market development, logistics optimisation, resource allocation and sales activities, so as to fully leverage the overall strength of extensive operations and maximise overall profitability.

7 AUDITORS

At the Annual General Meeting of Sinopec Corp. for the year 2004 held on 18 May 2005, KPMG Huazhen and KPMG were re-appointed as the domestic and overseas auditors of Sinopec Corp. for the year 2005, respectively, and the Board of Directors was authorised to determine their remunerations. As approved at the twenty-fifth meeting of the Second Session of the Board of Directors of Sinopec Corp., the audit fee for 2005 was HK\$ 48 million. The financial statements for the year 2005 have been audited by KPMG Huazhen and KPMG. KPMG Huazhen's China registered Certified Public Accountants are Wu Wei and Zhang Jingjing.

KPMG Huazhen and KPMG have provided auditing services to Sinopec Corp. for 5.5 years, since the second half of 2000, and the first audit engagement was entered into in March 2001.

During the reporting period, both KPMG Huazhen and KPMG did not provide any non-audit service to the Company.

Auditors appointed	KPMG Huazhen (Domestic)	KPMG (Overseas)
Audit fees of Sinopec Corp. for year 2005	HK\$ 1,500,000 (unpaid) HK\$ 1,500,000 (paid)	HK\$ 21,500,000 (unpaid) HK\$ 23,500,000 (paid)
Audit fees of Sinopec Corp. for year 2004	HK\$ 3,000,000 (paid)	HK\$ 47,000,000 (paid)
Audit fees of Sinopec Corp. for year 2003	HK\$ 3,000,000 (paid)	HK\$ 52,000,000 (paid)
Travel and other expenses	Borne by the firm	Borne by the firm

Note:

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.

SIGNIFICANT EVENTS (CONTINUED)

8 ACQUISITION OF SHARES OF BEIJING YANHUA HI-TECH CATALYST CO., LTD. HELD BY YANHUA HI-TECH CORP.

On June 21, 2005, Sinopec Corp. entered into an agreement with Beijing Yanhua Hi-tech Co., Ltd., pursuant to which Sinopec Corp. acquired 95% equity of Beijing Yanhua Hi-tech Catalyst Co., Ltd., held by Yanhua Hi-tech Corp., at a consideration of RMB 195 million.

9 DELISTING OF BEIJING YANHUA

According to the Agreement of Merger by Absorption between Beijing Feitian Petrochemical Company Limited ("Beijing Feitian"), a wholly-owned subsidiary of Sinopec Corp. established for the purpose of such merger, and Beijing Yanhua Petrochemical Company Limited ("Beijing Yanhua") which was signed on 29 December 2004, Beijing Feitian would purchase the listed shares of Beijing Yanhua from shareholders at the price of HK\$ 3.80 per share in cash, the total consideration being approximately HK\$ 3.8456 billion. Beijing Yanhua was delisted on 11 May 2005. Please refer to Sinopec Corp.'s announcement published in China Securities Journal, Shanghai Securities News 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, respectively, for details.

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

On October 18, 2005, Sinopec Corp. and China Changjiang National Shipping Group ("Changhang Group") entered into a share transfer agreement, under which Sinopec Corp. agreed to transfer to Changhang Group a total of 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). For further details, please refer to the "Report on Changes of Shareholdings in Sinopec Wuhan Phoenix Company Limited" dated October 20, 2005 published by Sinopec Corp. on the website of the Shanghai Stock Exchange. The proposed asset restructuring is pending approval by the China Securities Regulatory Commission ("CSRC").

11 MERGER BY ABSORPTION OF ZHENHAI REFINERY AND CHEMICALS

According to the Agreement of Merger by Absorption between Ningbo Yonglian Co., Ltd. ("Ningbo Yonglian"), a wholly owned subsidiary of Sinopec Corp. established for the purpose of such a merger, and Sinopec Zhenhai Refinery and Chemicals Co., Ltd. ("ZRCC") signed on November 12, 2005, Ningbo Yonglian will purchase the listed H shares of ZRCC from its shareholders at the price of HK\$ 10.60 per share in cash, the total consideration being HK\$ 7.672 billion. For further details, please refer to Sinopec Corp.'s announcement published in China Securities Journal, Shanghai Securities News and Securities Times in Mainland China and South China Morning Post and Hong Kong Economic Times in Hong Kong on November 14, 2005. The proposed merger was approved on January 12, 2006 at the general meeting of shareholders and the general meeting of independent shareholders of ZRCC and was approved by the shareholders of Ningbo Yonglian, as well as by domestic and overseas securities regulators.

12 TENDER OFFER BY SINOPEC CORP. TO FOUR A-SHARE SUBSIDIARIES

On February 25, 2006, the 24th meeting of the Second Session of the Board of Directors of Sinopec Corp. respectively approved its voluntary tender offers to acquire all the tradable shares of Sinopec Qilu Petrochemical Co., Ltd. at a price of

RMB 10.18 per share, all the tradable shares of Sinopec Yangzi Petrochemical Co., Ltd. at a price of RMB 13.95 per share, all the tradable shares of Sinopec Zhongyuan Oil & Gas Hi-tech Co., Ltd. at a price of RMB 12.12 per share, all the tradable shares of Sinopec Shengli Oil Field Dynamic (Group) Co., Ltd. at a price of RMB 10.30 per share and all the non-tradable shares of Sinopec Shengli Oil Field Dynamic (Group) Co., Ltd. held by investors other than Sinopec Corp. at a price of RMB 5.60 per share. For further details, please refer to relevant announcements published in China Securities Journal, Shanghai Securities News and Securities Times in Mainland China on February 16 and March 6, 2006 (Sinopec Shengli Oil Field Dynamic (Group) Co., Ltd.'s announcements were only published in China Securities Journal and Securities Times).

13 MAJOR PROJECTS

(1) Tianjin one million tpa ethylene project

Sinopec Tianjin one million tpa ethylene and associated facilities project was approved by the State Council in December 2005. The project includes the ethylene project, revamping of refinery and thermal power generation facilities, with its total investment being about RMB 21 billion, and Sinopec Corp. is proceeding with preparatory work for the project.

(2) ZRCC one million tpa ethylene project

ZRCC one million tpa ethylene and associated facilities project was approved by the State Council in March 2006. The project includes the ethylene project, expansion of thermal power generation facilities, with its total investment being about RMB 22 billion, and Sinopec Corp. and ZRCC are proceeding with preparatory work for the project.

14 RECEIPT OF ONE-OFF REBATE FROM THE CENTRAL GOVERNMENT

During the reporting period, international crude oil prices fluctuated and climbed at a high level, and domestic prices of refined oil products were tightly controlled. In December 2005, Sinopec Group Company received a Circular, referenced as Cai Qi [2005] No. 298, from the Ministry of Finance, pursuant to which the central government provided a one-off rebate of RMB 10 billion to Sinopec Group Company. Sinopec Corp. received RMB 9.415 billion out of the RMB 10 billion, which has been included as other income in the financial statements for 2005.

15 THE TRANSFER OF STATE-OWNED SHARES FROM CBD AND CINDA TO SINOPEC GROUP COMPANY

During the reporting period, China Development Bank (“CDB”) and China Cinda Asset Management Corporation (“Cinda”), both of which are shareholders of Sinopec Corp., entered into a share transfer agreement with Sinopec Group Company, pursuant to which CDB and Cinda respectively transferred 2 billion (2.31% of the total issued shares of Sinopec Corp.) and 871,763,776 (1.01% of the total issued shares of Sinopec Corp.) state-owned shares to Sinopec Group Company. The respective total cash considerations of RMB 4.2 billion and RMB 1.8307 billion were paid to CDB and Cinda by Sinopec Group Company. The above-mentioned share transfers were completed on December 29, 2005.

16 PRELIMINARY PLAN FOR PROFIT APPROPRIATION FOR 2005

In accordance with the provisions of Sinopec Corp.’s Articles of Association, the appropriation of profit for the relevant fiscal year would be conducted on the basis of distributable profit determined in accordance with the PRC Accounting Rules and Regulations or IFRS, whichever is lower. Thus, on the basis of the distributable profit of Sinopec Corp. audited under IFRS, which was RMB 38.907 billion, after deducting the statutory surplus reserve and the statutory

public welfare fund totaled RMB7.912 billion, and deducting the final dividend for year 2004 distributed in 2005, the interim dividend for 2005 totaled RMB 10.404 billion, the amount of undistributed profit of Sinopec Corp. for 2005 was RMB 20.591 billion (for details please refer to Note 33 to the financial statements prepared under IFRS). On the basis of the total number of 86,702,439,000 shares at the end of 2005, the Board proposed a final dividend of RMB 0.09 per share (including tax) in cash for year 2005 (totaled RMB 7.803 billion), adding the distributed interim cash dividends of 0.04 per share (totaled RMB 3.468 billion), the total cash dividends for 2005 shall be RMB 0.13 per share (RMB 11.271 billion in total). The preliminary plan for profit appropriation will be subject to consideration and approval at Annual General Meeting of Shareholders for year 2005.

17 DE-REGISTRATION OF SINOPEC SHENGLI OIL FIELD CO., LTD.

Sinopec Corp. de-registered Sinopec Shengli Oil Field Co., Ltd. and on January 16, 2006 established Shengli Oilfield branch. Prior to the de-registration, Sinopec Shengli Oil Field Co., Ltd. was a wholly owned subsidiary of Sinopec Corp.

18 REDUCTION OF EMPLOYEES

Sinopec Corp. plans to reduce the number of employees by 100,000 through retirement, voluntary resignation and/or dismissal within 5 years, from 2001 to 2005, to improve its efficiency and profitability. In 2005, Sinopec Corp. assumed RMB 369 million in voluntary resignation compensation for approximately 7,000 voluntarily resigned employees. By the end of 2005, the aggregate net headcount reduction during the past five years had amounted to 143,700 persons.

19 MATERIAL LITIGATION AND ARBITRATION EVENTS

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

SIGNIFICANT EVENTS (CONTINUED)

20 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 the Agreement)	Guaranteed amount (RMB millions)	Type of guarantee	Term	Whether completed or not	Whether for a connected party ¹
Shanghai Secco Petrochemical Co, Ltd.	9 February 2002	2,857	Joint and several liability	9 February 2002 - 20 December 2021	No	Yes
Shanghai Secco Petrochemical Co, Ltd.	9 February 2002	4,062	Joint and several liability	9 February 2002 - 20 December 2013	No	Yes
BASF-YPC Co., Ltd.	7 March 2003	4,680	Joint and several liability	7 March 2003 - 31 December 2008	No	Yes
Yueyang Sinopec Shell Coal Gasification Co. Ltd.	10 December 2003	377	Joint and several liability	10 December 2003 - 10 December 2017	No	Yes
Fujian Zhangzhao Expressway Service Company Limited	21 January 2003	10	Joint and several liability	21 January 2003 - 31 October 2007	No	Yes
Balance of Guarantee by Shanghai Petrochemical for its associates and joint ventures		38			No	Yes
Total amount of guarantee provided during the reporting period ²						None
Total amount of guarantee outstanding at the end of the reporting period ²						RMB 12,024 million
Guarantees for subsidiaries						
Total amount of guarantee provided for subsidiaries during the reporting period						RMB 27 million
Total amount of guarantee for subsidiaries outstanding at the end of the reporting period						RMB 2,583 million
Total amount of guarantee (including those provided for subsidiaries)						
Total amount of guarantee ³						RMB 14,607 million
Total amount of guarantee as a percentage of Sinopec Corp.'s net assets						6.7%
Guarantee provided for shareholders, effective controller and connected parties						None
Amount of debt guarantee provided directly or indirectly for the companies with liabilities to assets ratio of over 70%						RMB 179 million
The amount of guarantee in excess of 50% of the net assets						None
Total amount of the above three guarantee items ⁴						RMB 179 million

Note 1: As defined in the stock listing rules of Shanghai Stock Exchange.

Note 2: The amount of guarantee provided during the reporting period and the amount of guarantee outstanding at the end of the reporting period include the guarantees provided by the subsidiaries to external parties. The amount of the guarantee provided by these subsidiaries is the guarantee provided by the Company's subsidiaries multiplied by the shareholdings held by Sinopec Corp. in such subsidiaries.

Note 3: Total amount of guarantee is the aggregate of the above "total amount of guarantee outstanding at the end of the reporting period (excluding the guarantee provided for subsidiaries)" and "total amount of guarantee for subsidiaries outstanding at the end of the reporting period".

Note 4: "Total guarantee amount of the above three guarantee items" is the aggregate of "guarantee provided for shareholders, effective controller and connected parties", "amount of debt guarantee provided directly or indirectly for the companies with liabilities to assets ratio of over 70%" and "the amount guarantee in excess of 50% of the net assets". If the above three conditions are borne in one guarantee item, they will be calculated only once in the total amount.

Material Guarantees under Performance

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 currencies for the Shanghai Secco project loan, and the amount of guarantee was equivalent to RMB 6.992 billion. For further details, please refer to Sinopec Corp.'s results announcement for the year 2001 published in China Securities Journal, Shanghai Securities News and Securities Times in Mainland China and South China Morning Post and Hong Kong Economic Times in Hong Kong on 2 April 2002.

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 completion of construction of the BASF-YPC project. 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 an equity pledge for the BASF-YPC project loan on the condition that BASF should provide an equity pledge on the same terms.

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 a credit line guarantee equivalent to RMB 2.421 billion.

21 DOMESTIC SHARE REFORM ON NON-TRADABLE SHARES

The Company is currently reorganising its internal management systems to provide favorable conditions for such reform. Sinopec Group Company has not formed definitive plans for such reform with regard to Sinopec Corp.

22 GENERAL MEETING OF SHAREHOLDERS

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 relevant laws, rules and regulations and the Articles of Association of Sinopec Corp. For further details, please refer to the section "Summary of Shareholders' Meetings" of this report.

23 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.

24 OTHER MATERIAL CONTRACTS

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

25 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.

26 ASSET SECURED

Details regarding the Company's secured assets as at 31 December 2005 are disclosed in Note 29 to the financial statements prepared under IFRS in this Annual Report.

27 INTERESTS OF DIRECTORS, SUPERVISORS AND OTHER MEMBERS OF THE SENIOR MANAGEMENT IN THE SHARE CAPITAL

As of December 31, 2005, none of Sinopec Corp.'s directors, supervisors and other

senior management holds any share of Sinopec Corp.

During this reporting period, none of the directors, supervisors 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).

28 PURCHASE, SALES AND REDEMPTION OF SHARES

During the reporting period, neither Sinopec Corp. nor any of its affiliates repurchased, sold or redeemed any securities of Sinopec. Corp.

29 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.





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

In order to ensure the smooth continuation of normal production and of business transacted between the Company and Sinopec Group Company, the parties entered into a number of agreements on connected transactions prior to the overseas listings. Particulars of the connected transactions are set out below:

- (1) Agreement for the 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 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 the value of the transaction, with prior approvals from independent directors and the Hong Kong Stock Exchange. Subsequently, relevant materials shall be disclosed in the annual report. At the time of its listing, Sinopec Corp. applied for waivers from the Hong Kong Stock Exchange of the requirement to fully comply with the disclosure requirements of the Listing Rules

in respect of the transactions mentioned above. The Hong Kong Stock Exchange conditionally exempted Sinopec Corp. from complying with the obligations of continuous disclosure.

At the end of 2003, the above waiver conditionally granted by the Hong Kong Stock Exchange for disclosure requirements of the ongoing connected transactions, which had a term of three years (from 2001 to 2003), expired. Sinopec Corp. readjusted the cap amount for the 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 independent shareholders in the General Meeting of Shareholders. On December 24, 2003, 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 fiscal years ending on December 31, 2006. Within this period, Sinopec Corp. is not required to comply with the Listing Rules of the Hong Kong Stock Exchange relevant to connected transactions disclosure and independent shareholders' approval of connected transactions, provided that it satisfies the conditions for the waivers which were 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 on October 29, 2003 and published in the announcement of Sinopec Corp.'s Third Extraordinary General Meeting of Shareholders for the Year 2003 in China Securities Journal News, Shanghai Securities News and Securities Time on October 29, 2003.

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 were no significant changes to the agreements governing the above mentioned connected transactions. The accumulated connected transactions for the year 2005 of Sinopec Corp. are in accordance with the related 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 179.296 billion, of which, incoming trade amounted to RMB 84.073 billion, and outgoing trade amounted to RMB 95.223 billion (including, RMB 95.123 billion of sales of products and services, RMB 52 million of interest earned, RMB 48 million of income from agency fee). All of these transactions satisfied the conditions of waiver granted by the Hong Kong Stock Exchange. In 2005, the products and services provided by Sinopec Group Company (procurement, storage, transportation, exploration and production services, production-related services) to the Company were RMB 75.486 billion, representing 9.86% of the Company's operating expenses for year 2005, a decrease of 1.33 percentage points compared with those in 2004, which were within the cap of 18% for waiver. The auxiliary and community services provided by Sinopec Group Company to the Company were RMB 1.79 billion, representing 0.23% of the operating expenses, with a slight decrease compared with 0.31% in the preceding year, which were within the cap of 2% for waiver. In 2005, the product sales from the Company to Sinopec Group Company amounted to RMB 58.579 billion, representing 7.12% of the Company's operating revenue, which were within the cap of 14% for waiver. With regard to the Leasing Agreement for Land Use Rights, the amount of rent paid by the Company as of December 31, 2005 was approximately RMB

2.557 billion. With regard to the premium payable under SPI Fund Document, the amount of fund paid by the Company in 2005 shall not be less than the amount specified in the SPI Fund Document.

Please refer to Note 35 to the financial statements prepared under the IFRS in this annual report for details of the connected transactions actually occurred during the year.

The above mentioned connected transactions in 2005 have been approved at the twenty-fifth 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 for 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 amounts have not exceeded the relevant caps for waiver.

After reviewing the above 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 entered into based on 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 to the shareholders of Sinopec Corp., where there is no available comparison to determine whether item i or ii is satisfied; and

(c) The total value of each category of transactions does not exceed its respective cap for waiver.

5 OTHER MATERIAL CONNECTED TRANSACTIONS DURING THE YEAR

In the reporting period, there was no other connected transaction undisclosed which was required to be disclosed.

6 THE PRINCIPAL OPERATIONS CATEGORISED 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.

	Income from principal operations (RMB millions)	Cost of principal operations (RMB millions)	Gross profit margin (%)	Increase/income from principal operations compared with the preceding year percentage points	Increase/decrease of principal operation cost compared with the preceding year percentage points	Increase/decrease of gross profit margin compared with the preceding year percentage points
Categorised by business segments						
Exploration and production	104,285	38,464	57.28	37.18	10.12	7.30
Refining	469,266	463,682	(1.67)	33.11	41.98	(5.08)
Chemicals	172,982	148,710	13.61	41.65	54.36	(6.96)
Marketing and distribution	462,464	426,727	7.60	33.79	39.59	(3.79)
Corporate and others	121,265	118,117	2.57	53.22	50.67	1.64
Elimination of inter-segment sales	(531,147)	(527,451)	N/A	N/A	N/A	N/A
Total	799,115	668,249	14.23	35.30	45.52	(5.28)
Of which: connected transactions	80,096	74,628	5.90	36.38	37.70	(1.45)
Connected transactions	Please refer to Item 4 "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.					

7 FUNDS PROVIDED BETWEEN CONNECTED PARTIES

Unit: RMB millions

Connected Parties	Funds provided to connected party		Funds provided to the Company by connected party	
	Occurrence	Balance	Occurrence	Balance
Sinopec Group Company	(3,647)	2,488	(4,261)	5,418
Other Connected Parties	209	517	—	—
Total	(3,438)	3,005	(4,261)	5,418

Use of fund and repayment plan as of the end of the reporting period

Not-applicable





1 IMPROVEMENT ON CORPORATE GOVERNANCE DURING THE REPORTING PERIOD

During the reporting period, Sinopec Corp. continued to work to improve its corporate governance, this primarily involved:

- (1) In line with the requirements of China Securities Regulatory Commission, Sinopec Corp. carried out investigation of use of its proceeds, guarantees, use of funds by connected parties and matters regarding enhancement of listed company quality, and rectified deficiencies uncovered in the inspection investigation process. The Audit Committee Rules was amended and refined in accordance with the requirements of domestic and foreign regulators and the composition of the Audit Committee of the Board of Directors was adjusted in a timely manner.
- (2) The internal control system was fully implemented. The internal control system was fully implemented in 2005 and comprehensive investigation was carried out over the implementation of branches and subsidiaries. In response to deficiencies uncovered in the investigation, the Internal Control Manual and complementary rules and regulations were further refined. The amended Internal Control Manual was approved by the Board of Director at the end of 2005 and came into effect from January 2006.
- (3) The directors, supervisors and senior management of Sinopec Corp. have carefully studied the Code on Corporate Governance Practices issued by the Hong Kong Stock Exchange. The Company drafted and the Board of Directors approved the "Rules for Securities Dealing by Company Employees", in accordance with the requirements under the Code on Corporate Governance Practices.

- (4) Sinopec Corp. has worked through various effective methods and routes to further optimise its rules and procedures for information disclosure and investor relations and endeavored to strengthen its communications with domestic and foreign investors and to continually improve corporate transparency.

In 2005, Sinopec Corp. continued to be well regarded in the capital market and was awarded "Best Investor Relations (Large Cap)" in China and "Best Annual Report and Other Corporate Literature" by the periodical Investor Relations.

2 INDEPENDENT DIRECTORS' PERFORMANCE OF THEIR DUTIES AND CONFIRMATION OF INDEPENDENCE

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 (for the information about attendance, please refer to the Report of the Board of Directors in this Annual Report) 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 the documents submitted by the Company, listened to reports delivered by relevant personnel, gave independent comments on connected transactions, guarantees and appointment and dismissal of senior management officers, all of which ensured the interests of the Company and all shareholders are safeguarded.

As required by Hong Kong Stock Exchange, Sinopec Corp. makes the following confirmations concerning its independent directors: Sinopec Corp. 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. Sinopec Corp. considers all independent non-executive directors independent.

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. Sinopec Corp. implements various incentive schemes like “Measures for Implementation of Senior Management Remuneration Packages”.

Remuneration for Sinopec Corp. directors, supervisors and other senior management officers consists of base salary and performance bonus, including contributions by Sinopec Corp. to pension plans for its directors, supervisors and other senior management officers.

During the period of this report, the provision for the share appreciation rights has been made according to the terms as stipulated in “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

For details, please refer to the website of Sinopec Corp. at <http://english.sinopec.com/en-ir/en-governance/index.shtml>

6 CORPORATE GOVERNANCE REPORT

(1) Compliance with Code on Corporate Governance Practices

Since its listing, in accordance with the relevant requirements of the domestic and foreign regulating bodies, Sinopec Corp. has set up compliant corporate governance structures and has continually improved its Articles of Association, Rules and Procedures for the General Meeting of Shareholders, Rules and Procedures for the Meeting of Board of Directors, Rules and Procedures for the Meeting of Supervisory Committee and other related rules. The operations of the general meeting of shareholders, the Board of Directors (including the three professional committees: Strategies and Development Committee, Audit Committee, and Remuneration and Performance Evaluation Committee), the Supervisory Committee and the President's office are compliant and coordinated. At the same time, the Company has continually improved its internal control system and actively enhanced information disclosure and investor relations. The level of corporate governance has continually improved.

Sinopec Corp.'s compliance with the Code on Corporate Governance Practices is principally as follows:

A Board of Directors**A.1 Board of Directors**

Principle: The Company should be headed by an effective board which should assume responsibility for leadership and control of the Company.

Code Provisions	Whether Complied with	Compliance by Sinopec Corp.
Board meetings shall be held at least four times a year	√	The Board convenes at least a meeting every quarter. In 2005, Sinopec Corp. convened nine Board meetings. For the information about attendances, please refer to the Report of the Board of Directors of this Annual Report.
All directors are given an opportunity to include matters in the agenda for regular Board meetings	√	Pursuant to the Rules and Procedures for the Meeting of Board of Directors, each Board member may submit proposals for inclusion in to the agenda for Board meetings (including regular Board meetings).
Notice of at least 14 days shall be given of any regular meeting	√	For any regular meeting of the Board, a notice will be given 14 days in advance, while for other types of Board meetings, a notice will normally be given 10 days in advance in line with the Rules and Procedures for the Meeting of Board of Directors.
All directors should have access to the advice and services of the Board Secretary	√	Pursuant to Sinopec Corp.'s Articles of Association, the Board Secretary shall assist the directors in addressing the routine tasks of the Board, keep the directors informed and alerted about any regulation, policy and other requirements of domestic and foreign regulators and ensure that the directors observe domestic and foreign laws and regulations as well as the Articles of Association and other related regulations when performing their duties and responsibilities.

A.2 Chairman and the Chief Executive Officer

Principle: Distinction of the Board of Directors from the Management

Code Provisions	Whether Complied with	Compliance by Sinopec Corp.
The respective roles of the Chairman and the Chief Executive Officer shall be separate, and shall be clearly established and set out in writing	√	Mr. Chen Tonghai serves as Chairman of the Board, while Mr. Wang Tianpu serves as the President. The Chairman is elected by a simple majority vote, while the President will be nominated by the Chairman and appointed by the Board. The duties and responsibilities of the Chairman and the President are separate and the scope of their respective duties and responsibilities are set forth in the Articles of Association.
The Chairman shall ensure that all directors are properly briefed on issues arising at board meetings	√	Each of the directors will normally receive meeting information and related documents 10 days before the Board meeting, as well as special briefing if necessary. In addition, the Board Secretary will prepare meeting materials such as related explanations for each proposal, so as to ensure that each of the directors clearly understands the content of each proposal.
The Chairman shall be responsible for ensuring that directors receive adequate information in a timely manner	√	Under the Articles of Association, the President shall provide necessary information and materials to each of the directors, and each of the directors may request the President, or request, via the President, relevant departments to provide information and explanations necessary for a prompt, informed and prudent decision.

A.3 Board Composition

Principle: the Board shall have a combination of appropriate skills and experience.

Code Provisions	Whether Complied with	Compliance by Sinopec Corp.
Board Composition	√	The Board is made up of 13 members, each with extensive professional and governance experiences. Of the 13 members, 4 are independent non-executive directors. Over 1/2 of the Board are non-executive directors and independent non-executive directors. Sinopec Corp. has received from each independent non-executive director a letter of confirmation for 2005 regarding its qualification under relevant independence requirements set out in rule 3.13 of the Listing Rules of the Hong Kong Stock Exchange. Sinopec Corp. considers that each of the independent non-executive directors is independent.

A.4 Appointment; Re-election and Removal

Principle: there should be a formal, prudent and transparent procedures for appointment of directors

Code Provisions	Whether Complied with	Compliance by Sinopec Corp.
Non-executive directors should be appointed for a specific term	√	Pursuant to the Articles of Association, terms of each session of the Board (including non-executive directors) shall be 3 years.
Each of the directors shall be subject to election and to retirement by rotation at least once every three years	√	Pursuant to the Articles of Association, all directors shall be elected by the general meeting of shareholders, each for a term of 3 years. The Board is not authorised to fill casual vacancies.

A.5 Responsibility of Directors

Principle: Each director is required to keep abreast of his responsibilities as a director

Code Provisions	Whether Complied with	Compliance by Sinopec Corp.
Each newly appointed director shall be inducted on the first occasion of his appointment	√	For each new appointment, Sinopec Corp. will arrange for professional consultants, including PRC and Hong Kong lawyers, to induct the newly appointed director.
Non-executive directors shall have certain authorities	√	Non-executive directors have certain authorities, including decision making for the Board in case of abstention of executive directors to avoid conflict of interest, and to serve on Board committees.
Every director shall ensure that he can give sufficient time and attention to the affairs of the Company and should not accept the appointment if he cannot do so	√	Sinopec Corp. considers that each of the directors can devote enough time and efforts to the affairs of the Company.
Every director must comply with its obligations under the Model Code set out in Appendix 10; the Board of Directors shall develop written guidelines for the dealings by employees in the issuer's securities	√	Upon inquiry, each of the directors confirmed that he has always complied with the Model Code during the reporting period. Sinopec Corp. formulated "Rules for Employee Dealing in Securities" in 2005 in accordance with the Code on Corporate Governance Practices.

A.6 Supply and Access to Information

Principle: Directors should be provided in a timely manner with appropriate information.

Code Provisions	Whether Complied with	Compliance by Sinopec Corp.
The agenda and accompanying board documents shall be sent at least 3 days before the intended date of the meeting	√	According to the Rules and Procedures for the Meeting of Board of Directors, the meeting agenda and related documents should normally be sent out 10 days in advance. Each director is entitled to request other related information.
The management has an obligation to supply the board directors with adequate information relevant to the meeting	√	The Board Secretary is responsible for organising and preparing materials for Board meetings, including preparation of explanations for each proposed agenda to enable clear understanding by each director.
All directors are entitled to have access to board minutes and related materials	√	All directors may inspect Board minutes and related data at any time.

B Remuneration and related Disclosure

Principle: The director remuneration system should be transparent.

Code Provisions	Whether Complied with	Compliance by Sinopec Corp.
A remuneration committee shall be set up with written scope of authorities	√	A Remuneration and Performance Evaluation Committee has been set up, its members including director Shi Wanpeng (Chairman), director Chen Qingtai (Deputy Chairman), director Zhang Youcai (Deputy Chairman), director Mu Shuling (Commissioner) and director Liu Genyuan (Commissioner), one of its main authorities is to propose to the Board related remuneration plans for directors and senior managements officers. Its written scope of authorities are available for inspection from the Board Secretary.
The Remuneration Committee shall consult the Chairman and/or President about proposed remuneration for other executive directors, and shall have access to professional advice if necessary	√	The Remuneration and Performance Evaluation Committee has always consulted the Chairman and the President regarding proposed compensations to other executive directors.
The Remuneration Committee shall be provided with sufficient resources to discharge its duties and responsibilities	√	Committee member may obtain independent professional advice. Costs arising from or in connection with such consultation are borne by the Company.

C Accountability and Audit

C.1 Financial Reporting

Principle: The Board should present a balanced, clear and comprehensive assessment of the company's performance, status and prospects.

Code Provisions	Whether Complied with	Compliance by Sinopec Corp.
Management should provide such explanation and information to the board as will enable the board to make informed assessment of the financial and other information put before the board for approval	√	Sinopec Corp. has adopted an internal mechanism to ensure that the management and related Sinopec Corp. departments have provided sufficient financial data to the board and its audit committee.
The directors should acknowledge their responsibility for preparing the accounts and there should be a statement by the auditors about their reporting responsibilities in the auditor's report on the financial statements	√	The directors are responsible for supervising the preparation of accounts for every fiscal period to ensure an authentic and fair presentation of the business status, performance and cash flows year ended fiscal period. When preparing the accounts for the ending on December 31, 2005, the directors have consistently applied appropriate accounting policies, made reasonable and prudent judgment and estimates and prepared the accounts on a going-concern basis.
The board should acknowledge its responsibility for financial disclosure, reports submitted to regulators as well as other disclosure required under statutory requirements	√	Sinopec Corp. is in compliance with the Listing Rules by publishing its annual, interim and quarterly results. Sinopec Corp. has adopted an internal mechanism for ensuring formal disclosure of price-sensitive information.

C.2 Internal Control

Principle: The issuer should maintain sound and effective internal controls

Code Provisions	Whether Complied with	Compliance by Sinopec Corp.
The directors shall at least annually conduct a review of the effectiveness of the system of internal control of the issuer and its affiliates	√	Sinopec Corp. has established an internal control system to assist the Company in achieving all business targets and guarding the safety of its assets, ensuring that the Company maintains proper accounting records to provide reliable financial information for internal use and public disclosures and ensuring compliance with related rules and regulations. During the reporting period, Sinopec Corp. conducted comprehensive of its branches and subsidiaries to review the implementation of internal control system, and in response to problems uncovered in the investigation, the Internal Control Manual and related systems were further refined and improved.

C.3 Audit Committee

Principle: The arrangements regarding the board and company auditors should be formal and transparent

Code Provisions	Whether Complied with	Compliance by Sinopec Corp.
Minutes of the committee meeting shall be kept by a duly appointed secretary of the meeting. The draft and final minutes shall be sent to all members of the committee within a reasonable period after the meeting	√	The minutes of committee meeting are kept by a general office under the committee. The draft and final minutes are generally sent out to each of the committee members within a reasonable period after the meeting.
A former partner of the issuer's current auditing firm shall be refrained from acting as a member of the issuer's audit committee	√	The audit committee members include Messrs. Chen Qingtai (Chairman), Shi Wanpeng (Deputy Chairman), Zhang Youcai (Deputy Chairman) and Ho Tsu Kwok, Charles (Commissioner). As verified, none of the members had served as a partner to the current auditing firm.
The written terms of reference of the audit committee (including the minimum requirements regarding authority and duties) shall be made available for inspection or be posted on the website	√	During this reporting period, the Audit Committee Rules was further improved with supplementary provisions. The main authorities of the committee include: make recommendations on appointment of external auditors, review annual, interim and quarterly financial statements, make recommendations on adoption of accounting policies and changes to financial reporting requirements. The written terms of reference are available for inspection at the secretariat of the board. During the reporting period, the Audit Committee held three meetings which were attended by all its members. For details, please refer to the Report of the Board of Directors of this Annual Report.
Where the board disagrees with the audit committee's view on selection, appointment, resignation or dismissal of external auditors, such disagreement shall be set out in the Corporate Governance Report	√	The board and the audit committee did not have any different opinion in 2005.
The audit committee should be provided with sufficient resources to discharge its duties	√	The committee members may seek independent professional advice, the costs of which will be borne by the Company.

D Delegation by the Board

D.1 Management function of the Board

Principle: The scope of authorisation should be clear

Code Provisions	Whether Complied with	Compliance by Sinopec Corp.
The board should give clear directions as to the powers of management, in particular, as to circumstances where the management should obtain prior approval or authorisation from the board	√	The board, the management and each of the board committees have clear terms of reference. The Articles of Association and the Rules and Procedures for the General Meeting of Shareholders and the Rules and Procedures for the Meeting of Board of Directors have clear scope regarding the duties and authorities of the Board and the management, which are posted on the Website of Sinopec Corp. at http://www.sinopec.com.cn .

D.2 Board committees

Principle: Board committees should be formed with specific written terms of reference

Code Provisions	Whether Complied with	Compliance by Sinopec Corp.
Where board committees are established to deal with matters, the board should subscribe sufficiently clear terms of reference to enable the committee to properly discharge its functions	√	The board, the management and each of the board committees have clear terms of reference.
The terms of reference of the board committees should require such committees to report to the board on their decisions and recommendations	√	The rules of the board committees require such committees to report to the Board on their decision and recommendations.

E Effective communication with shareholders*E.1 Effective communication*

Principle: The board should endeavor to maintain an ongoing dialogue with shareholders

Code Provisions	Whether Complied with	Compliance by Sinopec Corp.
In respect of a substantially separate issue at a general meeting of shareholders, a separate resolution shall be proposed by the chairman of that meeting	√	A separate resolution is always proposed for each substantially separate issue.
The chairman of the board shall attend the annual general meeting and shall arrange the chairman of the audit, remuneration and nomination committees to attend (as appropriate)	√	The chairman of the Board attended the annual general meeting of 2004.

E.2 Voting by poll

Principle: The issuer should regularly inform shareholders of the procedures for demanding a poll.

Code Provisions	Whether Complied with	Compliance by Sinopec Corp.
Voting by poll is required under certain circumstances in the general meeting	√	To ensure the interests of all shareholders, all resolutions at the general meetings are subject to voting by poll.

(2) Nomination of Directors

The Board of Sinopec Corp. has not established Nomination Committee. No director nominations were made in 2005.

According to the Articles of Association, the list of director candidates is submitted to the general meeting of shareholders by way of a proposal.

Independent directors shall be nominated by the board of directors, the Supervisory Committee and shareholders who individually or jointly hold 1% or more of the voting stock of the Company and be elected by the general meeting of

shareholders. All other directors other than independent directors shall be nominated by the board of directors, the Supervisory Committee and shareholders who individually or jointly hold 5% or more of the voting stock of the Company and be elected by the general meeting of shareholders.

(3) Other Information about Sinopec Corp.'s Corporate Governance

For information regarding changes in share capital and shareholdings of principal shareholders, please refer to Page 10; for information regarding

general meetings of shareholders, please refer to Page 63; for information regarding meetings of the board of directors, please refer to Page 64; for information regarding equity interests of directors, supervisors and senior management officers, please refer to Page 47; for information regarding resume and annual remuneration of directors, supervisors and senior management officers, please refer to Page 74; and for information regarding external auditors, please refer to Page 83.

SUMMARY OF SHAREHOLDERS' MEETINGS

During the reporting period, Sinopec Corp. convened two general meetings of shareholders in strict observance of relevant laws, regulations and the provisions of the Articles of Association regarding notification, convening and holding of general meetings, the specifics of the general meetings are as follows:

- 1 The Annual General Meeting of Shareholders for 2004 was Held on 18th May 2005 at Crowne Plaza Beijing-Park View Wuzhou.

For further details regarding the General Meeting of Shareholders for the year 2004, please refer to the announcements of Sinopec Corp. published in China Securities Journal, 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 2005.

- 2 An Extraordinary General Meeting of Shareholders for 2005 was Held on 19th September 2005 at Crowne Plaza Beijing-Park View Wuzhou.

For further details regarding the Extraordinary General Meeting of Shareholder for year 2005, see the relevant announcements of Sinopec Corp. published in China Securities Journal, Shanghai Securities News and Securities Times in mainland China and Hong Kong Economic Times and South China Morning Post in Hong Kong on 20 September 2005.

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 2005 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 fifteenth meeting of the Second Session of the Board of Directors was held at Sinopec Corp. head office on 25th March 2005.

For details of this meeting, please refer to relevant announcements of Sinopec Corp. published in China Securities Journal, Shanghai Securities News and Securities Times in mainland China and Hong Kong Economic Times and South China Morning Post in Hong Kong on 28th March 2005.

- (2) The sixteenth meeting of the Second Session of the Board of Directors was held at Sinopec Corp. head office on 25th March 2005.

For details of this meeting, please refer to relevant announcements of Sinopec Corp. published in China Securities Journal, Shanghai Securities News and Securities Times in mainland China and Hong Kong Economic Times and South China Morning Post in Hong Kong on 28th March 2005.

- (3) The seventeenth meeting of the Second Session of the Board of Directors was held on 28th April 2005 by way of written resolution, at which the First Quarterly Report of 2005 was approved.

- (4) The eighteenth meeting of the Second Session of the Board of Directors was held on 29th July 2005 by way of written resolution.

For details of this meeting, please refer to relevant announcements of Sinopec Corp. published in China Securities Journal, Shanghai Securities News and Securities Times in mainland China and Hong Kong Economic Times and South China Morning Post in Hong Kong on 1st August 2005.

- (5) The nineteenth meeting of the Second Session of the Board of Directors was held at Sinopec Corp. head office on 26th August 2005.

For details of this meeting, please refer to relevant announcements of Sinopec Corp. published in China Securities Journal, Shanghai Securities News and Securities Times in mainland China and Hong Kong Economic Times and South China Morning Post in Hong Kong on 29th August 2005.

- (6) The twentieth meeting of the Second Session of the Board of Directors was held on 27th October 2005 by way of written resolution, at which the Third Quarterly Report of 2005 was approved.

- (7) The twenty-first meeting of the Second Session of the Board of Directors was held on 12th November 2005 by way of written resolution.

For details of this meeting, please refer to relevant announcements of Sinopec Corp. published in China Securities Journal, Shanghai Securities News and Securities Times in mainland China and

Hong Kong Economic Times and South China Morning Post in Hong Kong on 14th November 2005.

- (8) The twenty-second meeting of the Second Session of the Board of Directors was held on 25th November 2005 by way of written resolution.

For details of this meeting, please refer to relevant announcements of Sinopec Corp. published in China Securities Journal, Shanghai Securities News and Securities Times in mainland China and Hong Kong Economic Times and South China Morning Post in Hong Kong on 28th November 2005.

- (9) The twenty-third meeting of the Second Session of the Board of Directors was held on 28th December 2005 by way of written resolution, at which the amended Internal Control Manual was approved for due implementation starting from 1st January 2006.

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 ATTENDANCE OF DIRECTORS AT THE BOARD OF DIRECTORS MEETINGS

During this reporting period, the Board held nine meetings. The attendance of directors describes as follows:

Name	Counts of attendance by himself (times)	Counts of commissioned attendance (times)
Chen Tonghai	9	0
Wang Jiming	9	0
Mou Shuling	6	3
Zhang Jiaren	9	0
Cao Xianghong	9	0
Liu Genyuan	9	0
Gao Jian	6	3
Fan Yifei	6	3
Chen Qingtai (Independent Director)	9	0
Ho Tsu Kwok, Charles (Independent Director)	7	2
Shi Wanpeng (Independent Director)	8	1
Zhang Youcai (Independent Director)	6	3
Cao Yaofeng	9	0

4 MEETINGS OF PROFESSIONAL COMMITTEES

(1) Meetings of the Audit Committee

During the reporting period, the Audit Committee under the Second Session of the Board of Directors held three meetings, and also held a meeting with auditors, details of which are as follows:

- The third meeting of the Second Session of the Audit Committee was held on 24th March 2005 by way of written resolutions, whereby the Explanation on the Operating Business and Financial Positions of Year 2004, Explanation on Audit for Year 2004, Explanation on Amending the Audit Committee Rules, as well as the Financial Statements for Year 2004 as audited by KPMG Huazhen and KPMG respectively in accordance with PRC accounting rules and regulations and IFRS were reviewed and the Opinions on the Reviewing of the Financial Statements for the Year 2004 was issued.
- The fourth meeting of the Second Session of the Audit Committee was held on 25th August 2005 by way of written resolutions, whereby the

Explanation on the Operating Business and Financial Positions of the First Half of 2005, Explanation on Audit for the First Half of Year 2005, and the Financial Statements for the first half of Year 2005 as audited by KPMG Huazhen and KPMG respectively in accordance with PRC accounting rules and regulations and IFRS, were reviewed and the Opinions on the Reviewing of the Financial Statements for the First Half of Year 2005 was issued.

- The fifth meeting of the Second Session of the Audit Committee was held on 27th October 2005 by way of written resolutions, whereby the Third Quarterly Report of 2005 was reviewed and the Opinions on the Reviewing of the Financial Statements for the Third Quarter of Year 2005 was issued.
- The meeting between the Second Session of the Audit Committee and auditors of the Company was held at the headquarters of Sinopec Corp. on 31st March 2006, whereby auditors of the Company was consulted in detail about audit of Sinopec Corp. for 2005.

(2) Meetings of the Strategies and Development Committee

During the reporting period, the second session of the Strategies and Development Committee under the Second Session of the Board of Directors held one meeting on 24th March 2005 by way of written resolutions, whereby the Explanation on Tianjin 1 million tonnes per annum ethylene and auxiliary facilities project, the Explanation on Zhenhai 1 million tonnes per annum ethylene and auxiliary facilities project were reviewed. The Opinions on the Reviewing of the Tianjin 1 million tonnes per annum ethylene and auxiliary facilities project and the Opinions on the Reviewing of the Zhenhai 1 million tonnes per annum ethylene and auxiliary facilities project were issued.

5 THE INDEPENDENT DIRECTORS PRESENTED ITEMISED EXPLANATIONS AND INDEPENDENT OPINIONS ON THE COMPANY'S ACCUMULATED AND CURRENT EXTERNAL GUARANTEES FOR THE YEAR 2005:

In accordance with the requirements by the Shanghai Stock Exchange, we, as the independent directors of Sinopec Corp., have carefully reviewed the accumulated and current external guarantees by Sinopec Corp. for 2005, and would describe as follows:

The outstanding aggregate external guarantees by Sinopec Corp. in 2005 totaled approximately 14.607 billion, accounting for around 6.7% of the Company's net assets and decreased by approximately RMB 192 million compared with that of 2004. The external guarantees occurring prior to 2005 had been disclosed in detail in the 2004 Annual Report.

We present our opinions as follows:

No external guarantees were issued in 2005. External guarantees occurring before 2005 had been subjected to review and approvals in accordance with relevant laws and regulations and various internal documents including the Articles of Association. The disclosures about such external guarantees was authentic and complete and the potential risks under these guarantees were revealed. For any external guarantees in the future, Sinopec Corp. shall continue to strictly observe relevant provisions regarding guarantees, in order to protect the interests of Sinopec Corp. and of the shareholders in general.

6 FINANCIAL PERFORMANCE

The financial results of the Company for the year ended 31 December 2005 prepared in accordance with IFRS and its financial position as at that date and its analysis are set out from page 123 to page 163 in this Annual Report.

7 DIVIDEND

At the 25th 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 0.13 per share (including tax) in cash and thus the dividends in cash declared for 2005 totaled RMB 11,271 billion. After deducting the interim cash dividend, the final cash dividend per share for distribution would be RMB 0.09. The distribution proposal will be implemented upon approval by the Annual General Meeting of Shareholders for 2005. The final dividends will be distributed on or before 30th June 2006 (Friday) to those shareholders whose names appear on the register of members of Sinopec Corp. at the close of business on 16th June 2006 (Friday). The register of members of Sinopec Corp.'s H shares will be closed from 12th June 2006 (Monday) to 16th June 2006 (Friday) (both dates are inclusive). In order to qualify for the final dividend for H shares, the shareholders must lodge all share certificates accompanied by the transfer documents with HKSCC Nominees Limited, at Shops 1712 to 1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Hong Kong

before 4:00 p.m. on 9th June 2006 (Friday) for registration.

The dividend for holders of domestic shares will be denominated, declared and paid in Renminbi and the dividend for holders of foreign shares will be denominated, declared and 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 Shares (ADSs) who is resident and domiciled in the UK will be liable to UK income tax on the dividend received from Sinopec Corp. (after deducting relevant pre-tax deductions and tax credit). 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 applicable 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 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.

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

Generally, a shareholder of H shares or a holder of ADSs 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 ADSs which is a UK tax resident may be entitled to relief for "underlying" tax paid by Sinopec Corp. or its subsidiaries.

8 MAJOR SUPPLIERS AND CUSTOMERS

During this reporting period, the total amount of purchase from the five largest suppliers of the Company represented 37.68% of the total amount of purchase made by the Company, of which purchases from the largest supplier represented 15.87% of the total purchases made by the Company. The total amount of sales to the five largest customers of the Company represented 8% 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 above-mentioned major suppliers and customers.

9 BANK LOANS AND OTHER BORROWINGS

Details of bank loans and other borrowings of the Company as of 31 December 2005 are set out in Note 29 of the Financial Statements prepared in accordance with IFRS in this Annual Report.

10 FIXED ASSETS

During this reporting period, changes to the fixed assets of the Company are set out in Note 18 of the Financial Statements prepared in accordance with IFRS in this Annual Report.

11 RESERVES

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

12 DONATIONS

During the reporting period, the amount of donations made by the Company totaled around RMB 203 million, which was primarily used for education and development of poor areas.

13 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.

14 PURCHASE, SALES AND REDEMPTION OF SHARES

Refer to "Significant Events" of this Annual Report.

15 RISK FACTORS

In the course of its production and operations, Sinopec Corp. will actively take various measures to mitigate operational risks. However, in practice, it may not be possible to prevent all risks and uncertainties.

(1) *Fluctuation of Crude Oil Prices:* a significant amount of the Company's demand for crude oil is satisfied from external purchases. In recent years, the international crude oil prices continued to be volatile and remained at a high level and are subject to wild fluctuations. Although the Company has taken flexible measures to cope with the high prices, it

may not be fully shielded from risks associated with any wild fluctuation of the international crude oil prices.

(2) *Cyclic Effects:* as an integrated energy and chemicals company, the Company is also subject to cyclic effects which characterise to the chemicals industry. Affected by the fast growth of new production capacities worldwide and oil price fluctuation, the gross profit margin in the chemicals industry may fall, and the operational performance of the Chemicals Segment may be affected by cyclic factors.

(3) *Government Regulation:* although the government is gradually liberalising the petroleum and petrochemicals sector, the petroleum and petrochemical industry in China are still subject to some form of regulation, which include: issuing petroleum production License, setting of guidance prices for retail of gasoline and diesel, provision and pricing of certain resources and services, determination of taxes and fees, formulation of import & export quotas and procedures, formulation of safety, quality and environmental protection standards. Such regulation may have material effect over the operations and economic returns of the Company.

(4) *Full market access:* under China's commitments for access into the WTO, the refined oil products market will be fully opened soon and market competition will grow fiercer. Although the Company has actively taken various measures and optimised its sales network for refined oil products, it may still experience some of the impact from full market access.

(5) *Uncertainties with Oil & Gas Reserves:* various data disclosed in this annual report, including the oil and gas reserves, are only estimates derived by adoption of certain appraisal methods. The reliability of such estimates depends on many factors including techniques used and involves various uncertainties,

and there is a risk that the actual data may differ substantially from such estimates.

(6) *Operational Risks and Natural Disasters:* the process of chemical production is exposed to the risk of inflammation, explosion and environmental pollution and is vulnerable to natural disasters. Such contingencies may cause serious impact to the society, grievous injuries to people and major financial losses to the Company. The Company has formulated and is implementing a strict HSE management system, in an effort to avoid such risks as much as possible. The Company also subscribed to the SPI Fund. However, it may happen that the claimed proceeds under the SPI fund is not enough to cover actual financial losses suffered by the Company.

(7) *Exchange Rate and Interest Rate:* according to the existing rules of foreign exchange, the government has lifted the control over foreign exchange transactions under current accounts, but foreign exchange transactions under capital accounts still need approval from the State Administration of Foreign Exchange. These restrictions may influence the Company's ability to get foreign currencies through financing activities or the ability to get foreign currencies for capital expenditure. On 21st July 2005, China began to adopt an administered floating exchange rate regime based on market supply and demand with reference to a basket of currencies. Exchange rate fluctuation may also have certain impact on the operations of the Company.

By Order of the Board
Chen Tonghai
Chairman

Beijing China
31 March 2006

To all shareholders:

During this reporting period, all members of the Supervisory Committee observed the principle of good faith and duly fulfilled their supervisory duties in accordance with the Company Law of the PRC and the relevant provisions of 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 fifth meeting of the Second Session of the Supervisory Committee held on 25 March 2005, the Committee reviewed the report submitted by the Department of Finance on Operating Results and Financial Positions for Year 2004 and the Explanatory notes on the auditor's report submitted by KPMG. It also considered and approved the Financial Statements for Year 2004, Annual Report for Year 2004 as well as its relevant summary, and the Proposal on Profit Appropriations for Year 2004; discussed and approved the Report of the Supervisory Committee for Year 2004 and the Work Plan for Year 2005. The Supervisory Committee also notified in writing investigation and inspection of Wuhan Petroleum and Taishan Petroleum undertaken by some supervisors and the relevant resolutions were passed at the meeting.

At the sixth meeting of the Second Session of the Supervisory Committee held on 26 August 2005, the Committee considered and approved the Interim Financial Report for the First Half of 2005, the Interim Report for the First Half of 2005 and its summary, and the Proposal on profit appropriations for the First Half of 2005. It also notified in writing visits to and inspection of the southwest subsidiary, the northwest sales subsidiary and Sichuan and Chongqing subsidiary undertaken by some supervisors and the relevant resolutions were passed on the meeting.



Mr. Wang Zuoran, Chairman of the Supervisory Committee

In addition, the Supervisory Committee exercised oversight over major decisions of the Company, such as capital operations, asset restructuring, connected transactions and dividend distribution, by attending meetings of the Board of Directors.

Through its diligent performance of supervisory and oversight duties, the Supervisory Committee believe that: in 2005, Sinopec Corp. has abided by the principles of standardisation, precision and integrity in its operation. Confronted with soaring international crude oil

price, tight control of domestic refined oil product prices and wild fluctuations in the chemicals market, Sinopec Corp. continued to focus on the policy of "reform, streamline, innovation and development", and took market based initiatives to increase returns by leveraging its overall strength, timely adjusting operations strategy, strengthening internal management and optimising operations. These efforts have been rewarded in increased production volume, steady improvements in operations quality and increased economic returns.

Firstly, the Board of Directors diligently discharged its obligations and exercised its rights under the Company Law of the PRC and the Company's Articles of Association, fully implemented the resolutions of the general meeting of shareholders and the meetings of Board of Directors and made decisions in a timely manner over material affairs including the capital operations, production and operating plans and development goals. The Board fully implemented the internal control system to further improve the Company's corporate governance structure. The Directors and the senior management officers acted diligently and in good faith, and operated in compliance with laws and regulations. No violation or breach of laws, regulations or the Articles of Association on the part of the aforementioned persons, nor any act to the detriment of the Company's interest, was found during the reporting period.

Secondly, the preparation and review of the annual report comply with applicable laws, regulations, the Company's Articles of Association and other internal management rules, the content and forms of which complies with the requirements of CSRC and the stock exchanges. The information contained in the report accurately reflect in all respects the operations, management and financial status of the Company for 2005.

Thirdly, the Financial Statement for the year 2005 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 status 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 799.115 billion and RMB 39.558 billion respectively. According to the financial data prepared in accordance with the IFRS, the turnover, the Company's turnover and other operating revenues, and profit attributable to shareholders were RMB 832.532 billion and RMB 40.920 billion respectively.

Fourthly, the Company utilised RMB 611 million from funds of previous years' financing activities, which is in conformity with the Company's undertakings for use of proceeds. By 31 December 2005, the proceeds of RMB 11.648 billion from issuance of A shares had used up.

Fifthly, the Company's acquisition and sales of assets were in conformity with the relevant regulations and laws. In this reporting period, the consolidation of Beijing Yanhua, China Phoenix and Zhenhai Refinery and Chemicals was either basically completed or was under way. In relation to the above, there were no 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.

Sixthly, all connected transactions are compliant with related regulations. All connected transactions between the Company and the Sinopec Group Company were in conformity with the relevant rules and regulations of the Hong Kong Stock Exchange and Shanghai Stock Exchange. The connected transactions were conducted on the basis of fair and reasonable price and abided by the principle of "fair, just and open". Nothing in these transactions was found to be detrimental to the Company's benefits.

In the year ahead, the Supervisory Committee will further develop its focus on operation, carry out balanced development with emphasis on the improvement and implementation of internal control systems. In addition, the Committee will work on aspects including the implementation of the fixed asset investment plan, asset acquisition or swap, connected transactions and financial budget implementation. The Committee will strengthen its supervision and investigation of the Company based on the principle of honesty and good faith to promote the growth of the Company's economic benefits in 2006 and to safeguard the shareholders' interests.

Wang Zuoran

Chairman of the Supervisory Committee

Beijing China
31 March 2006

1 GENERAL INFORMATION ON DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

(1) Directors

Chen Tonghai, 57, Chairman of the Board of Directors of Sinopec Corp. and Mr. Chen is also President of Sinopec Group Company. Mr. Chen graduated from Northeast Petroleum Institute in September 1976 specialising 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 July 1983 to December 1986, Mr. Chen was Vice Party Secretary and then Party Secretary of Zhenhai Petroleum and Petrochemical Plant under the former Sinopec Group Company. 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 Sinopec Group Company from April 1998 to March 2003. Mr. Chen has been President of Sinopec Group Company 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, 63, Vice Chairman of the Board of Directors. 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 the former Sinopec Group Company. Mr. Wang served as Chairman and President of Shanghai Petrochemical Company Limited from June 1993 to February 1994. He served as Vice President of Sinopec Group Company (before its reorganisation) and Chairman of Shanghai Petrochemical Company from February 1994 to April 1998. Mr. Wang served as Vice President of Sinopec Group Company 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. From April 2003 to March 2005, Mr. Wang served as President of Sinopec Corp. In April 2003, Mr. Wang was elected as Director and Vice Chairman of the Second Session of the Board of Directors of Sinopec Corp.

Mou Shuling, 61, Director 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 Sinopec Group Company 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. From April 2003 to March 2005, Mr. Mou served as Senior Vice President of Sinopec Corp. In April 2003, Mr. Mou was elected as Director of the Second Session of the Board of Directors of Sinopec Corp.

Zhang Jiaren, 61, Director 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 the former Sinopec Group Company. 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 Sinopec Group Company 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. From April 2003 to November 2005, Mr. Zhang served as Senior Vice President and Chief Financial Officer of Sinopec Corp. In November 2005, Mr. Zhang was appointed as Chief Financial Officer of Sinopec Corp.

Cao Xianghong, 60, Director 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 Deputy General Manager and Chief Engineer of Beijing Yanshan Petrochemical Company under the former Sinopec Group Company. 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. From April 2003 to November 2005, Mr. Cao served as Senior Vice President of Sinopec Corp. In November 2005, Mr. Cao was appointed as Chief Engineer of Sinopec Corp. In April 2003, Mr. Cao was elected as Director of the Second Session of the Board of Directors of Sinopec Corp.

Liu Genyuan, 60, Director of Sinopec Corp. 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 the former Sinopec Group Company. Mr. Liu served as Vice President of Sinopec Group Company from July 2001 to November 2005. Mr. Liu has been Chairman and President of Sinopec Assets Management Company

Limited since September 2005. Mr. Liu was elected as Director of the Second Session of the Board of Directors of Sinopec Corp. in June 2003.

Gao Jian, 56, Director of Sinopec Corp. In September 1982, Mr. Gao graduated from the Beijing Institute of Politics and Law as a postgraduate specialising in political economics. In July 1992, he graduated from the Finance Science Research Institute of the Ministry of Finance with a Ph.D. degree specialising in finance. From November 1997 to June 1998, he conducted postdoctoral research at the Faculty of Economics at Harvard University, USA. He is a Senior Economist. Mr. Gao has been engaged in research 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 was Deputy Head of the Department of Treaty and Law of the Ministry of Finance and the Deputy Head of the National Debts Management Department. From April 1994 to October 1998, he was the Head of the National Debts 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 China 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 China Development Bank. Since July 2003, he is the Deputy Governor of the China Development Bank. He was elected as Director of the Second Session of the Board of Directors of Sinopec Corp. in May 2004.

Fan Yifei, 42, Director of Sinopec Corp. Mr. Fan graduated from the treasury and finance department of Renmin University of China in July 1993 and obtained a doctoral degree in economics; He obtained a master degree in international economics from the Columbia University in 2002. He is a senior accountant. From June 1993 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 successively. From September 1994 to July 1996, he served as Vice General Manager 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. Mr. Fan served as the Assistant to the Governor of China Construction Bank from February 2000 to June 2005, during which he enriched his experience by participating in the Three Gorges project, and also acted as the Assistant to the General Manager of China Changjiang Power Co., Ltd. In June 2005, Mr. Fan was appointed as Deputy Governor of China Construction Bank. Mr. Fan was elected as Director of the Second Session of the Board of Directors of Sinopec Corp. in April 2003.

Chen Qingtai, 68, 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. From October 1982 to July 1992, Mr. Chen was Chief Engineer, President and Chairman of China No. 2 Automobile Works and Chairman of Dongfeng Peugeot Citroen Automobile Limited, 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 Policy and Management School of 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 a senior researcher of the DRC. Since March 2005, he has been Vice chairman of the Economic Committee of the Tenth Session of Chinese People's Political Consultative Conference. 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, 56, Independent Non-executive Director of Sinopec Corp. Mr. Ho is Chairman of Hong Kong Tobacco Company Limited, a cigarette manufacturer and distributor in Asia Pacific region. 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 of which is 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 consultant 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, 68, 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 been 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. Since January 2003, he has been Chairman of China Packaging Federation. 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, 64, 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 been 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 Fertiliser 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 of Nantong City. He was a Vice Minister of the Ministry of Finance 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, 52, 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 Sinopec Group Company. 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. Mr. Cao served as the Chairman of the Board of Directors of Sinopec Shengli Oilfield Company Limited from December 2002 to December 2005. From October 2004 to November 2005, Mr. Cao served as Assistant to the President of the Sinopec Group Company. In November 2005, Mr. Cao was appointed as Vice President of Sinopec Group Company. 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	Remuneration paid by the Company		Shares Held at Sinopec from any shareholder (as at 31 December)	
					in 2005 (RMB thousand)	Whether paid by the Company	2005	2004
Chen Tonghai	M	57	Chairman	2003.4-2006.4	—	NO	0	0
Wang Jiming	M	63	Vice Chairman	2003.4-2006.4	480	YES	0	0
Mou Shuling	M	61	Director	2003.4-2006.4	442	YES	0	0
Zhang Jiaren	M	61	Director and Chief Financial Officer	2003.4-2006.4	455	YES	0	0
Cao Xianghong	M	60	Director	2003.4-2006.4	455	YES	0	0
Liu Genyuan	M	60	Director	2003.6-2006.4	—	NO	0	0
Gao Jian	M	56	Director	2004.5-2006.4	—	NO	0	0
Fan Yifei	M	42	Director	2003.4-2006.4	—	NO	0	0
Chen Qingtai	M	68	Independent Non-executive Director	2003.4-2006.4	27 (Fees)	NO	0	0
Ho Tsu Kwok Charles	M	56	Independent Non-executive Director	2003.4-2006.4	21 (Fees)	NO	0	0
Shi Wanpeng	M	68	Independent Non-executive Director	2003.4-2006.4	24 (Fees)	NO	0	0
Zhang Youcai	M	64	Independent Non-executive Director	2003.4-2006.4	21 (Fees)	NO	0	0
Cao Yaofeng	M	52	Employee Representative Director	2003.4-2006.4	279	YES	0	0

(2) Supervisors

Wang Zuoran, 55, 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 Sinopec Group Company. Mr. Wang has been Director of Disciplinary Supervision Committee of Sinopec Group Company 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, 61, 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 Vice President of Planning Institute of former Sinopec Group Company. From February 1993 to December 1998, Mr. Zhang served as Deputy Director and Director of General Administrative Office of former Sinopec Group Company. Mr. Zhang has been Director of General Administrative Office of Sinopec Group Company from December 1998 to February 2005. 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, 60, 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 Sinopec Group Company. From August 1991 to December 1998, he served as Deputy Director and Director of Human Resources Department of former Sinopec Group Company. From December 1998 to September 2005, Mr. Wang has been Director of Human Resources Department of Sinopec Group Company. 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, 61, 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 under the former Sinopec Group Company. From March 1990 to December 1998, Mr. Wang served as Deputy Director and Director of Auditing Bureau of the former Sinopec Group Company. Mr. Wang served as Director General of Auditing Bureau of Sinopec Group Company from December 1998 to January 2005. Mr. Wang served as the Director of Sinopec Corp.'s Auditing Bureau from February 2000 to January 2005. 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, 61, Supervisor of Sinopec Corp. Mr. Zhang graduated from Shandong Institute of Finance and Economics 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 the former Sinopec Group Company. 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 Sinopec Group Company and Sinopec Group Company, 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 Sinopec Group Company 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 Sinopec Group Company as well as Vice Chairman of the Board of Directors of Sinopec Finance Company Limited. He served as Vice Chairman of the Board of Directors of Sinopec Finance Company Limited from October 2004 to July 2005. Mr. Zhang was elected as Supervisor of the Second Session of the Supervisory Committee of Sinopec Corp. in April 2003.

Kang Xianzhang, 57, 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 Organisation 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 Organisation 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 Sinopec Group Company, 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 Sinopec Group Company, 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, 73, 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 the fields of auditing and finance. From June 1983 to January 1985, Mr. Cui served as Director of Industry and Transportation Bureau of National Audit Office of PRC. From January 1985 to April 1995, Mr. Cui was Deputy Auditor-General and Managing Deputy Auditor-General of National Audit Office of PRC. From December 1995 to November 2004, Mr. Cui was Chairman of the Chinese Certified Public Accountants Association. Since October 2004, he has been the consultant for the Chinese Certified Tax Agents 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, 65, Independent Supervisor of Sinopec Corp. Mr. Li graduated from Shandong Institute of Finance and Economics in July 1965 specialising in finance. He is a senior economist and a certified public accountant. He has long been engaged in tax management work and has extensive management experience in the field of taxation. From February 1985 to December 1988, he was Deputy Director of the Taxation Bureau of the Ministry of Finance. He served as Chief Economist of the State Administration of Taxation from December 1988 to April 1991. From April 1991 to February 1995, he served as Deputy Director of the State Administration of Taxation. He was Chief Economist of the State Administration of Taxation of China from February 1995 to September 2001. Mr. Li has been Chairman of the Chinese Certified Tax Agents 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, 49, 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 the former Sinopec Group Company, 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 Sinopec Group Company. Mr. Su has been the Director of the Ideology & Politics Department and a Deputy Secretary of the Affiliated Party Committee of Sinopec Group Company 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, 52, 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 political worker. Mr. Cui has served as Director of Sinopec Beijing Yanhua Petrochemical Company Limited and 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. In August 2005, Mr. Cui was elected as Deputy Secretary of the CPC Committee of Sinopec Yanshan Petrochemical Co. Mr. Cui was elected Employee Representative Supervisor of the Second Session of the Supervisory Committee of Sinopec Corp. in April 2003.

Zhang Xianglin, 59, Employee Representative Supervisor of Sinopec Corp. Mr. Zhang graduated from Beijing Machinery College in July 1970 specialising in precision machine tools. He is a professor level senior political worker. From January 2000 to March 2004, he served as 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. Since March 2004, he has been 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.

Supervisors

Name	Gender	Age	Position with Sinopec Corp.	Term of Office	Remuneration paid by the Company in 2005 (RMB thousand)		Shares Held at Sinopec from any shareholder (as at 31 December)	
					Whether paid by the Company	2005	2004	
Wang Zuoran	M	55	Chairman of the Supervisory Committee	2003.4-2006.4	—	NO	0	0
Zhang Chongqing	M	61	Supervisor	2003.4-2006.4	—	NO	0	0
Wang Peijun	M	60	Supervisor	2003.4-2006.4	—	NO	0	0
Wang Xianwen	M	61	Supervisor	2003.4-2006.4	—	NO	0	0
Zhang Baojian	M	61	Supervisor	2003.4-2006.4	—	NO	0	0
Kang Xianzhang	M	57	Supervisor	2003.4-2006.4	—	NO	0	0
Cui Jianmin	M	73	Independent Supervisor	2003.4-2006.4	24 (Fees)	NO	0	0
Li Yonggui	M	65	Independent Supervisor	2003.4-2006.4	24 (Fees)	NO	0	0
Su Wensheng	M	49	Employee Representative Supervisor	2003.4-2006.4	202	YES	0	0
Cui Guoqi	M	52	Employee Representative Supervisor	2003.4-2006.4	154	YES	0	0
Zhang Xianglin	M	59	Employee Representative Supervisor	2003.4-2006.4	181	YES	0	0
Zhang Haichao	M	48	Employee Representative Supervisor	2003.4-2005.11	194	YES	0	0

(3) Other Members of the Senior Management

Wang Tianpu, 43, President of Sinopec Corp. Mr. Wang graduated from Qingdao Chemical Institute in July 1985 majoring in basic organics chemistry. He obtained his MBA degree in Dalian Polytechnic University in July 1996 and Ph.D. degree in Zhejiang University in August 2003 majoring in chemical engineering. He is a professor level senior engineer and well-experienced in the production and management in petrochemical industry. From March 1999 to February 2000, Mr. Wang was Vice President of Qilu Petrochemical Company of Sinopec Group. From February 2000 to September 2000, he was Vice President of Sinopec Corp. Qilu Company. From September 2000 to August 2001, he was President of Sinopec Corp. Qilu Company. Mr. Wang was Vice President of Sinopec Corp. from August 2001 to April 2003 and was Senior Vice President of Sinopec Corp. from April 2003 to March 2005. Mr. Wang has been President of Sinopec Corp. since March 2005.

Zhang Jianhua, 41, Senior Vice President of Sinopec Corp. Mr. Zhang graduated from East China Chemical Institute in July 1986 majoring in petroleum refining, and obtained a masters degree from East China University of Science and Technology in December 2000 majoring in chemical engineering. He is a professor level senior engineer. From April 1999 to February 2000, Mr. Zhang was Vice President of Shanghai Gaoqiao Petrochemical Company of Sinopec Group. From February to September 2000, he was Vice President of Sinopec Corp. Shanghai Gaoqiao Company. He was President of Sinopec Corp. Shanghai Gaoqiao Company from September 2000 to June 2003. Mr. Zhang served as Vice President of Sinopec Corp. from April 2003 to March 2005. He was also the Director General of Sinopec Production Management Dept. from November 2003 to November 2005. He has been Senior Vice President of Sinopec Corp. since March 2005.

Wang Zhigang, 48, Senior Vice President of Sinopec Corp. Mr. Wang graduated from East China Petroleum Institute in January 1982 majoring in oil production, and then obtained a masters degree from University of Petroleum in June 2000 majoring in oil and gas development engineering. He obtained a Ph.D degree from Geology and Geo-physics Research Institute of the China Academy of Sciences in September 2003 majoring in geology. He is a professor level senior engineer. From February to June 2000, he was Vice President of Sinopec Shengli Oilfield Company Limited. From June 2000 to December 2001, Mr. Wang served as Director and President of Sinopec Shengli Oilfield Company Limited. He was appointed honorary Deputy Director-General of the Economic and Trade Committee of Ningxia Hui Autonomous Region from November 2001 to May 2003. He was Vice President of Sinopec Corp. from April 2003 to March 2005. He was also the Director General of Sinopec Exploration and Production Dept. since June 2003 to November 2005. He has been Senior Vice President of Sinopec Corp. since March 2005.

Cai Xiyou, 44, Senior Vice President. Mr. Cai graduated from Fushun Petroleum Institute in August 1982 majoring in petroleum refining automation, and obtained a MBA degree from China Industry and Science Dalian Training center in October 1990. He is a senior economist. From June 1995 to May 1996, he was the Deputy General Manager of Jinzhou Petrochemical Company of the former Sinopec Group Company. From May 1996 to December 1998, he was the Deputy General Manager of Dalian Western Pacific Petrochemical Co., Ltd (WEPEC). From December 1998 to June 2001, he was the Deputy General Manager of Sinopec Sales Company, and from June 2001 to December 2001, he was the Executive Deputy Manager of Sinopec Sales Company. He has been a Director of China International United Petrochemical Company Limited (UNIPEC) since December 2001 and has been the General Manager of UNIPEC from December 2001 to December 2005. He was Vice President of Sinopec Corp. from April 2003 to November 2005. Mr. Cai has been Senior Vice President of Sinopec Corp. since November 2005.

Dai Houliang, 42, Vice President of Sinopec Corp. Mr. Dai graduated from Jiangsu Chemical Institute in July 1985, specialising in Organic Chemical Engineering. From September 1997 to July 1999, he participated in the MBA training program in Nanjing University. He is a professor level senior engineer. He was Deputy Manager of Sinopec

Yangzi Petrochemical Company from December 1997 to April 1998. He served as a Director and Deputy General Manager of Sinopec Yangzi Petrochemical Co., Ltd. from April 1998 to July 2002. He was Vice Chairman and President of Sinopec Yangzi Petrochemical Co., Ltd. and Director of Sinopec Yangzi Petrochemical Company from July 2002 to December 2003. He was Chairman and President of Sinopec Yangzi Petrochemical Co., Ltd. and Chairman of Sinopec Yangzi Petrochemical Company from December 2003 to September 2005. He also served as the Chairman of BASF-YPC Company Limited since December 2004. He has been the Deputy Chief Finance Officer of Sinopec Corp. since September 2005. Mr. Dai has been Vice President of Sinopec Corp. since November 2005.

Zhang Haichao, 48, Vice President of Sinopec Corp. Mr. Zhang graduated from Zhoushan Commercial and Technical School in December 1979, specialising in oil storage and transportation. He also graduated from Jilin Petrochemical Institute in July 1985 specialising in recycling of lubricating oil. 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 a Deputy General Manager of Zhejiang Petroleum Company from March 1998 to September 1999. He served as the General Manager of Zhejiang Petroleum Company from September 1999 to February 2000, and has served as the

Manager of Sinopec Zhejiang Petroleum Company from February 2000 to September 2005. He has been Chairman of Sinopec-BP Zhejiang Petroleum Co., Ltd. since April 2004. He was Secretary of the CPC Party Committee and Vice Chairman and Deputy General Manager of Sinopec Oil Products Sales Company from October 2004 to November 2005. He served as an employee representative supervisor of the second session of the Supervisory Committee of Sinopec Corp. from April 2003 to November 2005. He has been Secretary of the CPC Party Committee, Chairman and General Manager of Sinopec Oil Products Sales Company since November 2005. Mr. Zhang has been Vice President of Sinopec Corp. since November 2005.

Chen Ge, 43, Secretary to the Board of Directors of Sinopec Corp. Mr. Chen graduated from Daqing Petroleum Institute in July 1983 majoring 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 Deputy Director-General of Board Secretariat of Sinopec Corp. Mr. Chen has been the Director General of the Board Secretariat since December 2001. Mr. Chen has been the 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	Remuneration paid by the Company		Shares Held at Sinopec from any shareholder (as at 31 December)	
					in 2005 (RMB thousand)	Whether paid by the Company	2005	2004
Wang Tianpu	M	43	President	2005.3-	462	NO	0	0
Zhang Jianhua	M	41	Senior Vice President	2005.3-	261	NO	0	0
Wang Zhigang	M	48	Senior Vice President	2005.3-	261	NO	0	0
Cai Xiyou	M	44	Senior Vice President	2005.11-	260	NO	0	0
Dai Houliang	M	42	Vice President	2005.11-	219	NO	0	0
Zhang Haichao	M	48	Vice President	2005.11-	194	NO	0	0
Chen Ge	M	43	Secretary to the Board of Directors	2003.4-2006.4	202	NO	0	0

2 NEW APPOINTMENT OR TERMINATION OF DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

The 16th Meeting of the Second Session of the Board of Directors of China Petroleum & Chemical Corporation approved the resignation by Mr. Wang Jiming as President of Sinopec Corp. and the resignation by Mr. Mou Shuling as Senior Vice President of Sinopec Corp. for work-related reasons. Mr. Wang Tianpu was appointed as President of Sinopec Corp. Mr. Zhang Jianhua and Mr. Wang Zhigang were appointed as Senior Vice Presidents of Sinopec Corp. The 22nd Meeting of the Second Session of the Board of Directors of China Petroleum & Chemical Corporation approved the resignation by Mr.

Zhang Jiaren as the Senior Vice President of Sinopec Corp., the resignation by Mr. Cao Xianghong as the Senior Vice President of Sinopec Corp. and the resignation by Mr. Li Chunguang as Vice President of Sinopec Corp. Mr. Cai Xiyou was appointed as Senior Vice President of Sinopec Corp. Mr. Dai Houliang and Mr. Zhang Haichao was appointed as Vice President of Sinopec Corp.

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

Please refer to item 27 in the section of this report entitled "Significant Events".

4 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 at 31 December 2005 or at any time during the year.

5 SALARIES OF DIRECTORS, SUPERVISORS AND THE SENIOR MANAGEMENT

Please refer to the relevant tables in this report in respect of the directors, supervisors and senior management.

DIRECTORS, SUPERVISORS, SENIOR MANAGEMENT AND EMPLOYEES (CONTINUED)

6 THE COMPANY'S EMPLOYEES

As at 31 December 2005, the Company had a total of 364,528 employees.

Breakdown according to operation department structures

	Number of Employees	Percentage to Total Employees (%)
Exploration and Production	119,282	32.7
Refining	76,332	21.0
Marketing and Distribution	66,839	18.3
Chemicals	93,990	25.8
R&D and Others	8,085	2.2
Total	364,528	100

Breakdown according to functions

	Number of Employees	Percentage to Total Employees (%)
Production	181,332	49.7
Sales	65,615	18.0
Technical	45,026	12.4
Finance	9,697	2.7
Administration	29,891	8.2
Others	32,967	9.0
Total	364,528	100

Breakdown according to education level

	Number of Employees	Percentage to Total Employees (%)
Master's degree or above	3,958	1.1
University	52,796	14.5
Tertiary education	74,173	20.3
Technical/polytechnic school	37,743	10.4
Secondary, technical/polytechnic school or below	195,858	53.7
Total	364,528	100

7 EMPLOYEES' PENSION SCHEME

Details of the employees' pension scheme of the Company are set out in note 36 to the financial statements prepared under IFRS which are contained in this annual report.

As at 31 December 2005, the Company had a total of 112,000 retired employees. All of them participate in the 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 2005, details of the principal wholly-owned and non wholly-owned subsidiaries of the Company were 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	1,704	100.00	7,608	924	KPMG Huazhen	Trading of crude oil and petrochemical products
Sinopec Beijing Yanshan Petrochemical Company Limited	3,404	100.00	11,498	1,758	KPMG Huazhen	Manufacturing of chemical products
Sinopec Sales Company Limited	1,700	100.00	25,649	1,716	KPMG Huazhen	Marketing and distribution of refined oil products
Sinopec Shengli Oilfield Company Limited	29,000	100.00	52,734	25,747	KPMG Huazhen	Exploration and production of crude oil and natural gas
Sinopec Fujian Petrochemical Company Limited	2,253	50.00	4,226	(179)	KPMG Huazhen	Manufacturing of petroleum products, intermediate petrochemical products and synthetic resin
Sinopec Qilu Petrochemical Company Limited	1,950	82.05	To be announced	To be announced	KPMG Huazhen	Manufacturing of plastics and intermediate petrochemical
Sinopec Shanghai Petrochemical Company Limited	7,200	55.56	27,102	1,705	KPMG Huazhen	Manufacturing of petroleum products, synthetic fibres, resin and intermediate petrochemical products
Sinopec Shijiazhuang Refining-Chemical Company Limited	1,154	79.73	To be announced	To be announced	KPMG Huazhen	Manufacturing of intermediate petrochemical products and petroleum products
Sinopec Kantons Holdings Limited	HK\$ 104 million	72.40	HK\$ 2,837 million	HK\$ 169 millions	KPMG	Trading of petroleum products and crude oil
Sinopec Wuhan Petroleum Group Company Limited	147	46.25	635	28	Wuhan Zhonghuan CPA Company Limited	Marketing and distribution of refined oil products
Sinopec Wuhan Phoenix Company Limited	519	40.72	1,396	33	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	To be announced	To be announced	KPMG Huazhen	Manufacturing of petrochemical products and petroleum products
Sinopec Yizheng Chemical Fibre Company Limited	4,000	42.00	9,985	(954)	KPMG Huazhen	Manufacturing and sale of polyester chips and polyester fibres
Sinopec Zhenhai Refining and Chemical Company Limited	2,524	71.32	To be announced	To be announced	KPMG Huazhen	Manufacturing of intermediate petrochemical products and petroleum products
Sinopec Zhongyuan Petroleum Company Limited	875	70.85	To be announced	To be announced	KPMG Huazhen	Exploration and production of crude oil and natural gas
Zhongyuan Petrochemical Company Limited	2,400	93.51	2,113	226	KPMG Huazhen	Manufacturing of petrochemical products
Sinopec Shell (Jiangsu) Petroleum Marketing Company Limited	830	60.00	735	48	KPMG Huazhen	Marketing and distribution of refined oil products
BP Sinopec (Zhejiang) Petroleum Company Limited	800	60.00	725	49	KPMG Huazhen	Marketing and distribution of refined oil products
Sinopec Qingdao Refining and Chemical Co., Ltd.	800	85.00	969	—	KPMG Huazhen	Manufacturing of intermediate petrochemical products and petroleum products

The above indicated total assets and net profit has been prepared in accordance with the PRC Accounting Rules and Regulations. Except for 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 which have a material impact on Sinopec Corp.'s results or net assets are set out above.



To the Shareholders of China Petroleum & Chemical Corporation:

We have audited the accompanying Company's consolidated balance sheet and balance sheet at 31 December 2005, 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 2005, 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
Zhang Jingjing

31 March 2006

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

at 31 December 2005

	Note	2005 RMB millions	2004 RMB millions
Assets			
Current assets			
Cash at bank and in hand	4	14,747	18,280
Bills receivable	5	7,143	7,812
Trade accounts receivable	6	14,532	9,756
Other receivables	7	11,487	12,462
Advance payments	8	5,051	4,828
Inventories	9	88,936	63,918
Total current assets		141,896	117,056
Long-term equity investments (Including equity investment differences of RMB 2,003 million (2004: RMB 383 million))	10	14,146	13,409
Fixed assets			
Fixed assets, at cost		572,465	519,462
Less: Accumulated depreciation		265,611	243,510
Net book value of fixed assets before impairment losses	11	306,854	275,952
Less: Provision for impairment losses on fixed assets	11	6,234	5,816
Net book value of fixed assets		300,620	270,136
Construction materials	12	555	430
Construction in progress	13	48,073	45,976
Total fixed assets		349,248	316,542
Intangible assets and other assets			
Intangible assets	14	5,924	5,345
Long-term deferred expenses	15	3,657	3,563
Total intangible assets and other assets		9,581	8,908
Deferred tax assets	16	5,701	4,166
Total assets		520,572	460,081
Liabilities and shareholders' funds			
Current liabilities			
Short-term loans	17	16,124	26,723
Bills payable	18	23,243	30,797
Trade accounts payable	19	52,967	23,792
Receipts in advance	20	14,086	8,605
Wages payable		3,436	3,223
Staff welfare payable		1,052	1,101
Taxes payable	21	5,262	6,741
Other payables	22	1,830	1,519
Other creditors	23	24,161	26,459
Accrued expenses	24	512	652
Short-term debentures payable	27	9,921	—
Current portion of long-term loans	25	15,198	14,298
Total current liabilities		167,792	143,910
Long-term liabilities			
Long-term loans	26	103,492	94,087
Debentures payable	27	3,500	3,500
Other long-term liabilities	28	782	820
Total long-term liabilities		107,774	98,407
Deferred tax liabilities	16	—	198
Total liabilities		275,566	242,515
Minority interests			
		29,383	31,216
Shareholders' funds			
Share capital	29	86,702	86,702
Capital reserve	30	37,121	37,121
Surplus reserves (Including statutory public welfare fund of RMB 13,514 million (2004: RMB 9,558 million))	31	34,028	26,116
Unrecognised investment losses		(594)	(713)
Retained profits (Including dividend proposed after the balance sheet date in respect of year 2005 of RMB 7,803 million (2004: RMB 6,936 million))	40	58,366	37,124
Total shareholders' funds		215,623	186,350
Total liabilities and shareholders' funds		520,572	460,081

These financial statements have been approved by the Board of Directors on 31 March 2006.

Chen Tonghai
 Chairman
 (Authorised representative)

Wang Tianpu
 President

Zhang Jiaren
 Director and
 Chief Financial Officer

Liu Yun
 Head of Accounting
 Division

The notes on pages 92 to 122 form part of these financial statements.

BALANCE SHEET

at 31 December 2005

	Note	2005 RMB millions	2004 RMB millions
Assets			
Current assets			
Cash at bank and in hand	4	5,124	6,299
Bills receivable	5	1,334	1,597
Trade accounts receivable	6	8,826	8,245
Other receivables	7	9,604	19,625
Advance payments	8	4,118	4,358
Inventories	9	49,862	33,951
Total current assets		78,868	74,075
Long-term equity investments (Including equity investment differences of RMB 2,017 million (2004: RMB 400 million))	10	133,203	124,211
Fixed assets			
Fixed assets, at cost		294,206	271,120
Less: Accumulated depreciation		123,747	113,572
Net book value of fixed assets before impairment losses	11	170,459	157,548
Less: Provision for impairment losses on fixed assets	11	4,191	4,038
Net book value of fixed assets		166,268	153,510
Construction materials	12	555	93
Construction in progress	13	38,937	28,779
Total fixed assets		205,760	182,382
Intangible assets and other assets			
Intangible assets	14	4,238	4,261
Long-term deferred expenses	15	2,656	2,530
Total intangible assets and other assets		6,894	6,791
Deferred tax assets	16	3,203	3,708
Total assets		427,928	391,167
Liabilities and shareholders' funds			
Current liabilities			
Short-term loans	17	6,940	16,254
Bills payable	18	19,077	21,589
Trade accounts payable	19	28,833	21,137
Receipts in advance	20	12,491	6,106
Wages payable		2,525	1,854
Staff welfare payable		514	498
Taxes payable	21	2,075	3,170
Other payables	22	527	442
Other creditors	23	22,914	34,156
Accrued expenses	24	173	430
Short-term debentures payable	27	9,921	—
Current portion of long-term loans	25	12,144	11,506
Total current liabilities		118,134	117,142
Long-term liabilities			
Long-term loans	26	89,113	82,332
Debentures payable	27	3,500	3,500
Other long-term liabilities	28	315	438
Total long-term liabilities		92,928	86,270
Deferred tax liabilities	16	—	16
Total liabilities		211,062	203,428
Shareholders' funds			
Share capital	29	86,702	86,702
Capital reserve	30	37,797	37,797
Surplus reserves (Including statutory public welfare fund of RMB 13,514 million (2004: RMB 9,558 million))	31	34,028	26,116
Retained profits (Including dividend proposed after the balance sheet date in respect of year 2005 of RMB 7,803 million (2004: RMB 6,936 million))	40	58,339	37,124
Total shareholders' funds		216,866	187,739
Total liabilities and shareholders' funds		427,928	391,167

These financial statements have been approved by the Board of Directors on 31 March 2006.

Chen Tonghai
Chairman
(Authorised representative)

Wang Tianpu
President

Zhang Jiaren
Director and
Chief Financial Officer

Liu Yun
Head of Accounting
Division

The notes on pages 92 to 122 form part of these financial statements.

CONSOLIDATED INCOME STATEMENT AND PROFIT APPROPRIATION STATEMENT

for the year ended 31 December 2005

	Note	2005 RMB millions	2004 RMB millions
Income from principal operations	32	799,115	590,632
Less: Cost of sales		668,249	459,207
Sales taxes and surcharges	33	17,152	16,203
Profit from principal operations		113,714	115,222
Add: Profit from other operations		839	1,102
Less: Selling expenses		22,690	19,477
Administrative expenses		23,330	23,167
Financial expenses	34	5,266	4,331
Exploration expenses, including dry holes	35	6,411	6,396
Operating profit		56,856	62,953
Add: Investment income	36	813	1,088
Subsidy income	37	9,415	—
Non-operating income		367	665
Less: Non-operating expenses	38	5,969	11,171
Profit before taxation		61,482	53,535
Less: Income tax	39	18,903	16,060
Minority interests		2,902	5,670
Add: (Reversal of) unrecognised investment losses		(119)	470
Net profit		39,558	32,275
Add: Retained profits at the beginning of the year		37,124	19,975
Distributable profits		76,682	52,250
Less: Transfer to statutory surplus reserve	31	3,956	3,228
Transfer to statutory public welfare fund	31	3,956	3,228
Distributable profits to shareholders		68,770	45,794
Less: Distribution of ordinary shares' final dividend	40	6,936	5,202
Distribution of ordinary shares' interim dividend	40	3,468	3,468
Retained profits at the end of the year (Including dividend proposed after the balance sheet date in respect of year 2005 of RMB 7,803 million (2004: RMB 6,936 million))	40	58,366	37,124

These financial statements have been approved by the Board of Directors on 31 March 2006.

Chen Tonghai
Chairman
(Authorised representative)

Wang Tianpu
President

Zhang Jiaren
Director and
Chief Financial Officer

Liu Yun
Head of Accounting
Division

The notes on pages 92 to 122 form part of these financial statements.

INCOME STATEMENT AND PROFIT APPROPRIATION STATEMENT

for the year ended 31 December 2005

	Note	2005 RMB millions	2004 RMB millions
Income from principal operations	32	532,621	397,789
Less: Cost of sales		480,866	336,089
Sales taxes and surcharges	33	11,249	10,094
Profit from principal operations		40,506	51,606
Add: Profit from other operations		512	108
Less: Selling expenses		14,672	13,055
Administrative expenses		14,573	15,523
Financial expenses	34	3,539	2,770
Exploration expenses, including dry holes	35	5,052	4,951
Operating profit		3,182	15,415
Add: Investment income	36	51,646	39,374
Subsidy income	37	6,584	—
Non-operating income		224	377
Less: Non-operating expenses	38	3,967	7,879
Profit before taxation		57,669	47,287
Less: Income tax	39	18,138	14,769
Net profit		39,531	32,518
Add: Retained profits at the beginning of the year		37,124	19,732
Distributable profits		76,655	52,250
Less: Transfer to statutory surplus reserve	31	3,956	3,228
Transfer to statutory public welfare fund	31	3,956	3,228
Distributable profits to shareholders		68,743	45,794
Less: Distribution of ordinary shares' final dividend	40	6,936	5,202
Distribution of ordinary shares' interim dividend	40	3,468	3,468
Retained profits at the end of the year (Including dividend proposed after the balance sheet date in respect of year 2005 of RMB 7,803 million (2004: RMB 6,936 million))	40	58,339	37,124

These financial statements have been approved by the Board of Directors on 31 March 2006.

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Chief Financial Officer

Liu Yun
Head of Accounting
Division

The notes on pages 92 to 122 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 December 2005

	Note	2005 RMB millions	2004 RMB millions
Cash flows from operating activities			
Cash received from sale of goods and rendering of services		965,505	712,682
Rentals received		387	368
Government grants received		9,415	—
Other cash received relating to operating activities		3,572	3,640
Sub-total of cash inflows		978,879	716,690
Cash paid for goods and services		(790,429)	(549,408)
Cash paid for operating leases		(5,629)	(6,871)
Cash paid to and on behalf of employees		(18,710)	(16,304)
Value added tax paid		(27,928)	(25,961)
Income tax paid		(20,998)	(16,858)
Taxes paid other than value added tax and income tax		(17,288)	(16,045)
Other cash paid relating to operating activities		(12,934)	(15,104)
Sub-total of cash outflows		(893,916)	(646,551)
Net cash flow from operating activities	(a)	84,963	70,139
Cash flows from investing activities			
Cash received from sale of investments		417	186
Dividends received		668	322
Net cash received from sale of fixed assets and intangible assets		510	315
Cash received on maturity of time deposits with financial institutions		1,462	2,217
Other cash received relating to investing activities		386	359
Sub-total of cash inflows		3,443	3,399
Cash paid for acquisition of fixed assets and intangible assets		(65,031)	(66,693)
Cash paid for acquisition of fixed assets and intangible assets of jointly controlled entities		(2,474)	(6,035)
Cash paid for purchase of investments		(3,605)	(1,225)
Cash paid for purchase of time deposits with financial institutions		(565)	(1,932)
Cash paid for acquisition of operating assets and related liabilities from Sinopec Group Company		(3,128)	(3,652)
Cash paid for acquisition of subsidiaries		(4,324)	—
Sub-total of cash outflows		(79,127)	(79,537)
Net cash flow from investing activities		(75,684)	(76,138)
Cash flows from financing activities			
Cash received from contribution from minority shareholders		129	1,008
Cash received from issuance of corporate bonds, net of issuing expenses		9,875	3,472
Cash received from borrowings		550,557	391,832
Cash received from borrowings of jointly controlled entities		3,954	3,014
Sub-total of cash inflows		564,515	399,326
Cash repayments of borrowings		(557,432)	(377,855)
Cash paid for dividends, profits distribution or interest expenses		(17,365)	(13,538)
Dividends paid to minority shareholders by subsidiaries		(1,611)	(775)
Sub-total of cash outflows		(576,408)	(392,168)
Net cash flow from financing activities		(11,893)	7,158
Effects of changes in foreign exchange rate		(22)	1
Net (decrease)/increase in cash and cash equivalents	(b)	(2,636)	1,160

The notes on pages 92 to 122 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT (CONTINUED)

for the year ended 31 December 2005
notes to the consolidated cash flow statement

	2005	2004
	RMB millions	RMB millions
(a) Reconciliation of net profit to cash flows from operating activities:		
Net profit	39,558	32,275
Add: (Reversal of)/provision for allowance for doubtful accounts	(144)	2,050
Provision for diminution in value of inventories	82	433
Depreciation of fixed assets	30,845	30,766
Amortisation of intangible assets	986	476
Impairment losses on fixed assets	1,851	4,628
Impairment losses on long-term investments	77	88
Net loss on disposal of fixed assets and intangible assets	2,202	3,989
Financial expenses	5,266	4,331
Dry hole costs	2,992	2,976
Investment income	(890)	(843)
Deferred tax liabilities (less: assets)	(1,733)	(2,439)
Increase in inventories	(25,078)	(16,927)
Increase in operating receivables	(2,256)	(4,245)
Increase in operating payables	28,303	6,911
Minority interests	2,902	5,670
Net cash flow from operating activities	84,963	70,139
(b) Net (decrease)/increase in cash and cash equivalents:		
Cash and cash equivalents at the end of the year	13,745	16,381
Less: Cash and cash equivalents at the beginning of the year	16,381	15,221
Net (decrease)/increase in cash and cash equivalents	(2,636)	1,160

These financial statements have been approved by the Board of Directors on 31 March 2006.

Chen Tonghai
Chairman
(Authorised representative)

Wang Tianpu
President

Zhang Jiaren
Director and
Chief Financial Officer

Liu Yun
Head of Accounting
Division

The notes on pages 92 to 122 form part of these financial statements.

CASH FLOW STATEMENT

for the year ended 31 December 2005

	Note	2005 RMB millions	2004 RMB millions
Cash flows from operating activities:			
Cash received from sale of goods and rendering of services		645,438	474,149
Rentals received		273	201
Government grants received		6,584	—
Other cash received relating to operating activities		2,929	2,760
Sub-total of cash inflows		655,224	477,110
Cash paid for goods and services		(568,978)	(382,856)
Cash paid for operating leases		(4,991)	(5,391)
Cash paid to and on behalf of employees		(9,946)	(8,539)
Value added tax paid		(13,623)	(13,460)
Income tax paid		(3,396)	(4,474)
Taxes paid other than value added tax and income tax		(11,372)	(10,319)
Other cash paid relating to operating activities		(16,231)	(17,851)
Sub-total of cash outflows		(628,537)	(442,890)
Net cash flow from operating activities	(a)	26,687	34,220
Cash flows from investing activities:			
Cash received from sale of investments		102	62
Dividends received		36,700	6,379
Net cash received from sale of fixed assets and intangible assets		169	178
Cash received on maturity of time deposits with financial institutions		184	605
Other cash received relating to investing activities		123	144
Sub-total of cash inflows		37,278	7,368
Cash paid for acquisition of fixed assets and intangible assets		(44,167)	(41,477)
Cash paid for purchase of investments		(6,927)	(3,156)
Cash paid for purchase of time deposits with financial institutions		(46)	(617)
Cash paid for acquisition of operating assets and related liabilities from Sinopec Group Company		(3,128)	(3,652)
Cash paid for acquisition of subsidiaries		(4,324)	—
Sub-total of cash outflows		(58,592)	(48,902)
Net cash flow from investing activities		(21,314)	(41,534)
Cash flows from financing activities:			
Cash received from issuance of corporate bonds, net of issuing expenses		9,875	3,472
Cash received from borrowings		348,381	255,218
Sub-total of cash inflows		358,256	258,690
Cash repayments of borrowings		(349,794)	(239,933)
Cash paid for dividends, profits distribution or interest expenses		(14,872)	(11,737)
Sub-total of cash outflows		(364,666)	(251,670)
Net cash flow from financing activities		(6,410)	7,020
Net decrease in cash and cash equivalents	(b)	(1,037)	(294)

The notes on pages 92 to 122 form part of these financial statements.

CASH FLOW STATEMENT (CONTINUED)

for the year ended 31 December 2005
notes to the cash flow statement

	2005	2004
	RMB millions	RMB millions
(a) Reconciliation of net profit to cash flow from operating activities:		
Net profit	39,531	32,518
Add: (Reversal of)/provision for allowance for doubtful accounts	(448)	2,159
(Reversal of)/provision for diminution in value of inventories	(17)	190
Depreciation of fixed assets	15,186	13,349
Amortisation of intangible assets	755	346
Impairment losses on fixed assets	1,082	3,417
Impairment losses on long-term investments	14	—
Net loss on disposal of fixed assets and intangible assets	1,681	2,555
Financial expenses	3,539	2,770
Dry hole costs	2,271	2,184
Investment income	(34,690)	(27,948)
Deferred tax liabilities (less: assets)	489	(2,198)
Increase in inventories	(16,356)	(6,523)
Decrease/(increase) in operating receivables	12,853	(756)
Increase in operating payables	797	12,157
Net cash flow from operating activities	26,687	34,220
(b) Net decrease in cash and cash equivalents:		
Cash and cash equivalents at the end of the year	5,014	6,051
Less: Cash and cash equivalents at the beginning of the year	6,051	6,345
Net decrease in cash and cash equivalents	(1,037)	(294)

These financial statements have been approved by the Board of Directors on 31 March 2006.

Chen Tonghai
Chairman
(Authorised representative)

Wang Tianpu
President

Zhang Jiaren
Director and
Chief Financial Officer

Liu Yun
Head of Accounting
Division

The notes on pages 92 to 122 form part of these financial statements.

NOTES ON THE FINANCIAL STATEMENTS

for the year ended 31 December 2005

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 associated liabilities related to the 380 kiloton ethylene production and distribution equipment 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 the entire operating assets and liabilities of 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 associated liabilities of refining, petrochemicals, catalysts and gas stations (the “Acquisition of Acquired Assets”) from Sinopec Group Company for a consideration of RMB 5.36 billion. In connection with these acquisitions, the Group disposed of certain assets and liabilities related to its oilfield downhole operation (the “Disposal of Downhole Assets”) to Sinopec Group Company for a consideration receivable of RMB 1.71 billion, resulting in a net consideration of RMB 3.65 billion payable to Sinopec Group Company.

2 SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted by the Company and its subsidiaries (“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 Ministry of Finance 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, of 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 has effective controlling power. 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 and measurement basis

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

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Reporting currency and translation of foreign currencies

The Group's reporting currency is 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.

Inventories are measured at their actual cost upon acquisition. 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 an appropriate allocation of manufacturing 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 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 not more than 10 years if the investment period is not specified in the agreement. The unamortised balance is included in long-term equity investments at the year 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 year 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.

Upon the disposal or transfer of long-term equity investments, the difference between the proceeds received and the carrying amount of the investments is recognised in the income statement.

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

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Fixed assets and construction in progress

Fixed assets represent the assets held by the Group for use in the production of goods and for administrative purposes 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 amount of assets, which is determined by 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, vehicles and others	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 impaired and charged to expense. All other exploration costs, including geological and geophysical costs, are charged to the income statement in the period as incurred.

(k) Intangible assets

Intangible assets are stated in the balance sheet at cost or revalued amount 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 contracted beneficial period and the effective period stipulated by law. Amortisation is provided over 10 years if it is not specified in contracts 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 aggregated in long-term deferred expenses and then fully charged to the income statement in the month operations commence.

(m) Debentures payable

Debentures payable is stated in the balance sheet based on the proceeds received upon issuance. Interest expenses are calculated based on actual 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 completion. If a transaction lasts more than one accounting years, 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, revenues recognised only to the extent that costs incurred are expected to be recoverable.

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

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(o) Income tax

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

Current tax is calculated at the applicable tax rate on taxable income.

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

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 incurred 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 are recognised in the income statement when incurred.

(r) Environmental expenditures

Environmental expenditures relating to circumstances arising as a result of the current or past businesses 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 as expenses on a straight-line basis over the period of the respective leases.

(u) Dividends

Dividends appropriated to shareholders are recognised in the income statement and profit appropriation statement when approved. 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 a defined contribution retirement plan for the employees arranged by a governmental organisation. The Group makes contributions to the retirement scheme at the applicable rate(s) based on the employees' salaries. The contributions are charged to the income statement on an accrual basis. After the payment of the contributions under the retirement plan, the Group does not have any other obligations in this respect.

(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 regularly to determine whether their recoverable amounts have declined below their 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 arising from the continuous use of the asset and 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 deficit 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 losses for long-term equity investment are firstly set off against the difference initially recognised in the capital reserve relating to the investment and any excess impairment losses are 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. Reversals of impairment losses are recognised in the income statement. Impairment losses are 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 losses that had previously been recognised in the income statement and then the impairment losses that had been charged to capital reserve.

(x) Related parties

If the Group has the power, 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.

NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2005

2 SIGNIFICANT ACCOUNTING POLICIES (Continued)

(y) Provisions and contingent liabilities

Provisions are recognised when the Group has a present obligation as a result of a past event, 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 branches and 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.

For the period from 1 January 2005 to 30 June 2005, 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 metres respectively. For the period from 1 July 2005 to 31 December 2005, resources tax is levied on crude oil and natural gas at rates ranging from RMB 14 per tonne to RMB 30 per tonne and RMB 7 to RMB 15 per 1000 cubic metres 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 branches, subsidiaries and jointly controlled entities granted with tax concession are set out below:

Name of branches, subsidiaries and jointly controlled entities	Preferential tax rate	Reasons for granting concession
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
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
Shanghai Secco Petrochemical Company Limited	2-year exemption and 3-year 50% reduction	Foreign investment enterprise
BASF-YPC Company Limited	2-year exemption and 3-year 50% reduction	Foreign investment enterprise

4 CASH AT BANK AND IN HAND

The Group

	2005			2004		
	Original currency millions	Exchange rates	RMB millions	Original currency millions	Exchange rates	RMB millions
Cash in hand						
Renminbi			207			115
Cash at bank						
Renminbi			9,229			12,621
US Dollars	76	8.0702	616	96	8.2765	795
Hong Kong Dollars	63	1.0403	66	47	1.0637	50
Japanese Yen	277	0.0687	19	220	0.0797	18
Euro	2	9.5797	21	1	11.2627	10
			10,158			13,609
Deposits at related parties						
Renminbi			4,588			4,657
US Dollars	—	8.0702	1	2	8.2765	14
Total cash at bank and in hand			14,747			18,280

NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2005

4 CASH AT BANK AND IN HAND (Continued)

The Company

	2005			2004		
	Original currency millions	Exchange rates	RMB millions	Original currency millions	Exchange rates	RMB millions
Cash in hand						
Renminbi			12			107
Cash at bank						
Renminbi			3,075			4,892
US Dollars	1	8.0702	10	1	8.2765	6
			3,097			5,005
Deposits at related parties						
Renminbi			2,026			1,280
US Dollars	—	8.0702	1	2	8.2765	14
Total cash at bank and in hand			5,124			6,299

Deposits at related parties represent deposits placed at Sinopec Finance Company Limited. Deposits interest is calculated based on 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	
	2005 RMB millions	2004 RMB millions	2005 RMB millions	2004 RMB millions
Amounts due from subsidiaries	—	—	6,252	5,026
Amounts due from Sinopec Group Company and fellow subsidiaries	3,049	2,349	518	858
Amounts due from associates	572	89	10	19
Amounts due from jointly controlled entities	505	—	229	—
Others	13,546	10,989	4,136	5,179
	17,672	13,427	11,145	11,082
Less: Allowance for doubtful accounts	3,140	3,671	2,319	2,837
Total	14,532	9,756	8,826	8,245

Allowance for doubtful accounts is analysed as follows:

	The Group		The Company	
	2005 RMB millions	2004 RMB millions	2005 RMB millions	2004 RMB millions
Balance at 1 January	3,671	3,185	2,837	2,299
Provision for the year	328	931	186	708
Written back for the year	(503)	(85)	(424)	(37)
Written off for the year	(356)	(360)	(280)	(133)
Balance at 31 December	3,140	3,671	2,319	2,837

NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2005

6 TRADE ACCOUNTS RECEIVABLE (Continued)

Ageing analysis on trade accounts receivable is as follows:

	The Group							
	2005				2004			
	Amount RMB millions	%	Allowance RMB millions	%	Amount RMB millions	%	Allowance RMB millions	%
Within one year	14,320	81.0	49	0.3	9,546	71.1	390	4.1
Between one and two years	279	1.6	101	36.2	308	2.3	83	26.9
Between two and three years	158	0.9	115	72.8	527	3.9	361	68.5
Over three years	2,915	16.5	2,875	98.6	3,046	22.7	2,837	93.1
Total	17,672	100.0	3,140		13,427	100.0	3,671	

	The Company							
	2005				2004			
	Amount RMB millions	%	Allowance RMB millions	%	Amount RMB millions	%	Allowance RMB millions	%
Within one year	8,721	78.1	45	0.5	8,103	73.1	275	3.4
Between one and two years	164	1.5	52	31.7	193	1.8	66	34.2
Between two and three years	95	0.9	70	73.7	334	3.0	251	75.1
Over three years	2,165	19.5	2,152	99.4	2,452	22.1	2,245	91.6
Total	11,145	100.0	2,319		11,082	100.0	2,837	

Major trade accounts receivable of the Group at 31 December 2005 are set out below:

Name of debtor	Balance RMB millions	Percentage on trade accounts receivable %
Guangdong Nanhua Petroleum Company Limited	921	5.2
Dongxing Oil Industry Limited	697	3.9
Sinopec Railway Oil Marketing Company Limited	330	1.9
SK Corporation	232	1.3
Sinochem Singapore Petroleum International Company Limited	216	1.2

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

Name of debtor	Balance RMB millions	Percentage on 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

Except for the balances disclosed in Note 41, 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 2005 and 2004, the Group and the Company had no individually significant trade accounts receivable been fully or substantially provided for.

During the years ended 31 December 2005 and 2004, 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 2005 and 2004, 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 2005

7 OTHER RECEIVABLES

	The Group		The Company	
	2005	2004	2005	2004
	RMB millions	RMB millions	RMB millions	RMB millions
Amounts due from subsidiaries	—	—	1,740	11,004
Amounts due from Sinopec Group Company and fellow subsidiaries	3,059	6,135	2,708	5,616
Amounts due from associates	521	308	501	260
Others	11,419	9,515	7,855	6,168
	14,999	15,958	12,804	23,048
Less: Allowance for doubtful accounts	3,512	3,496	3,200	3,423
Total	11,487	12,462	9,604	19,625

Allowance for doubtful accounts is analysed as follows:

	The Group		The Company	
	2005	2004	2005	2004
	RMB millions	RMB millions	RMB millions	RMB millions
Balance at 1 January	3,496	2,348	3,423	1,967
Provision for the year	446	1,245	176	1,514
Written back for the year	(415)	(41)	(386)	(26)
Written off for the year	(15)	(56)	(13)	(32)
Balance at 31 December	3,512	3,496	3,200	3,423

Ageing analysis of other receivables is as follows:

	The Group							
	2005				2004			
	Amount RMB millions	%	Allowance RMB millions	%	Amount RMB millions	%	Allowance RMB millions	%
Within one year	9,167	61.1	15	0.2	8,577	53.8	14	0.2
Between one and two years	676	4.5	33	4.9	485	3.0	17	3.5
Between two and three years	447	3.0	338	75.6	3,549	22.2	430	12.1
Over three years	4,709	31.4	3,126	66.4	3,347	21.0	3,035	90.7
Total	14,999	100.0	3,512		15,958	100.0	3,496	

	The Company							
	2005				2004			
	Amount RMB millions	%	Allowance RMB millions	%	Amount RMB millions	%	Allowance RMB millions	%
Within one year	7,127	55.7	5	0.1	16,168	70.1	12	0.1
Between one and two years	491	3.8	19	3.9	923	4.0	592	64.1
Between two and three years	748	5.8	622	83.1	2,620	11.4	48	1.8
Over three years	4,438	34.7	2,554	57.5	3,337	14.5	2,771	83.0
Total	12,804	100.0	3,200		23,048	100.0	3,423	

Major other receivables of the Group at 31 December 2005 are set out below:

Name of debtor	Particulars	Balance RMB millions	Percentage on other receivables %
China Petrochemical Corporation	Current Account	1,507	10.0
Fujian Quanzhou Qu Finance Bureau	Current Account	375	2.5
Jinhuang Real Estate Company Limited	Current Account	208	1.4
Ningbo Taiyi Real Estate Company Limited	Current Account	192	1.3
Qingdao Qirun Petrochemical Company Limited	Current Account	162	1.0

NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2005

7 OTHER RECEIVABLES (Continued)

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

Name of debtor	Particulars	Percentage on	
		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

Except for the balances disclosed in Note 41, 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 2005 and 2004, the Group and the Company had no individually significant other receivables been fully or substantially provided for.

During the years ended 31 December 2005 and 2004, 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 2005 and 2004, 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 41, 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	
	2005	2004	2005	2004
	RMB millions	RMB millions	RMB millions	RMB millions
Raw materials	53,350	32,581	25,471	14,544
Work in progress	9,422	8,341	4,659	3,605
Finished goods	23,163	20,804	17,980	15,163
Spare parts and consumables	3,893	3,098	2,061	1,033
	89,828	64,824	50,171	34,345
Less: Provision for diminution in value of inventories	892	906	309	394
	88,936	63,918	49,862	33,951

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 is analysed as follows:

	The Group		The Company	
	2005	2004	2005	2004
	RMB millions	RMB millions	RMB millions	RMB millions
Balance at 1 January	906	519	394	226
Provision for the year	262	621	64	314
Written back for the year	(180)	(188)	(81)	(124)
Written off	(96)	(46)	(68)	(22)
Balance at 31 December	892	906	309	394

The cost of inventories recognised as costs and expenses by the Group and the Company amounted to RMB 683,375 million (2004: RMB 473,724 million) and RMB 488,592 million (2004: RMB 343,269 million) for the year ended 31 December 2005, respectively.

NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2005

10 LONG-TERM EQUITY INVESTMENTS

The Group

	Listed stock investment RMB millions	Unlisted stock and other equity investment RMB millions	Equity investment differences RMB millions	Provision for impairment losses RMB millions	Total RMB millions
Balance at 1 January 2005	790	12,589	383	(353)	13,409
Additions for the year	—	2,942	1,820	—	4,762
Share of profits less losses from investments accounted for under the equity method	81	754	—	—	835
Long-term equity investments accounted for as a jointly controlled entity	—	(3,516)	—	—	(3,516)
Dividends receivable/received	(48)	(407)	—	—	(455)
Disposals for the year	—	(715)	—	—	(715)
Amortisation for the year	—	—	(200)	—	(200)
Movement of provision for impairment losses	—	—	—	26	26
Balance at 31 December 2005	823	11,647	2,003	(327)	14,146

The Company

	Listed stock investment RMB millions	Unlisted stock and other equity investment RMB millions	Equity investment differences RMB millions	Provision for impairment losses RMB millions	Total RMB millions
Balance at 1 January 2005	49,731	74,235	400	(155)	124,211
Additions for the year	—	9,821	1,818	—	11,639
Reclassification	(6,856)	6,856	—	—	—
Share of profits less losses from investments accounted for under the equity method	8,371	26,444	—	—	34,815
Dividends receivable/received	(2,682)	(34,404)	—	—	(37,086)
Disposals for the year	—	(227)	—	—	(227)
Amortisation for the year	—	—	(201)	—	(201)
Movement of provision for impairment losses	—	—	—	52	52
Balance at 31 December 2005	48,564	82,725	2,017	(103)	133,203

Provision for impairment losses is analysed as follows:

	The Group		The Company	
	2005 RMB millions	2004 RMB millions	2005 RMB millions	2004 RMB millions
Balance at 1 January	353	271	155	160
Additions for the year	77	96	14	2
Written back for the year	(17)	(8)	—	(2)
Written off	(86)	(6)	(66)	(5)
Balance at 31 December	327	353	103	155

At 31 December 2005 and 2004, 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 investments 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 42.

NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2005

10 LONG-TERM EQUITY INVESTMENTS (Continued)

At 31 December 2005, details of listed stock investment of the Group (associates) 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 2005 RMB millions	Shares of profits accounted for under the equity method RMB millions	Dividends receivable/ received RMB millions	Balance at 31 December 2005 RMB millions	Market price as at 31 December 2005*
									RMB millions
Sinopec Shengli Oil Field Dynamic Co Ltd	Legal person shares	96	26.33%	223	461	62	(29)	494	722
Sinopec Shandong Taishan Petroleum Co Ltd	Legal person shares	186	38.68%	124	329	19	(19)	329	547
					790	81	(48)	823	

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

At 31 December 2005, details of principal unlisted stock and other equity investment of the Group (including associates) 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 2005 RMB millions	Addition for the year RMB millions	Share of profits accounted for under the equity method RMB millions	Dividends receivable/ received RMB millions	Balance at 31 December 2005
								RMB millions
Sinopec Finance Company Limited (i) (ii)	1,205	—	40%	1,311	—	262	(56)	1,517
China Aviation Oil Supply Company Limited (ii)	1,102	—	29%	—	1,102	—	—	1,102
Shanghai Petroleum National Gas Corporation (i) (ii)	300	—	30%	912	—	241	(195)	958
Shanghai Chemical Industry Park Development Company Limited (ii)	608	30 years	38%	651	—	10	(2)	659
China Shipping & Sinopec Suppliers Company Limited (ii)	438	—	50%	468	—	41	—	509
Sinopec Changjiang Fuel Company Limited (ii)	190	20 years	50%	251	—	41	(39)	253
Hunan Highway Industrial Development Company Limited (i) (ii)	215	—	49%	218	—	5	(2)	221
Beijing International Trust and Investment Company Limited	200	—	8%	—	200	—	—	200
Zhejiang Express Petroleum Development Company Limited (i) (ii)	174	30 years	50%	—	174	3	—	177
China Gas Holdings Ltd	136	—	11%	136	—	—	—	136
Sinopec Railway Oil Marketing Company Limited (ii)	74	20 years	50%	110	24	40	(48)	126

(i) These entities are principal associates of the Company.

(ii) These entities are principal associates of the Group.

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.

At 31 December 2005, the Group's and the Company's proportion of the total investments to the net assets was 7% (2004: 7%) and 61% (2004: 66%), respectively.

At 31 December 2005, the Group's and the Company's equity investment differences represent mainly the equity investment difference resulting from the acquisition of the minority interests of Sinopec Beijing Yanhua Petrochemical Company Limited in 2005. The equity investment difference is amortised on a straight-line basis over 10 years. The balance at 31 December 2005 is RMB 1,041 million.

NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2005

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
Cost/valuation:						
At 1 January 2005	170,457	117,063	64,775	163,075	4,092	519,462
Addition for the year	151	172	934	307	150	1,714
Transferred from construction in progress	22,094	8,066	13,687	18,370	381	62,598
Proportionate share of a new jointly controlled entity	—	—	—	1,315	—	1,315
Reclassification	(157)	(432)	204	289	96	—
Disposals	(3,419)	(2,860)	(2,927)	(3,173)	(245)	(12,624)
At 31 December 2005	189,126	122,009	76,673	180,183	4,474	572,465
Accumulated depreciation:						
At 1 January 2005	86,550	56,614	11,657	87,282	1,407	243,510
Depreciation charge for the year	11,217	6,913	2,986	9,447	282	30,845
Reclassification	(78)	(214)	78	160	54	—
Written back on disposal	(2,948)	(2,153)	(1,245)	(2,204)	(194)	(8,744)
At 31 December 2005	94,741	61,160	13,476	94,685	1,549	265,611
Net book value:						
At 31 December 2005	94,385	60,849	63,197	85,498	2,925	306,854
At 31 December 2004	83,907	60,449	53,118	75,793	2,685	275,952

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
Cost/valuation:						
At 1 January 2005	61,025	87,893	61,413	57,719	3,070	271,120
Addition for the year	151	113	267	38	120	689
Transferred from construction in progress	13,213	5,676	9,033	2,063	371	30,356
Transferred to subsidiaries	—	—	(577)	—	—	(577)
Reclassification	(130)	(176)	276	(2)	32	—
Disposals	(1,781)	(1,546)	(2,864)	(978)	(213)	(7,382)
At 31 December 2005	72,478	91,960	67,548	58,840	3,380	294,206
Accumulated depreciation:						
At 1 January 2005	26,483	42,803	11,117	32,112	1,057	113,572
Depreciation charge for the year	4,559	4,688	2,873	2,886	180	15,186
Transferred to subsidiaries	—	—	(66)	—	—	(66)
Reclassification	(65)	(49)	99	(1)	16	—
Written back on disposal	(1,631)	(1,181)	(1,214)	(734)	(185)	(4,945)
At 31 December 2005	29,346	46,261	12,809	34,263	1,068	123,747
Net book value:						
At 31 December 2005	43,132	45,699	54,739	24,577	2,312	170,459
At 31 December 2004	34,542	45,090	50,296	25,607	2,013	157,548

NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2005

11 FIXED ASSETS (Continued)

The Group – by asset class

	Land and buildings	Oil and gas properties	Oil depots, storage tanks and service stations	Plant, machinery, equipment, vehicles and others	Total
	RMB millions	RMB millions	RMB millions	RMB millions	RMB millions
Cost/valuation:					
At 1 January 2005	47,107	151,945	59,963	260,447	519,462
Addition for the year	730	64	228	692	1,714
Transferred from construction in progress	2,462	20,985	13,521	25,630	62,598
Proportionate share of a new jointly controlled entity	469	—	—	846	1,315
Reclassification	(406)	(802)	650	558	—
Disposals	(1,044)	(2,251)	(2,145)	(7,184)	(12,624)
At 31 December 2005	49,318	169,941	72,217	280,989	572,465
Accumulated depreciation:					
At 1 January 2005	19,988	77,666	10,493	135,363	243,510
Depreciation charge for the year	1,778	10,593	2,878	15,596	30,845
Reclassification	(98)	(430)	153	375	—
Written back on disposal	(538)	(1,933)	(786)	(5,487)	(8,744)
At 31 December 2005	21,130	85,896	12,738	145,847	265,611
Net book value:					
At 31 December 2005	28,188	84,045	59,479	135,142	306,854
At 31 December 2004	27,119	74,279	49,470	125,084	275,952

The Company – by asset class

	Land and buildings	Oil and gas properties	Oil depots, storage tanks and service stations	Plant, machinery, equipment, vehicles and others	Total
	RMB millions	RMB millions	RMB millions	RMB millions	RMB millions
Cost/valuation:					
At 1 January 2005	25,187	53,307	56,824	135,802	271,120
Addition for the year	132	64	174	319	689
Transferred from construction in progress	989	12,266	9,033	8,068	30,356
Transferred to subsidiaries	(9)	—	(529)	(39)	(577)
Reclassification	(469)	(551)	651	369	—
Disposals	(552)	(944)	(2,097)	(3,789)	(7,382)
At 31 December 2005	25,278	64,142	64,056	140,730	294,206
Accumulated depreciation:					
At 1 January 2005	9,672	24,299	10,116	69,485	113,572
Depreciation charge for the year	1,046	4,193	2,488	7,459	15,186
Transferred to subsidiaries	(3)	—	(41)	(22)	(66)
Reclassification	(111)	(309)	154	266	—
Written back on disposal	(275)	(825)	(774)	(3,071)	(4,945)
At 31 December 2005	10,329	27,358	11,943	74,117	123,747
Net book value:					
At 31 December 2005	14,949	36,784	52,113	66,613	170,459
At 31 December 2004	15,515	29,008	46,708	66,317	157,548

The fixed assets and construction in progress of the Group at 30 September 1999 were revalued by registered valuers in the PRC. 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 2005

11 FIXED ASSETS (Continued)

In accordance with the relevant rules and regulations in respect of the acquisition of Sinopec National Star, the fixed assets and construction in progress of Sinopec National Star have been revalued by a firm of independent valuers in the PRC. 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, the fixed assets and construction in progress of Sinopec Maoming have been revalued by a firm of independent valuers in the PRC. 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, the fixed assets and construction in progress of Tahe Petrochemical and Xi'an Petrochemical have been revalued by a firm of independent valuers in the PRC. 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, the related fixed assets and construction in progress have been revalued by a firm of independent valuers in the PRC. Surplus on revaluation of RMB 492 million has been incorporated in the Group's financial statements since the year ended 31 December 2004.

At 31 December 2005, the carrying amounts of fixed assets that were pledged by the Group and the Company were RMB 83 million (2004: RMB 123 million) and RMB 10 million (2004: RMB 10 million), respectively.

Provision for impairment losses on fixed assets is 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 2005	783	64	1,769	3,200	5,816
Addition for the year	60	—	366	1,425	1,851
Written off for the year	—	(53)	(865)	(515)	(1,433)
At 31 December 2005	843	11	1,270	4,110	6,234

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 2005	720	13	1,737	1,568	4,038
Addition for the year	60	—	351	671	1,082
Written off for the year	—	(2)	(847)	(80)	(929)
At 31 December 2005	780	11	1,241	2,159	4,191

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, vehicles and others RMB millions	Total RMB millions
At 1 January 2005	331	783	1,249	3,453	5,816
Addition for the year	79	60	261	1,451	1,851
Written off for the year	(59)	—	(593)	(781)	(1,433)
At 31 December 2005	351	843	917	4,123	6,234

NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2005

11 FIXED ASSETS (Continued)

The Company – by asset class

	Land and buildings	Oil and gas properties	Oil depots, storage tanks and service stations	Plant, machinery, equipment, vehicles and others	Total
	RMB millions	RMB millions	RMB millions	RMB millions	RMB millions
At 1 January 2005	184	720	1,249	1,885	4,038
Addition for the year	21	60	261	740	1,082
Written off for the year	(51)	—	(575)	(303)	(929)
At 31 December 2005	154	780	935	2,322	4,191

Provision for impairment losses recognised on fixed assets of the chemicals segment of the Group of RMB 1,425 million (2004: RMB 2,747 million) for the year ended 31 December 2005 relate to certain chemicals production facilities that are held for use. The carrying values of these facilities were written down to their recoverable values. 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 the Group of RMB 366 million (2004: RMB 1,769 million) for the year ended 31 December 2005 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 segment of the Group provision for impairment losses of RMB 60 million (2004: RMB 98 million) for the year ended 31 December 2005 were unsuccessful development drilling and high operating and development costs for certain small oil fields. The carrying values of these oil and gas 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 2005 and 2004, the Group and the Company had no individually significant fixed assets which were temporarily idle or pending for disposal.

At 31 December 2005 and 2004, the Group and the Company had no individually significant fully depreciated fixed assets which were still in use.

12 CONSTRUCTION MATERIALS

At 31 December 2005 and 2004, 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 2005

13 CONSTRUCTION IN PROGRESS

The Group

	Exploration and production	Refining	Marketing and distribution	Chemicals	Others	Total
	RMB millions	RMB millions	RMB millions	RMB millions	RMB millions	RMB millions
At 1 January 2005	9,262	8,215	13,451	13,535	1,513	45,976
Addition for the year	25,894	14,036	10,192	9,003	1,014	60,139
Addition for the year of jointly controlled entities	814	—	—	1,830	—	2,644
Proportionate share of a new jointly controlled entity	—	—	—	5,461	—	5,461
Dry hole costs written off	(2,992)	—	—	—	—	(2,992)
Transferred to fixed assets and other assets	(22,094)	(8,066)	(13,687)	(18,927)	(381)	(63,155)
At 31 December 2005	10,884	14,185	9,956	10,902	2,146	48,073

The interest rates per annum at which borrowing costs were capitalised during the year by the Group ranged from 3.3% to 6.6% (2004: 3.1% to 6.0%).

The Group's proportionate share of the jointly controlled entities' construction in progress at 31 December 2005 in the exploration and production and the chemicals segments were RMB 2,888 million (2004: RMB 2,053 million) and RMB 504 million (2004: RMB 8,171 million), respectively.

At 31 December 2005, major construction projects of the Group are as follows:

Project name	Budgeted amount RMB millions	At 1 January 2005 RMB millions	Addition for the year RMB millions	At 31 December 2005 RMB millions	Percentage of completion	Source of funding	Accumulated interest
							capitalised at 31 December 2005 RMB millions
The Group							
Yizheng-Changling Crude Oil Pipeline Project	4,820	893	2,994	3,887	81%	Bank loans & self-financing	45
1,000,000 tonnes Ethylene Reconstruction and Expansion Project	7,494	509	2,008	2,517	34%	Bank loans & self-financing	33
Middle East Sour Crude Processing and Clean Fuel Production Supporting Project	4,438	350	2,100	2,450	55%	Bank loans & self-financing	14
Chaoyang Square Project	2,800	906	200	1,106	40%	Self-financing	—
Coal in replacement of Oil Technology Improvement Project	1,256	603	468	1,071	85%	Bank loans & self-financing	29

The Company

	Exploration and production	Refining	Marketing and distribution	Chemicals	Others	Total
	RMB millions	RMB millions	RMB millions	RMB millions	RMB millions	RMB millions
At 1 January 2005	6,607	6,759	9,941	3,978	1,494	28,779
Addition for the year	16,528	12,119	7,445	5,778	915	42,785
Dry hole costs written off	(2,271)	—	—	—	—	(2,271)
Transferred to fixed assets	(13,213)	(5,676)	(9,033)	(2,063)	(371)	(30,356)
At 31 December 2005	7,651	13,202	8,353	7,693	2,038	38,937

The interest rates per annum at which borrowing costs were capitalised for the year ended 31 December 2005 by the Company ranged from 3.3% to 6.6% (2004: 3.1% to 6.0%).

NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2005

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
Cost:					
At 1 January 2005	852	2,286	3,163	635	6,936
Addition for the year	183	660	—	1,134	1,977
Disposals	(2)	—	—	(166)	(168)
Other decrease	—	—	—	(287)	(287)
At 31 December 2005	1,033	2,946	3,163	1,316	8,458
Accumulated Amortisation:					
At 1 January 2005	185	841	468	97	1,591
Amortisation charge for the year	490	315	117	64	986
Written back on disposal	(2)	—	—	(26)	(28)
Other decrease	—	—	—	(15)	(15)
At 31 December 2005	673	1,156	585	120	2,534
Net book value:					
At 31 December 2005	360	1,790	2,578	1,196	5,924
At 31 December 2004	667	1,445	2,695	538	5,345

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 40 years. At 31 December 2005, the remaining amortisation period of the exploration and production right was 22 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
Cost:					
At 1 January 2005	671	1,316	3,163	421	5,571
Addition for the year	155	2	—	713	870
Disposals	(1)	—	—	(163)	(164)
At 31 December 2005	825	1,318	3,163	971	6,277
Accumulated Amortisation:					
At 1 January 2005	120	673	468	49	1,310
Amortisation charge for the year	467	130	117	41	755
Written back on disposal	(1)	—	—	(25)	(26)
At 31 December 2005	586	803	585	65	2,039
Net book value:					
At 31 December 2005	239	515	2,578	906	4,238
At 31 December 2004	551	643	2,695	372	4,261

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 40 years. At 31 December 2005, the remaining amortisation period of the exploration and production right was 22 years.

15 LONG-TERM DEFERRED EXPENSES

Long-term deferred expenses primarily represent prepaid rental expenses over one year and catalysts expenditures.

NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2005

16 DEFERRED TAX ASSETS AND LIABILITIES

The Group

	Deferred tax assets		Deferred tax liabilities		Net balance	
	2005	2004	2005	2004	2005	2004
	RMB millions	RMB millions	RMB millions	RMB millions	RMB millions	RMB millions
<i>Current</i>						
Receivables and inventories	3,900	2,524	—	—	3,900	2,524
<i>Non-current</i>						
Fixed assets	1,642	1,566	—	(198)	1,642	1,368
Tax value of losses carried forward	128	66	—	—	128	66
Others	31	10	—	—	31	10
Deferred tax assets/(liabilities)	5,701	4,166	—	(198)	5,701	3,968

The Company

	Deferred tax assets		Deferred tax liabilities		Net balance	
	2005	2004	2005	2004	2005	2004
	RMB millions	RMB millions	RMB millions	RMB millions	RMB millions	RMB millions
<i>Current</i>						
Receivables and inventories	1,635	2,245	—	—	1,635	2,245
<i>Non-current</i>						
Fixed assets	1,553	1,457	—	(16)	1,553	1,441
Others	15	6	—	—	15	6
Deferred tax assets/(liabilities)	3,203	3,708	—	(16)	3,203	3,692

17 SHORT-TERM LOANS

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

	The Group		The Company	
	2005	2004	2005	2004
	RMB millions	RMB millions	RMB millions	RMB millions
Short-term bank loans	15,392	20,009	3,094	10,527
Loans from Sinopec Group Company and fellow subsidiaries	732	6,714	3,846	5,727
Total	16,124	26,723	6,940	16,254

The Group's and the Company's weighted average interest rates per annum on short-term loans were 4.0% (2004: 3.9%) and 3.2% (2004: 4.0%) respectively at 31 December 2005. The majority of the above loans are unsecured.

Except for the balance disclosed in Note 41, there is no amount due to shareholders who hold 5% or more voting right of the Company included in the balance of short-term loans.

At 31 December 2005 and 2004, the Group and the Company had no significant overdue short-term loan.

18 BILLS PAYABLE

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

19 TRADE ACCOUNTS PAYABLE

The ageing analysis of trade accounts payable is as follows:

	The Group			
	2005		2004	
	RMB millions	%	RMB millions	%
Within 3 months	40,932	77.3	12,868	54.1
Between 3 and 6 months	10,542	19.9	9,110	38.3
Over 6 months	1,493	2.8	1,814	7.6
Total	52,967	100.0	23,792	100.0

	The Company			
	2005		2004	
	RMB millions	%	RMB millions	%
Within 3 months	22,129	76.7	13,462	63.7
Between 3 and 6 months	5,792	20.1	6,183	29.3
Over 6 months	912	3.2	1,492	7.0
Total	28,833	100.0	21,137	100.0

Except for the balances disclosed in Note 41, 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 2005 and 2004, the Group and the Company had no individually significant trade accounts payable aged over three years.

NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2005

20 RECEIPTS IN ADVANCE

Except for the balances disclosed in Note 41, 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 2005 and 2004, the Group and the Company had no individually significant receipts in advance aged over one year.

21 TAXES PAYABLE

	The Group		The Company	
	2005	2004	2005	2004
	RMB millions	RMB millions	RMB millions	RMB millions
Value added tax	(2,240)	(1,119)	(1,796)	(1,377)
Consumption tax	1,348	1,443	1,031	1,146
Income tax	5,029	5,391	2,494	3,142
Business tax	45	99	25	37
Other taxes	1,080	927	321	222
Total	5,262	6,741	2,075	3,170

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 tax rules and regulations of the PRC during the years ended 31 December 2005 and 2004, except for certain branches and subsidiaries of the Company, which are taxed at a preferential rate of 15%, and certain jointly controlled entities of the Company, which are entitled to a tax holiday of a tax-free period for the first two years and a 50% reduction in income tax for the following three years.

22 OTHER PAYABLES

At 31 December 2005 and 2004, 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 2005 and 2004, the Group's and the Company's other creditors primarily represented payables for constructions.

Except for the balances disclosed in Note 41, 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 2005 and 2004, the Group and the Company had no individually significant other creditors aged over three years.

24 ACCRUED EXPENSES

At 31 December 2005 and 2004, 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	
	2005	2004	2005	2004
	RMB millions	RMB millions	RMB millions	RMB millions
Long-term bank loans				
— Renminbi loans	11,952	8,500	9,694	6,247
— Japanese Yen loans	615	805	615	798
— US Dollar loans	2,206	2,841	1,710	2,341
— Euro loans	24	28	24	28
— Hong Kong Dollar loans	82	3	—	—
	14,879	12,177	12,043	9,414
Long-term bank loans of jointly controlled entities				
— Renminbi loans	82	—	—	—
— US Dollar loans	111	—	—	—
	193	—	—	—
Long-term other loans				
— Renminbi loans	22	88	—	61
— US Dollar loans	4	33	1	31
	26	121	1	92
Long-term loans from Sinopec Group Company and fellow subsidiaries				
— Renminbi loans	100	2,000	100	2,000
Total current portion of long-term loans	15,198	14,298	12,144	11,506

At 31 December 2005 and 2004, the Group and the Company had no significant overdue long-term loan.

NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2005

26 LONG-TERM LOANS

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

Interest rate and final maturity	The Group		The Company		
	2005	2004	2005	2004	
	RMB millions	RMB millions	RMB millions	RMB millions	
Third parties debts					
Long-term bank loans					
Renminbi loans	Interest rates ranging from interest free to 5.8% per annum at 31 December 2005 with maturities through 2013	59,769	52,227	54,792	45,233
Japanese Yen loans	Interest rates ranging from 2.6% to 5.8% per annum at 31 December 2005 with maturities through 2024	3,394	4,562	3,394	4,556
US Dollar loans	Interest rates ranging from interest free to 7.4% per annum at 31 December 2005 with maturities through 2031	5,056	7,729	3,571	5,278
Euro loans	Fixed rate at 6.7% per annum at 31 December 2005 with maturities through 2010	117	165	117	165
Hong Kong Dollar loans	Floating rate at Hong Kong Prime Rate plus 0.8% to 1.1% per annum at 31 December 2005 with maturities through 2007	94	5	—	—
Less: Current portion		14,879	12,177	12,043	9,414
Long-term bank loans		53,551	52,511	49,831	45,818
Long-term bank loans of jointly controlled entities					
Renminbi loans	Floating rate at 90% of PBOC's base lending rate per annum at 31 December 2005 with maturities through 2021	5,710	2,415	—	—
US Dollar loans	Floating rate at London Interbank Offer Rate plus 0.4% to 0.7% per annum at 31 December 2005 with maturities through 2021	4,296	2,048	—	—
Less: Current portion		193	—	—	—
Long-term bank loans of jointly controlled entities		9,813	4,463	—	—
Long-term other loans					
Renminbi loans	Interest rates ranging from interest free to 5.0% per annum at 31 December 2005 with maturities through 2008	170	359	37	200
US Dollar loans	Interest rates ranging from interest free to 2.0% per annum at 31 December 2005 with maturities through 2015	51	110	34	89
Less: Current portion		26	121	1	92
Long-term other loans		195	348	70	197
Long-term loans from Sinopec Group Company and fellow subsidiaries					
Renminbi loans	Interest free with maturity in 2020	35,561	35,561	35,561	35,561
Renminbi loans	Interest rates ranging from 5.0% to 5.2% per annum at 31 December 2005 with maturities through 2009	4,401	3,204	3,751	2,756
Less: Current portion		100	2,000	100	2,000
Long-term loans from Sinopec Group Company and fellow subsidiaries		39,862	36,765	39,212	36,317
Long-term loans of jointly controlled entities from Sinopec Group Company and fellow subsidiaries					
Renminbi loans	Floating rate at 90% of PBOC's base lending rate applicable to three-year tenor loan per annum at 31 December 2005 with maturities through 2021	71	—	—	—
Long-term loans of jointly controlled entities from Sinopec Group Company and fellow subsidiaries		71	—	—	—
		103,492	94,087	89,113	82,332

NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2005

26 LONG-TERM LOANS (Continued)

The maturity analysis of the Group's and the Company's long-term loans is as follows:

	The Group		The Company	
	2005	2004	2005	2004
	RMB millions	RMB millions	RMB millions	RMB millions
Between one and two years	18,787	15,886	16,420	12,363
Between two and five years	39,142	36,041	34,771	31,279
After five years	45,563	42,160	37,922	38,690
Total long-term loans	103,492	94,087	89,113	82,332

At 31 December 2005, the Group and the Company had secured loans from third parties amounting to RMB 35 million (2004: RMB 40 million) and RMB 13 million (2004: RMB 9 million) respectively. At 31 December 2005, the Group had loans secured by long-term investments from third parties amounting to RMB 3,899 million (2004: RMB nil). All long-term other loans are unsecured.

Except for the balances disclosed in Note 41, 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 and the Company	
		2005	2004
		RMB millions	RMB millions
Short-term corporate bonds	Effective rate at 2.54% per annum, redeemable in April 2006 (i)	9,921	—
Corporate bonds	Fixed rate at 4.61% per annum, redeemable in February 2014 (ii)	3,500	3,500

(i) The Company issued six-month corporate bonds of face value at RMB 10 billion to corporate investors in PRC debenture market on 24 October 2005, at a discounted value of RMB 98.75 per RMB 100 par value, with an effective yield at 2.54% per annum with maturity in April 2006.

(ii) 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.

28 OTHER LONG-TERM LIABILITIES

Other long-term liabilities 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	
	2005	2004
	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 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
	86,702	86,702

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 2005

30 CAPITAL RESERVE

The movements in capital reserve are as follows:

	The Group		The Company	
	2005	2004	2005	2004
	RMB millions	RMB millions	RMB millions	RMB millions
Balance at 1 January	37,121	36,852	37,797	36,852
Government grants (i)	—	269	—	269
Reserve for equity investment (ii)	—	—	—	676
Balance at 31 December	37,121	37,121	37,797	37,797

(i) During the year ended 31 December 2004, the Group received subsidy on investments amounted to RMB 269 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 established subsidiaries with certain non-monetary assets. The initial investment costs are determined based on the assets' revalued amount. The shortfalls of the initial investment costs over the Company's share of the shareholders' funds in these subsidiaries resulting from the surplus of the assets' revalued amount over the carrying amount are recognised in the Company's capital reserve. Such reserve for equity investment has been eliminated in the Group's consolidated financial statements.

31 SURPLUS RESERVES

Movements in surplus reserves are as follows:

	The Group and the Company			Total
	Statutory surplus reserve	Statutory public welfare fund	Discretionary surplus reserve	
	RMB millions	RMB millions	RMB millions	RMB millions
At 1 January 2004	6,330	6,330	7,000	19,660
Appropriation of net profit	3,228	3,228	—	6,456
At 31 December 2004	9,558	9,558	7,000	26,116
At 1 January 2005	9,558	9,558	7,000	26,116
Appropriation of net profit	3,956	3,956	—	7,912
At 31 December 2005	13,514	13,514	7,000	34,028

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 and the statutory public welfare fund, 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 46.

During the year ended 31 December 2005, revenue from sales to top five customers amounted to RMB 62,115 million (2004: RMB 58,691 million) which accounted for 8% (2004: 10%) of income from principal operations of the Group.

33 SALES TAXES AND SURCHARGES

	The Group		The Company	
	2005	2004	2005	2004
	RMB millions	RMB millions	RMB millions	RMB millions
Consumption tax	12,430	11,847	8,932	7,981
City construction tax	2,575	2,505	1,297	1,261
Education surcharge	1,305	1,243	658	624
Resources tax	634	452	201	114
Business tax	208	156	161	114
Total	17,152	16,203	11,249	10,094

NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2005

34 FINANCIAL EXPENSES

	The Group		The Company	
	2005	2004	2005	2004
	RMB millions	RMB millions	RMB millions	RMB millions
Interest expenses incurred	7,166	4,909	4,596	3,067
Less: Capitalised interest expenses	601	327	455	231
Net interest expenses	6,565	4,582	4,141	2,836
Interest income	(382)	(359)	(123)	(144)
Foreign exchange losses	79	167	17	130
Foreign exchange gains	(996)	(59)	(496)	(52)
Total	5,266	4,331	3,539	2,770

35 EXPLORATION EXPENSES

Exploration expenses include geological and geophysical expenses and written off of dry hole costs.

36 INVESTMENT INCOME

	The Group		The Company	
	2005	2004	2005	2004
	RMB millions	RMB millions	RMB millions	RMB millions
Investment income accounted for under the cost method	255	216	76	84
Amortisation of equity investment differences	(200)	(186)	(201)	(157)
Impairment losses of investment	(77)	(96)	(14)	(2)
Investment income accounted for under the equity method	835	1,154	51,785	39,449
Total	813	1,088	51,646	39,374

37 SUBSIDY INCOME

The Group received a cash government grant from the Ministry of Finance of the PRC of RMB 9,415 million (2004: RMB nil) as a compensation of loss incurred due to the distortion of the correlation of domestic refined petroleum product prices and the crude oil prices during the year ended 31 December 2005. There are no unfilled conditions and other contingencies attached to the receipt of this government grant. There is no assurance that the Group will continue to receive such grant in the future.

38 NON-OPERATING EXPENSES

	The Group		The Company	
	2005	2004	2005	2004
	RMB millions	RMB millions	RMB millions	RMB millions
Loss on disposal of fixed assets	2,422	4,304	1,826	2,733
Impairment losses on fixed assets	1,851	4,628	1,082	3,417
Fines, penalties and compensation	160	280	149	273
Donations	203	275	144	91
Employee reduction expenses (Note)	369	919	119	745
Others	964	765	647	620
Total	5,969	11,171	3,967	7,879

Note: During the year ended 31 December 2005, in accordance with the Group's voluntary employee reduction plan, the Group recorded employee reduction expenses of RMB 369 million relating to the reduction of approximately 7,000 employees.

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 relating to the reduction of approximately 24,000 employees.

NOTES ON THE FINANCIAL STATEMENTS

for the year ended 31 December 2005

39 INCOME TAX

	The Group		The Company	
	2005	2004	2005	2004
	RMB millions	RMB millions	RMB millions	RMB millions
Provision for PRC income tax for the year	20,159	18,405	17,137	16,815
Deferred taxation	(1,733)	(2,439)	489	(2,198)
Adjustment for provision for income tax in respect of proceeding year	477	94	512	152
Total	18,903	16,060	18,138	14,769

40 DIVIDENDS

(a) Dividends of ordinary shares proposed after the balance sheet date

Pursuant to a resolution passed at the Board of Directors' meeting on 31 March 2006, a final dividend in respect of the year ended 31 December 2005 of RMB 0.09 per share totalling RMB 7,803 million was proposed for shareholders' approval at the Annual General Meeting.

(b) Dividends of ordinary shares declared during the year

Pursuant to the Articles of Association of the Company and the resolution passed at the Directors' meeting on 26 August 2005, an interim dividend for the year ending 31 December 2005 of RMB 0.04 (2004: RMB 0.04) per share totalling RMB 3,468 million (2004: RMB 3,468 million) was declared.

Pursuant to the shareholders' approval at the Annual General Meeting on 18 May 2005, a final dividend of RMB 0.08 per share totalling RMB 6,936 million in respect of the year ended 31 December 2004 was declared and paid on 18 May 2005.

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.

41 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
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 2005.

Change of the Company's equity interests held by Sinopec Group Company is as follows:

From 1 January 2005 to 19 December 2005	67.92%
From 20 December 2005 to 31 December 2005	71.23%

(b) Related parties not having the ability to exercise control over the Group

Related parties under common control of a parent company with the Company:

Sinopec Finance Company Limited
 Nanjing Chemical Industry Company Limited
 Sichuan Vinylon Company
 Nanjing Petrochemical Company
 Qingjiang Petrochemical Limited Liability Company
 Baoding Petrochemical Company
 Baling Petrochemical Yueyang Petrochemical Company
 Tianjin United Chemical Company
 Zhanjiang Dongxing Petroleum Corporation Company Limited
 Qingdao Petrochemical Company
 Baling Petrochemical Company Limited
 Jinling Petrochemical Company Limited
 Yangzi Petrochemical Company Limited
 Guangdong Nanhua Petroleum Company Limited

Associates of the Company:

Sinopec Railway Oil Marketing Company Limited
 Sinopec Changjiang Fuel Company Limited
 China Shipping & Sinopec Suppliers Company Limited

NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2005

41 RELATED PARTIES AND RELATED PARTY TRANSACTIONS (Continued)

(b) Related parties not having the ability to exercise control over the Group (Continued)

Jointly controlled entities of the Group:

Shanghai Secco Petrochemical Company Limited
 BASF-YPC Company Limited
 Yueyang Sinopec and Shell Coal Gasification Company Limited
 Block A Oil Field in the Western Area Chengdao in Bohai Bay

(c) The principal related party transactions carried out in the ordinary course of business are as follows:

	Note	2005 RMB millions	2004 RMB millions
Sales of goods	(i)	95,123	72,015
Purchases	(ii)	48,454	40,911
Transportation and storage	(iii)	1,959	2,003
Exploration and development services	(iv)	17,001	14,446
Production related services	(v)	10,653	9,123
Ancillary and social services	(vi)	1,790	1,776
Operating lease charges	(vii)	3,213	3,365
Agency commission income	(viii)	48	41
Intellectual property license fee paid	(ix)	9	10
Interest received	(x)	52	59
Interest paid	(xi)	994	622
Net deposits (withdrawn from)/placed with related parties	(xii)	(82)	407
Net loans (paid to)/obtained from related parties	(xiii)	(4,714)	3,787

The amounts set out in the table above in respect of the years ended 31 December 2005 and 2004 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 2005 and 2004, 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 of crude 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 equipments.
- (viii) Agency commission income represents commission earned for acting as an agent in respect of sales of products and purchase of goods of 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 certain 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.
- (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 calculated periodic balance of average loan for the year ended 31 December 2005, which is based on monthly average balances, was RMB 42,518 million (2004: RMB 42,696 million).

NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2005

41 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 2005. The terms of these agreements are summarised as follows:

(a) The Company entered into an Agreement for Mutual Provision of Products and Ancillary Services (“Mutual Provision Agreement”) with Sinopec Group Company in 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 agrees 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 an 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 2,557 million and RMB 568 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 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.

(d) Balances with related parties

The balances with the Group’s related parties at 31 December 2005 and 2004 are as follows:

	The ultimate holding company		Other related companies	
	2005	2004	2005	2004
	RMB millions	RMB millions	RMB millions	RMB millions
Cash and cash equivalent	—	—	4,589	4,671
Trade accounts receivable	—	—	4,126	2,438
Advance payments and other receivables	1,507	2,502	1,986	3,391
Trade accounts payable	—	—	3,005	1,527
Receipts in advance	—	—	1,726	1,218
Other creditors	986	4,851	4,432	4,828
Short-term loans	—	—	732	6,714
Long-term loans (including current portion) (Note)	—	—	40,033	38,765

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.

NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2005

42 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 2005. Except for Sinopec Kantons Holdings Limited, which is incorporated in Bermuda, the companies below are incorporated in the PRC. The following list contains only the particulars of subsidiaries which principally affected the results or assets of the Group:

Name of enterprise	Registered capital/paid-up capital RMB millions	Percentage of equity interest held by the Group %	Principal activities
China Petrochemical International Company Limited	1,704	100.00	Trading of crude oil and petrochemical products
Sinopec Beijing Yanshan Petrochemical Company Limited ("Beijing Yanhua") (i)	3,404	100.00	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 (ii)	2,253	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 (ii)	147	46.25	Marketing and distribution of refined petroleum products
Sinopec Wuhan Phoenix Company Limited (ii)	519	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 (ii)	4,000	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) Petrochemical Marketing Company Limited	830	60.00	Marketing and distribution of refined petroleum products
BP Sinopec (Zhejiang) Petrochemical Company Limited	800	60.00	Marketing and distribution of refined petroleum products
Sinopec Qingdao Refining and Chemical Company Limited	800	85.00	Manufacturing of intermediate petrochemical products and petroleum products

(i) During the year the Group acquired the entire 1,012,000,000 H shares, representing approximately 29.99% of the issued share capital of Beijing Yanhua.

(ii) 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.

NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2005

43 PRINCIPAL JOINTLY CONTROLLED ENTITIES

At 31 December 2005, the Group's and the Company'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 Company	Percentage of equity interest held by the Group's subsidiaries	Principal activities
Shanghai Secco Petrochemical Company Limited	Registered capital USD 901,440,964	30.00	20.00	Manufacturing and distribution of petrochemical products
BASF-YPC Company Limited	Registered capital RMB 8,793,000,000	30.00	10.00	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 Chengdao in Bohai Bay	—	—	43.00	Exploration and production of crude oil and natural gas

44 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 2005, the future minimum lease payments of the Group and the Company under operating leases are as follows:

	The Group		The Company	
	2005 RMB millions	2004 RMB millions	2005 RMB millions	2004 RMB millions
Within one year	3,593	3,452	3,424	3,272
Between one and two years	3,442	3,343	3,363	3,237
Between two and three years	3,388	3,278	3,319	3,213
Between three and four years	3,357	3,245	3,292	3,188
Between four and five years	3,353	3,225	3,290	3,170
After five years	95,176	97,527	93,601	95,968
Total	112,309	114,070	110,289	112,048

Capital commitments

At 31 December 2005, the capital commitments are as follows:

	2005 RMB millions	2004 RMB millions
The Group		
Authorised and contracted for	71,666	43,001
Authorised but not contracted for	84,213	60,173
	155,879	103,174
Jointly controlled entities		
Authorised and contracted for	2,160	3,157
Authorised but not contracted for	60	2,088
	2,220	5,245
The Company		
Authorised and contracted for	55,496	28,143
Authorised but not contracted for	45,938	37,619
	101,434	65,762

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.

NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2005

44 COMMITMENTS (Continued)

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 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 208 million for the year ended 31 December 2005 (2004: RMB 189 million).

Estimated future annual payments are as follows:

	The Group		The Company	
	2005	2004	2005	2004
	RMB millions	RMB millions	RMB millions	RMB millions
Within one year	107	90	74	60
Between one and two years	112	120	81	85
Between two and three years	59	75	49	47
Between three and four years	67	67	58	55
Between four and five years	56	74	49	64
After five years	239	279	108	143
Total	640	705	419	454

45 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 2005, 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	
	2005	2004	2005	2004
	RMB millions	RMB millions	RMB millions	RMB millions
Subsidiaries	—	—	2,583	2,656
Associates and jointly controlled entities	79	4,828	11,986	12,059
Total	79	4,828	14,569	14,715

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 2005 and 2004, it is not probable that the Company will be required to make payments under the guarantees. Thus no liability has been accrued for a loss related to the Company's obligation under the guarantees arrangement.

Environmental contingencies

To date, the Group has not incurred any significant expenditure 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 493 million for the year ended 31 December 2005 (2004: RMB 248 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 is of the opinion that any resulting liabilities will not have a material adverse effect on the financial position or operating results of the Group.

NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2005

46 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.

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

	2005	2004
	RMB millions	RMB millions
Income from principal operations		
Exploration and production		
External sales	19,862	16,109
Inter-segment sales	84,423	59,914
	104,285	76,023
Refining		
External sales	82,810	71,333
Inter-segment sales	386,456	281,215
	469,266	352,548
Marketing and distribution		
External sales	459,292	342,840
Inter-segment sales	3,172	2,831
	462,464	345,671
Chemicals		
External sales	160,783	112,078
Inter-segment sales	12,199	10,040
	172,982	122,118
Others		
External sales	76,368	48,272
Inter-segment sales	44,897	30,873
	121,265	79,145
Elimination of inter-segment sales	(531,147)	(384,873)
Income from principal operations	799,115	590,632
Cost of sales, sales taxes and surcharges		
Exploration and production	40,118	36,073
Refining	477,843	340,360
Marketing and distribution	427,308	306,309
Chemicals	149,431	96,994
Others	118,152	78,410
Elimination of inter-segment cost of sales	(527,451)	(382,736)
Cost of sales, sales taxes and surcharges	685,401	475,410
Profit from principal operations		
Exploration and production	59,732	37,997
Refining	(7,838)	12,005
Marketing and distribution	35,156	39,362
Chemicals	23,551	25,123
Others	3,113	735
Profit from principal operations	113,714	115,222

NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2005

47 POST BALANCE SHEET EVENTS

On 12 November 2005, the Group announced its proposal to privatise Sinopec Zhenhai Refining & Chemical Company Limited (“Zhenhai”), a non-wholly owned subsidiary in which the Group holds approximately 71.3% of the equity interests. According to the proposal, the Group will acquire the entire 723,754,468 H shares, representing approximately 28.7% of the issued share capital of Zhenhai at HK\$ 10.60 per share. The total consideration required to be paid by the Group is approximately HK\$ 7,762 million which will be settled in cash. Pursuant to the resolution passed in the Special General Meeting of Zhenhai on 12 January 2006, the shareholders of H shares in Zhenhai agreed to dispose of and sell their shares in Zhenhai to the Group at the above mentioned price.

On 15 February 2006, the Group announced its proposals of voluntary general offers for Sinopec Qilu Petrochemical Company Limited, Sinopec Yangzi Petrochemical Company Limited, Sinopec Zhongyuan Petroleum Company Limited and Sinopec Shengli Oilfield Dynamic Company Limited, being non-wholly owned subsidiaries and an associate in which the Group holds approximately 82%, 85%, 71% and 26% of the equity interests, respectively. According to the proposals, the Group will acquire the entire shares not held by the Group in Sinopec Qilu Petrochemical Company Limited, Sinopec Yangzi Petrochemical Company Limited, Sinopec Zhongyuan Petroleum Company Limited and Sinopec Shengli Oilfield Dynamic Company Limited. The acquisitions have been approved by the relevant PRC governmental and regulatory bodies on 6 March 2006. The total consideration required to be paid by the Group is approximately RMB 14,247 million which will be settled in cash.

48 EXTRAORDINARY GAINS AND LOSSES

Pursuant to “Questions and answers in the prepayment of information disclosures of companies issuing public shares, No.1 — Extraordinary gains and losses” (2004 revised), the extraordinary gains and losses of the Group are as follows:

	2005	2004
	RMB millions	RMB millions
Extraordinary gains and losses for the year:		
Loss on disposal of fixed assets	2,422	4,304
Employee reduction expenses	369	919
Donations	203	275
Gain on disposal of long-term equity investments	(25)	(2)
Other non-operating income and expenses, excluding impairment losses on long-lived assets	757	380
Written back of provisions for impairment losses in previous years	(1,115)	(322)
Subsidy income	(9,415)	—
Tax effect	2,245	(1,833)
Total	(4,559)	3,721

49 OTHER SIGNIFICANT EVENTS

The Group had no any other significant event required to disclose as at the approval date of these financial statements.

**(B) FINANCIAL STATEMENTS PREPARED UNDER INTERNATIONAL FINANCIAL REPORTING STANDARDS (“IFRS”)
CONSOLIDATED INCOME STATEMENT**

for the year ended 31 December 2005
(Amounts in millions, except per share data)

	Note	2005 RMB	2004 RMB
Turnover and other operating revenues			
Turnover	3	799,115	597,197
Other operating revenues	4	24,002	22,586
		823,117	619,783
Other income			
	5	9,415	—
Operating expenses			
Purchased crude oil, products and operating supplies and expenses		(653,056)	(443,590)
Selling, general and administrative expenses	6	(33,709)	(31,843)
Depreciation, depletion and amortisation		(31,413)	(32,342)
Exploration expenses, including dry holes		(6,411)	(6,396)
Personnel expenses	7	(18,483)	(18,634)
Employee reduction expenses	8	(369)	(919)
Taxes other than income tax	9	(17,152)	(16,324)
Other operating expenses, net	10	(5,125)	(6,666)
Total operating expenses		(765,718)	(556,714)
Operating profit			
		66,814	63,069
Finance costs			
Interest expense	11	(5,920)	(4,583)
Interest income		382	374
Foreign exchange losses		(79)	(223)
Foreign exchange gains		996	61
Net finance costs		(4,621)	(4,371)
Investment income		178	111
Share of profits less losses from associates		857	797
Profit before taxation			
		63,228	59,606
Taxation	12	(19,388)	(17,815)
Profit for the year			
		43,840	41,791
Attributable to:			
Equity shareholders of the Company		40,920	36,019
Minority interests		2,920	5,772
Profit for the year			
		43,840	41,791
Dividends payable to equity shareholders of the Company attributable to the year:			
Interim dividend declared during the year		3,468	3,468
Final dividend proposed after the balance sheet date		7,803	6,936
		11,271	10,404
Basic earnings per share			
	17	0.47	0.42

The notes on pages 130 to 163 form part of these financial statements.

CONSOLIDATED BALANCE SHEET

At 31 December 2005
(Amounts in millions)

	Note	2005 RMB	2004 RMB
Non-current assets			
Property, plant and equipment	18	314,573	284,123
Construction in progress	19	48,267	46,185
Investments	21	2,926	2,538
Interest in associates	22	9,217	10,222
Deferred tax assets	28	6,072	4,558
Lease prepayments		1,908	750
Long-term prepayments and other assets	24	9,067	5,947
Total non-current assets		392,030	354,323
Current assets			
Cash and cash equivalents		13,745	16,381
Time deposits with financial institutions		1,002	1,899
Trade accounts receivable	25	14,532	9,756
Bills receivable	25	7,143	7,812
Inventories	26	89,474	64,329
Prepaid expenses and other current assets	27	19,395	20,094
Total current assets		145,291	120,271
Current liabilities			
Short-term debts	29	40,411	32,307
Loans from Sinopec Group Company and fellow subsidiaries	29	832	8,714
Trade accounts payable	30	52,967	23,792
Bills payable	30	23,243	30,797
Accrued expenses and other payables	31	48,167	45,276
Income tax payable		5,029	5,391
Total current liabilities		170,649	146,277
Net current liabilities		(25,358)	(26,006)
Total assets less current liabilities		366,672	328,317
Non-current liabilities			
Long-term debts	29	67,059	60,822
Loans from Sinopec Group Company and fellow subsidiaries	29	39,933	36,765
Deferred tax liabilities	28	5,902	5,636
Other liabilities		782	1,008
Total non-current liabilities		113,676	104,231
Equity		252,996	224,086
Share capital	32	86,702	86,702
Reserves	33	136,854	106,338
Total equity attributable to equity shareholders of the Company		223,556	193,040
Minority interests		29,440	31,046
Total equity		252,996	224,086

Approved and authorised for issue by the board of directors on 31 March 2006.

Chen Tonghai
Chairman

Wang Tianpu
President

Zhang Jiaren
Director and Chief Financial Officer

The notes on pages 130 to 163 form part of these financial statements.

BALANCE SHEET

At 31 December 2005
(Amounts in millions)

	Note	2005 RMB	2004 RMB (Restated)
Non-current assets			
Property, plant and equipment	18	170,711	158,011
Construction in progress	19	39,086	28,948
Investments in subsidiaries	20	75,579	66,930
Investments	21	1,037	158
Interest in associates	22	5,933	6,424
Interest in jointly controlled entities	23	7,280	3,763
Deferred tax assets	28	3,220	3,724
Long-term prepayments and other assets	24	4,316	3,660
Total non-current assets		307,162	271,618
Current assets			
Cash and cash equivalents		5,014	6,051
Time deposits with financial institutions		110	248
Trade accounts receivable	25	8,826	8,245
Bills receivable	25	1,334	1,597
Inventories	26	50,417	34,044
Prepaid expenses and other current assets	27	15,556	26,471
Total current assets		81,257	76,656
Current liabilities			
Short-term debts	29	25,059	20,033
Loans from Sinopec Group Company and fellow subsidiaries	29	3,946	7,727
Trade accounts payable	30	28,833	21,137
Bills payable	30	19,077	21,589
Accrued expenses and other payables	31	40,559	45,565
Income tax payable		2,494	3,142
Total current liabilities		119,968	119,193
Net current liabilities		(38,711)	(42,537)
Total assets less current liabilities		268,451	229,081
Non-current liabilities			
Long-term debts	29	53,401	49,515
Loans from Sinopec Group Company and fellow subsidiaries	29	39,212	36,317
Deferred tax liabilities	28	2,216	2,025
Other liabilities		315	626
Total non-current liabilities		95,144	88,483
		173,307	140,598
Equity			
Share capital	32	86,702	86,702
Reserves	33	86,605	53,896
Total equity		173,307	140,598

Approved and authorised for issue by the board of directors on 31 March 2006.

Chen Tonghai
Chairman

Wang Tianpu
President

Zhang Jiaren
Director and Chief Financial Officer

The notes on pages 130 to 163 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 December 2005
(Amounts in millions)

	Note	2005 RMB	2004 RMB
Net cash generated from operating activities	(a)	76,497	69,081
Investing activities			
Capital expenditure		(63,135)	(67,583)
Capital expenditure by jointly controlled entities		(2,474)	(6,035)
Purchase of investments and investments in associates		(2,942)	(1,162)
Proceeds from disposal of investments and investments in associates		417	186
Proceeds from disposal of property, plant and equipment		510	317
Acquisition of minority interests in subsidiaries		(4,324)	—
Purchase of time deposits with financial institutions		(565)	(1,932)
Maturity of time deposits with financial institutions		1,462	2,217
Net cash used in investing activities		(71,051)	(73,992)
Financing activities			
Proceeds from bank and other loans		550,557	399,440
Proceeds from bank and other loans of jointly controlled entities		3,954	3,014
Proceeds from issuance of corporate bonds, net of issuing expenses		9,875	3,472
Repayments of bank and other loans		(557,432)	(388,809)
Distributions to minority interests		(1,611)	(775)
Contributions from minority interests		129	1,008
Dividend paid		(10,404)	(8,670)
Cash and cash equivalent distributed to Sinopec Group Company		(3,128)	(3,652)
Net cash (used in)/generated from financing activities		(8,060)	5,028
Net (decrease)/increase in cash and cash equivalents		(2,614)	117
Effect of foreign exchange rate changes		(22)	1
Cash and cash equivalents at 1 January		16,381	16,263
Cash and cash equivalents at 31 December		13,745	16,381

Financial Statements (International)

The notes on pages 130 to 163 form part of these financial statements.

NOTES TO THE CONSOLIDATED CASH FLOW STATEMENT

for the year ended 31 December 2005
(Amounts in millions)

(a) Reconciliation of profit before taxation to net cash generated from operating activities

	2005	2004
	RMB	RMB
Operating activities		
Profit before taxation	63,228	59,606
Adjustments for:		
Depreciation, depletion and amortisation	31,413	32,342
Dry hole costs	2,992	2,976
Share of profits less losses from associates	(857)	(797)
Investment income	(178)	(111)
Interest income	(382)	(374)
Interest expense	5,920	4,583
Unrealised foreign exchange (gains)/losses	(852)	150
Loss on disposal of property, plant and equipment, net	2,095	1,686
Impairment losses on long-lived assets	1,851	3,919
Operating profit before changes in working capital	105,230	103,980
Increase in trade accounts receivable	(4,773)	(494)
Decrease/(increase) in bills receivable	669	(1,529)
Increase in inventories	(24,998)	(16,526)
Decrease in prepaid expenses and other current assets	1,647	3,022
(Increase)/decrease in lease prepayments	(715)	60
Increase in long-term prepayments and other assets	(2,628)	(4,199)
Increase in trade accounts payable	28,799	599
(Decrease)/increase in bills payable	(7,554)	6,530
Increase/(decrease) in accrued expenses and other payables	7,952	(391)
Decrease in other liabilities	(227)	(334)
Cash generated from operations	103,402	90,718
Interest received	386	374
Interest paid	(6,961)	(5,450)
Investment and dividend income received	668	322
Income tax paid	(20,998)	(16,883)
Net cash generated from operating activities	76,497	69,081

The notes on pages 130 to 163 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the year ended 31 December 2005
(Amounts in millions)

											Total equity attributable to equity shareholders of the Company		Total equity
	Share capital	Capital reserve	Share premium	Revaluation reserve	Statutory surplus reserve	Statutory public welfare fund	Discretionary surplus reserve	Other reserves	Retained earnings	Minority interests	of the Company		
											RMB	RMB	
Balance at 1 January 2004	86,702	(18,960)	18,072	30,341	6,330	6,330	7,000	3,868	31,832	171,515	26,051	197,566	
Net loss recognised directly in equity:													
Revaluation surplus of Petrochemical and Catalyst Assets	—	(257)	—	257	—	—	—	257	—	257	—	257	
Impairment losses on revalued assets (Note 10)	—	—	—	(709)	—	—	—	—	—	(709)	—	(709)	
	—	(257)	—	(452)	—	—	—	257	—	(452)	—	(452)	
Profit for the year	—	—	—	—	—	—	—	—	36,019	36,019	5,772	41,791	
Total recognised income for the year	—	(257)	—	(452)	—	—	—	257	36,019	35,567	5,772	41,339	
Final dividend for 2003 (Note 16)	—	—	—	—	—	—	—	—	(5,202)	(5,202)	—	(5,202)	
Interim dividend for 2004 (Note 16)	—	—	—	—	—	—	—	—	(3,468)	(3,468)	—	(3,468)	
Appropriation (Note (a) and (b))	—	—	—	—	3,228	3,228	—	—	(6,456)	—	—	—	
Revaluation surplus realised	—	—	—	(1,891)	—	—	—	—	1,891	—	—	—	
Realisation of deferred tax on land use rights	—	—	—	—	—	—	—	(5)	5	—	—	—	
Transfer from retained earnings to other reserves	—	—	—	—	—	—	—	1,499	(1,499)	—	—	—	
Net assets distributed to Sinopec Group Company (Note (e))	—	—	—	—	—	—	—	(2,244)	—	(2,244)	—	(2,244)	
Consideration for Acquisition of Petrochemical and Catalyst Assets (Note 1)	—	—	—	—	—	—	—	(3,128)	—	(3,128)	—	(3,128)	
Distributions to minority interests net of contribution	—	—	—	—	—	—	—	—	—	—	(777)	(777)	
Balance at 31 December 2004	86,702	(19,217)	18,072	27,998	9,558	9,558	7,000	247	53,122	193,040	31,046	224,086	
Balance at 1 January 2005	86,702	(19,217)	18,072	27,998	9,558	9,558	7,000	247	53,122	193,040	31,046	224,086	
Profit for the year	—	—	—	—	—	—	—	—	40,920	40,920	2,920	43,840	
Final dividend for 2004 (Note 16)	—	—	—	—	—	—	—	—	(6,936)	(6,936)	—	(6,936)	
Interim dividend for 2005 (Note 16)	—	—	—	—	—	—	—	—	(3,468)	(3,468)	—	(3,468)	
Appropriation (Note (a) and (b))	—	—	—	—	3,956	3,956	—	—	(7,912)	—	—	—	
Revaluation surplus realised	—	—	—	(1,656)	—	—	—	—	1,656	—	—	—	
Realisation of deferred tax on land use rights	—	—	—	—	—	—	—	(5)	5	—	—	—	
Acquisition of minority interests in subsidiaries	—	—	—	—	—	—	—	—	—	—	(2,957)	(2,957)	
Distributions to minority interests net of contribution	—	—	—	—	—	—	—	—	—	—	(1,569)	(1,569)	
Balance at 31 December 2005	86,702	(19,217)	18,072	26,342	13,514	13,514	7,000	242	77,387	223,556	29,440	252,996	

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 2005, the Company transferred RMB 3,956 million (2004: RMB 3,228 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 Company's Articles of Associations and a resolution passed at the Directors' meeting on 26 August 2005, the directors authorised to transfer RMB 1,804 million (2004: RMB 1,504 million) for the six-month period ended 30 June 2005, being 10% of the net profit for the six-month period ended 30 June 2005 determined in accordance with the PRC Accounting Rules and Regulations, to this fund.
- The directors authorised the transfer of RMB 2,152 million (2004: RMB 1,724 million), subject to the shareholders' approval, being 10% of the net profit for the six-month period ended 31 December 2005 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 earnings available for distribution to equity 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 2005, the amount of retained earnings available for distribution was RMB 20,591 million, being the amount determined in accordance with IFRS. Final dividend of RMB 7,803 million (2004: RMB 6,936 million) proposed after the balance sheet date has not been recognised as a liability at the balance sheet date.
- (e) The net assets distributed to Sinopec Group Company during the year ended 31 December 2004 represent certain net assets retained, including certain property, plant and equipment with net book value of RMB 1,840 million and certain construction in progress with net book value of RMB 232 million, by Sinopec Group Company in connection with the Acquisition of Petrochemical and Catalyst Assets. These transactions were recorded at historical cost and were reflected as changes in other reserves in the year the acquisition 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 130 to 163 form part of these financial statements.

NOTES ON THE FINANCIAL STATEMENTS

for the year ended 31 December 2005

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.

On 25 February 2000, in connection with the Reorganisation, certain of Sinopec Group Company’s core oil and gas and chemical operations and businesses together with the related assets and liabilities were transferred to the Company. 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”).

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 which was fully paid in 2005 (hereinafter referred to as the “Acquisition of Petrochemical and Catalyst Assets”).

Basis of presentation

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, these acquisitions are considered as “combination of entities under common control” and accounted for 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 equity attributable to equity shareholders of the Company. The considerations for these acquisitions were treated as equity transactions.

The accompanying financial statements have been prepared in accordance with IFRS promulgated by the International Accounting Standards Board (“IASB”). 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. A summary of the principal accounting policies adopted by the Group and the Company is set out in Note 2. These accounting policies have been consistently applied by the Group and the Company, except those disclosed in Note 43.

The IASB has issued a number of new and revised IFRS that are effective or available for early adoption for accounting periods beginning on or after 1 January 2005. Information on the changes in accounting policies resulting from initial application of these new and revised IFRS for the current and prior accounting periods reflected in these financial statements is provided in Note 43.

The accompanying financial statements are prepared on the historical cost basis as modified by the revaluation of certain property, plant and equipment (Note 18).

1 PRINCIPAL ACTIVITIES, ORGANISATION AND BASIS OF PRESENTATION (Continued)

The preparation of the financial statements in accordance with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the year. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Key assumptions and estimation made by management in the application of IFRS that have significant effect on the financial statements and have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities in the next year are disclosed in Note 41.

2 PRINCIPAL ACCOUNTING POLICIES

(a) Basis of consolidation

The consolidated financial statements comprise the Company and its subsidiaries, and the Group's interest in associates and jointly controlled entities.

(i) 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 financial statements of subsidiaries are included in the consolidated financial statements from the date that control effectively commences until the date that control effectively ceases.

Minority interests at the balance sheet date, being the portion of the net assets of subsidiaries attributable to equity interests that are not owned by the Company, whether directly or indirectly through subsidiaries, are presented in the consolidated balance sheet and statement of changes in equity within equity, separately from equity attributable to the equity shareholders of the Company. Minority interests in the results of the Group are presented on the face of the consolidated income statement as an allocation of the total profit or loss for the year between minority interests and the equity shareholders of the Company.

In the Company's balance sheet, investments in subsidiaries are stated at cost less impairment losses (Note 2(k)).

The particulars of the Group's principal subsidiaries are set out in Note 38.

(ii) Interest in associates

An associate is an entity, not being a subsidiary, in which the Group or the Company 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 or joint control over those policies.

Investments in associates are accounted for in the consolidated financial statements using the equity method from the date that significant influence commences until the date that significant influence ceases.

In the Company's balance sheet, investments in associates are stated at cost less impairment losses (Note 2(k)).

(iii) Jointly controlled entities

A jointly controlled entity is an entity over which the Group or the Company can exercise joint control with other venturers. Joint control is the contractually agreed sharing of control over an economic activity.

Investments in jointly controlled entities are accounted for in the consolidated financial statements 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 expense 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, from the date that joint control commences until the date that joint control ceases.

In the Company's balance sheet, investments in jointly controlled entities are stated at cost less impairment losses (Note 2(k)).

(iv) Transactions eliminated on consolidation

Inter-company balances and transactions and any unrealised gains arising from inter-company transactions are eliminated on consolidation. Unrealised gains arising from transactions with associates and jointly controlled entities are eliminated to the extent of the Group's interest in the entity. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

(b) Translation of foreign currencies

The presentation 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.

2 PRINCIPAL ACCOUNTING POLICIES (Continued)

(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 and other receivables

Trade accounts and other receivables are initially recognised at fair value and thereafter stated at amortised cost less impairment losses for bad and doubtful debts (Note 2(k)).

(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.

(f) Property, plant and equipment

An item of property, plant and equipment is initially recorded at cost, less accumulated depreciation and impairment losses (Note 2(k)). The cost of an asset comprises its purchase price, any directly attributable costs of bringing the asset to working condition and location for its intended use. Subsequent to the revaluation (Note 18), 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. The Group recognises in the carrying amount of an item of property, plant and equipment the cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied with the item will flow to the Group and the cost of the item can be measured reliably. All other expenditure is recognised as an expense in the income statement in the year in which it is incurred.

Gains or losses arising from the retirement or disposal of an item 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 item 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 items of property, plant and equipment, 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, storage tanks and others	4 to 18 years
Service stations	25 years

Where parts of an item of property, plant and equipment have different useful lives, the cost or valuation of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reassessed annually.

(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 relevant government authorities. Land use rights are carried at cost less accumulated amortisation and impairment losses (Note 2(k)). Amortisation is provided to write off the cost of lease prepayments on a straight-line basis over the respective periods of the rights.

2 PRINCIPAL ACCOUNTING POLICIES (Continued)

(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 (Note 2(k)). 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 equity securities, other than investments in subsidiaries, associates and jointly controlled entities, that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are recognised in the balance sheet at cost less impairment losses (Note 2(k)).

(k) Impairment of assets

(i) Impairment of trade accounts receivable, other receivables and investment in equity securities, other than investments in subsidiaries, associates and jointly controlled entities are accounted as follows:

Trade accounts receivable, other receivables and investment in equity securities, other than investments in subsidiaries, associates and jointly controlled entities that are stated at cost or amortised cost are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such evidence exists, an impairment loss is determined and recognised. The impairment loss is measured as the difference between the carrying amount of the financial asset and the estimated future cash flows, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for trade accounts and other receivables are reversed if in a subsequent period the amount of the impairment loss decreases. Impairment losses for investment in equity securities are not reversed.

(ii) Impairment of other long-lived assets is accounted as follows:

The carrying amounts of other long-lived assets, including property, plant and equipment, construction in progress, lease prepayment, investments in subsidiaries, associates and jointly controlled entities, 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. For goodwill, the recoverable amount is estimated at each balance sheet date.

The recoverable amount is the greater of the fair value less costs to sell 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 using a pre-tax discount rate that reflects current market assessments of time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

The amount of the reduction is recognised as an expense in the consolidated 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. Impairment losses recognized in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit and then, to reduce the carrying amount of the other assets in the unit on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

The Group assesses at each balance sheet date whether there is any indication that an impairment loss recognised for an asset, except in the case of goodwill, 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 an 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 an income. The reversal is reduced by the amount that would have been recognised as depreciation had the write-down or write-off not occurred. An impairment loss in respect of goodwill is not reversed.

(l) Trade accounts and other payables

Trade accounts and other payables are initially recognised at fair value and thereafter stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(m) Interest-bearing borrowings

Interest bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between cost and redemption value being recognised in profit or loss over the period of borrowings using the effective interest method.

2 PRINCIPAL ACCOUNTING POLICIES (Continued)

(n) Provisions and contingent liability

A provision is recognised for liability of uncertain timing or amount when the Group or the Company has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made.

When it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(o) 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.

Government grants relating to the purchase of assets used for technology improvements are initially recorded as long-term liabilities when there is reasonable assurance that they will be received and will offset against the cost of the related assets upon the transfer of these assets to property, plant and equipment. The grants are recognised as an income over the useful life of these property, plant and equipment by way of reduced depreciation.

A government grant that becomes receivable as compensation for expenses or losses already incurred with no future related costs shall be recognised as income of the period in which it becomes receivable.

(p) 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.

(q) Repairs and maintenance expenditure

Repairs and maintenance expenditure is expensed as incurred.

(r) 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.

(s) Research and development costs

Research and development costs are recognised as expenses in the year in which they are 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) Retirement benefits

The contributions payable under the Group's retirement plans are recognised as expenses in the income statement as incurred and according to the contribution determined by the plans. Further information is set out in Note 36.

(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 2005

2 PRINCIPAL ACCOUNTING POLICIES (Continued)

(y) Goodwill

Goodwill represents amounts arising on acquisition of subsidiaries, associates or jointly controlled entities. Goodwill represents the difference between the cost of acquisition and the fair value of the net identifiable assets acquired.

Goodwill is stated at cost less impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment (Note 2(k)). In respect of associates, the carrying amount of goodwill is included in the carrying amount of the interest in associates.

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	
	2005	2004
	RMB millions	RMB millions
Sale of materials, service and others	23,615	22,213
Rental income	387	373
	24,002	22,586

5 OTHER INCOME

The Group received a cash government grant from the Ministry of Finance of the PRC of RMB 9,415 million (2004: RMB nil) as a compensation of loss incurred due to the distortion of the correlation of domestic refined petroleum product prices and the crude oil prices during the year ended 31 December 2005. There are no unfilled conditions and other contingencies attached to the receipt of this government grant. There is no assurance that the Group will continue to receive such grant in the future.

6 SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

The following items are included in selling, general and administrative expenses:

	The Group	
	2005	2004
	RMB millions	RMB millions
Research and development costs	2,243	1,518
Operating lease charges	5,514	4,288
Auditors' remuneration – audit services	75	80

7 PERSONNEL EXPENSES

	The Group	
	2005	2004
	RMB millions	RMB millions
Wages and salaries	13,601	13,589
Staff welfare	1,788	1,772
Contributions to retirement schemes	2,269	2,242
Social security contributions	825	1,031
	18,483	18,634

8 EMPLOYEE REDUCTION EXPENSES

During the year ended 31 December 2005, in accordance with the Group's voluntary employee reduction plan, the Group recorded employee reduction expenses of RMB 369 million in respect of the voluntary termination of approximately 7,000 employees.

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 relating to the reduction of approximately 24,000 employees.

9 TAXES OTHER THAN INCOME TAX

	The Group	
	2005	2004
	RMB millions	RMB millions
Consumption tax	12,430	11,920
City construction tax	2,575	2,533
Education surcharge	1,305	1,255
Resources tax	634	452
Business tax	208	164
	17,152	16,324

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 2005

Financial Statements (International)

10 OTHER OPERATING EXPENSES, NET

	The Group	
	2005	2004
	RMB millions	RMB millions
Fines, penalties and compensations	155	277
Donations	203	290
Loss on disposal of property, plant and equipment, net	2,095	1,686
Impairment losses on long-lived assets (Note)	1,851	3,919
Others	821	494
	5,125	6,666

Note:

Impairment losses recognised on long-lived assets of the refining segment were RMB nil (2004: RMB 14 million) for the year ended 31 December 2005. Impairment losses recognised on long-lived assets of the chemicals segment were RMB 1,425 million (2004: RMB 2,747 million) for the year ended 31 December 2005. These impairment losses relate to certain refining and chemical production facilities that are held for use. The carrying values of these facilities were written down to their recoverable amounts that were determined based either on the asset held for use model using the present value of estimated future cash flows or on the appraised values of the production facilities. An amount of RMB 1,425 million (2004: RMB 2,052 million) was charged to the income statement. An amount of RMB 709 million for the year ended 31 December 2004 was charged 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 on long-lived assets of the refining and chemicals segments 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 366 million (2004: RMB 1,769 million) for the year ended 31 December 2005 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 60 million for the year ended 31 December 2005 (2004: RMB 98 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 amount 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.

11 INTEREST EXPENSE

	The Group	
	2005	2004
	RMB millions	RMB millions
Interest expense incurred	7,166	5,491
Less: Interest expense capitalised*	(1,246)	(908)
Interest expense	5,920	4,583
* Interest rates per annum at which borrowing costs were capitalised for construction in progress	3.3% to 6.6%	3.1% to 6.0%

12 TAXATION

Taxation in the consolidated income statement represents:

	The Group	
	2005	2004
	RMB millions	RMB millions
Current tax		
– Provision for the year	20,159	18,441
– Under-provision in prior years	477	94
Deferred taxation	(1,248)	(720)
	19,388	17,815

A reconciliation between actual tax expense and accounting profit at applicable tax rates is as follows:

	The Group	
	2005	2004
	RMB millions	RMB millions
Profit before taxation	63,228	59,606
Expected PRC income tax expense at a statutory tax rate of 33%	20,865	19,670
Tax effect of non-deductible expenses	450	812
Tax effect of non-taxable income	(567)	(216)
Tax effect of differential tax rate on subsidiaries' income (Note)	(2,010)	(2,408)
Tax effect of tax losses not recognised for deferred tax	381	409
Under-provision in prior years	477	94
Tax credit for domestic equipment purchases	(208)	(546)
Actual tax expense	19,388	17,815

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 2005

13 DIRECTORS' AND SUPERVISORS' EMOLUMENTS

Directors' and supervisors' emoluments are as follows:

Name	Directors' fee RMB'000	Salaries, allowances and benefits in kind RMB'000	Discretionary bonuses RMB'000	Retirement scheme contributions RMB'000	2005 Total RMB'000
Executive directors					
Chen Tonghai	—	—	—	—	—
Wang Jiming	—	239	225	16	480
Mou Shuling	—	219	212	11	442
Zhang Jiaren	—	227	212	16	455
Cao Xianghong	—	227	212	16	455
Liu Genyuan	—	—	—	—	—
Gao Jian	—	—	—	—	—
Fan Yifei	—	—	—	—	—
Cao Yaofeng	—	133	134	12	279
Independent non-executive directors					
Chen Qingtai	27	—	—	—	27
Ho Tsu Kwok	—	—	—	—	—
Charles	21	—	—	—	21
Shi Wanpeng	24	—	—	—	24
Zhang Youcai	21	—	—	—	21
Supervisors					
Wang Zuoran	—	—	—	—	—
Zhang Chongqing	—	—	—	—	—
Wang Peijun	—	—	—	—	—
Wang Xianwen	—	—	—	—	—
Zhang Baojian	—	—	—	—	—
Kang Xianzhang	—	—	—	—	—
Su Wensheng	—	164	22	16	202
Cui Guoqi	—	105	42	7	154
Zhang Xianglin	—	82	88	11	181
Zhang Haichao	—	89	95	10	194
Independent supervisors					
Cui Jianming	24	—	—	—	24
Li Yonggui	24	—	—	—	24
Total	141	1,485	1,242	115	2,983
2004	147	1,495	2,355	202	4,199

Executive directors and supervisors also participate in the Group's share appreciation rights plan (Note 36).

14 SENIOR MANAGEMENT'S EMOLUMENTS

For the year ended 31 December 2005, of the five highest paid individuals, four (2004: one) are directors whose emoluments are disclosed in Note 13. The aggregate of the emoluments in respect of the five highest paid individuals are as follows:

	2005 RMB'000	2004 RMB'000
Salaries and other emoluments	2,269	1,622
Retirement scheme contributions	77	65
	2,346	1,687

An analysis of emoluments paid to the five highest paid individuals by number of individuals and emolument range is as follows:

	2005 Number	2004 Number
Nil to HK\$ 1,000,000	5	5

15 PROFIT ATTRIBUTABLE TO EQUITY SHAREHOLDERS OF THE COMPANY

The consolidated profit attributable to equity shareholders of the Company includes a profit of RMB 26,668 million (2004 (restated): RMB 4,758 million) which has been dealt with in the financial statements of the Company.

16 DIVIDENDS

Dividends payable to equity shareholders of the Company attributable to the year represent:

	2005 RMB millions	2004 RMB millions
Dividends declared and paid during the year of RMB 0.04 per share (2004: RMB 0.04 per share)	3,468	3,468
Dividends declared after the balance sheet date of RMB 0.09 per share (2004: RMB 0.08 per share)	7,803	6,936
	11,271	10,404

Pursuant to the Company's Articles of Association and a resolution passed at the Directors' meeting on 26 August 2005, the directors authorised to declare an interim dividends for the year ended 31 December 2005 of RMB 0.04 (2004: RMB 0.04) per share totalling RMB 3,468 million (2004: RMB 3,468 million), which was paid on 30 September 2005 (2004: 30 September 2004).

NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2005

16 DIVIDENDS (Continued)

Pursuant to a resolution passed at the Directors' meeting on 31 March 2006, a final dividend in respect of the year ended 31 December 2005 of RMB 0.09 (2004: RMB 0.08) per share totalling RMB 7,803 million (2004: RMB 6,936 million) was proposed for shareholders' approval at the Annual General Meeting. Final dividend of RMB 7,803 million (2004: RMB 6,936 million) proposed after the balance sheet date has not been recognised as a liability at the balance sheet date.

Dividends payable to equity shareholders of the Company attributable to the previous financial year, approved and paid during the year represent:

	2005 RMB millions	2004 RMB millions
Final dividends in respect of the previous financial year, approved and paid during the year of RMB 0.08 per share (2004: RMB 0.06 per share)	6,936	5,202

Pursuant to the shareholders' approval at the Annual General Meeting on 18 May 2005, a final dividend of RMB 0.08 per share totalling RMB 6,936 million in respect of the year ended 31 December 2004 was declared and paid on 27 June 2005.

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.

17 BASIC EARNINGS PER SHARE

The calculation of basic earnings per share for the year ended 31 December 2005 is based on the profit attributable to equity shareholders of the Company of RMB 40,920 million (2004: RMB 36,019 million) and the weighted average number of shares of 86,702,439,000 (2004: 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.

18 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
Cost/valuation:						
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 35)	—	805	1,536	—	—	2,341
Revaluation in connection with the Acquisition of Petrochemical and Catalyst Assets	—	35	—	206	16	257
Disposals	(1,085)	(3,354)	(1,511)	(4,253)	(179)	(10,382)
Disposals to Sinopec Group Company (Note 35)	(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)
Balance at 31 December 2004	192,076	116,910	65,345	163,222	4,092	541,645
Balance at 1 January 2005	192,076	116,910	65,345	163,222	4,092	541,645
Additions	151	126	382	271	150	1,080
Transferred from construction in progress	22,094	8,121	14,017	18,457	381	63,070
Proportionate share of a jointly controlled entity	—	—	—	1,028	—	1,028
Reclassification	(157)	(432)	204	289	96	—
Disposals	(3,052)	(2,859)	(2,927)	(3,164)	(245)	(12,247)
Balance at 31 December 2005	211,112	121,866	77,021	180,103	4,474	594,576
Accumulated depreciation:						
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 35)	—	458	—	—	—	458
Written back on disposals	(942)	(2,323)	(942)	(3,157)	(103)	(7,467)
Disposals to Sinopec Group Company (Note 35)	(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)
Balance at 31 December 2004	94,028	56,580	13,465	92,042	1,407	257,522
Balance at 1 January 2005	94,028	56,580	13,465	92,042	1,407	257,522
Depreciation charge for the year	10,887	6,972	3,013	9,392	282	30,546
Impairment losses for the year	60	—	366	1,425	—	1,851
Reclassification	(78)	(214)	78	160	54	—
Written back on disposals	(2,687)	(2,206)	(2,110)	(2,719)	(194)	(9,916)
Balance at 31 December 2005	102,210	61,132	14,812	100,300	1,549	280,003
Net book value:						
At 1 January 2004	93,358	54,336	44,468	76,004	2,565	270,731
At 31 December 2004	98,048	60,330	51,880	71,180	2,685	284,123
At 31 December 2005	108,902	60,734	62,209	79,803	2,925	314,573

NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2005

18 PROPERTY, PLANT AND EQUIPMENT (Continued)

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
Cost/valuation:						
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 35)	—	805	1,536	—	—	2,341
Transferred from a subsidiary	—	5,158	—	—	—	5,158
Revaluation in connection with the Acquisition of Petrochemical and Catalyst Assets	—	35	—	206	16	257
Disposals	(361)	(2,101)	(1,331)	(1,301)	(123)	(5,217)
Disposals to Sinopec Group Company (Note 35)	(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)
Balance at 31 December 2004	69,584	88,066	61,983	59,859	3,070	282,562
Balance at 1 January 2005	69,584	88,066	61,983	59,859	3,070	282,562
Additions	151	113	267	38	120	689
Transferred from construction in progress	13,213	5,772	9,363	2,069	371	30,788
Transferred to subsidiaries	—	—	(577)	—	—	(577)
Reclassification	(130)	(176)	276	(2)	32	—
Disposals	(1,415)	(1,546)	(2,864)	(978)	(213)	(7,016)
Balance at 31 December 2005	81,403	92,229	68,448	60,986	3,380	306,446
Accumulated depreciation:						
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 35)	—	458	—	—	—	458
Transferred from a subsidiary	—	2,682	—	—	—	2,682
Written back on disposals	(355)	(1,662)	(805)	(748)	(83)	(3,653)
Disposals to Sinopec Group Company (Note 35)	(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)
Balance at 31 December 2004	32,119	42,789	12,892	35,694	1,057	124,551
Balance at 1 January 2005	32,119	42,789	12,892	35,694	1,057	124,551
Depreciation charge for the year	5,048	4,742	2,920	2,892	180	15,782
Impairment losses for the year	60	—	351	671	—	1,082
Transferred to subsidiaries	—	—	(66)	—	—	(66)
Reclassification	(65)	(49)	99	(1)	16	—
Written back on disposals	(1,371)	(1,183)	(2,061)	(814)	(185)	(5,614)
Balance at 31 December 2005	35,791	46,299	14,135	38,442	1,068	135,735
Net book value:						
At 1 January 2004	33,823	35,890	43,359	28,349	1,853	143,274
At 31 December 2004	37,465	45,277	49,091	24,165	2,013	158,011
At 31 December 2005	45,612	45,930	54,313	22,544	2,312	170,711

NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2005

18 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
Cost/valuation:					
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 35)	—	—	1,533	808	2,341
Revaluation in connection with the Acquisition of Petrochemical and Catalyst Assets	1	—	—	256	257
Disposals	(927)	(586)	(1,099)	(7,770)	(10,382)
Disposals to Sinopec Group Company (Note 35)	(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)
Balance at 31 December 2004	44,854	173,564	60,533	262,694	541,645
Balance at 1 January 2005	44,854	173,564	60,533	262,694	541,645
Additions	96	64	228	692	1,080
Transferred from construction in progress	2,462	20,985	13,851	25,772	63,070
Proportionate share of a jointly controlled entity	182	—	—	846	1,028
Reclassification	(406)	(802)	650	558	—
Disposals	(1,034)	(1,884)	(2,145)	(7,184)	(12,247)
Balance at 31 December 2005	46,154	191,927	73,117	283,378	594,576
Accumulated depreciation:					
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 35)	—	—	—	458	458
Written back on disposals	(428)	(541)	(585)	(5,913)	(7,467)
Disposals to Sinopec Group Company (Note 35)	(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)
Balance at 31 December 2004	20,308	85,143	11,781	140,290	257,522
Balance at 1 January 2005	20,308	85,143	11,781	140,290	257,522
Depreciation charge for the year	1,712	10,263	2,914	15,657	30,546
Impairment losses for the year	79	60	261	1,451	1,851
Reclassification	(98)	(430)	153	375	—
Written back on disposals	(597)	(1,672)	(1,379)	(6,268)	(9,916)
Balance at 31 December 2005	21,404	93,364	13,730	151,505	280,003
Net book value:					
At 1 January 2004	25,753	81,052	37,552	126,374	270,731
At 31 December 2004	24,546	88,421	48,752	122,404	284,123
At 31 December 2005	24,750	98,563	59,387	131,873	314,573

NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2005

18 PROPERTY, PLANT AND EQUIPMENT (Continued)

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
Cost/valuation:					
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 35)	—	—	1,533	808	2,341
Transferred from a subsidiary	216	—	—	4,942	5,158
Revaluation in connection with the Acquisition of Petrochemical and Catalyst Assets	1	—	—	256	257
Disposals	(742)	(238)	(1,075)	(3,162)	(5,217)
Disposals to Sinopec Group Company (Note 35)	(75)	(1,081)	—	(947)	(2,103)
Less: Amount distributed to Sinopec Group Company in connection with Acquisition of Petrochemical and Catalyst Assets	(1,550)	—	—	(1,345)	(2,895)
Balance at 31 December 2004	25,838	61,866	57,395	137,463	282,562
Balance at 1 January 2005	25,838	61,866	57,395	137,463	282,562
Additions	132	64	174	319	689
Transferred from construction in progress	989	12,266	9,363	8,170	30,788
Transferred to subsidiaries	(9)	—	(529)	(39)	(577)
Reclassification	(469)	(551)	651	369	—
Disposals	(552)	(578)	(2,097)	(3,789)	(7,016)
Balance at 31 December 2005	25,929	73,067	64,957	142,493	306,446
Accumulated depreciation:					
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 35)	—	—	—	458	458
Transferred from a subsidiary	101	—	—	2,581	2,682
Written back on disposals	(356)	(238)	(582)	(2,477)	(3,653)
Disposals to Sinopec Group Company (Note 35)	(17)	(578)	—	(468)	(1,063)
Less: Amount distributed to Sinopec Group Company in connection with Acquisition of Petrochemical and Catalyst Assets	(310)	—	—	(745)	(1,055)
Balance at 31 December 2004	10,537	29,934	11,403	72,677	124,551
Balance at 1 January 2005	10,537	29,934	11,403	72,677	124,551
Depreciation charge for the year	1,046	4,682	2,524	7,530	15,782
Impairment losses for the year	21	60	261	740	1,082
Transferred to subsidiaries	(3)	—	(41)	(22)	(66)
Reclassification	(111)	(309)	154	266	—
Written back on disposals	(326)	(565)	(1,349)	(3,374)	(5,614)
Balance at 31 December 2005	11,164	33,802	12,952	77,817	135,735
Net book value:					
At 1 January 2004	16,582	27,577	36,456	62,659	143,274
At 31 December 2004	15,301	31,932	45,992	64,786	158,011
At 31 December 2005	14,765	39,265	52,005	64,676	170,711

The Group's proportionate share of the jointly controlled entities' net book value of property, plant and equipment at 31 December 2005 in the exploration and production and the chemicals segments were RMB 398 million (2004: RMB 412 million) and RMB 14,889 million (2004: RMB 17 million), respectively.

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 MOF. 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.

NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2005

Financial Statements (International)

18 PROPERTY, PLANT AND EQUIPMENT (Continued)

In connection with the Acquisition of Ethylene Assets, the property, plant and equipment of Sinopec Maoming were revalued at 30 June 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.

19 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 by jointly controlled entities	1,323	—	—	5,178	—	6,501
Less: Amount distributed to Sinopec Group Company in connection with 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)
Balance at 31 December 2004	9,262	8,459	13,781	13,170	1,513	46,185
Balance at 1 January 2005	9,262	8,459	13,781	13,170	1,513	46,185
Additions	25,894	14,001	10,572	9,115	1,014	60,596
Additions by jointly controlled entities	814	—	—	1,830	—	2,644
Proportionate share of a jointly controlled entity	—	—	—	5,461	—	5,461
Dry hole costs written off	(2,992)	—	—	—	—	(2,992)
Transferred to property, plant and equipment and other assets	(22,094)	(8,121)	(14,017)	(19,014)	(381)	(63,627)
Balance at 31 December 2005	10,884	14,339	10,336	10,562	2,146	48,267

The Group's proportionate share of the jointly controlled entities' construction in progress at 31 December 2005 in the E&P and the chemicals segments were RMB 2,888 million (2004: RMB 2,053 million) and RMB 504 million (2004: RMB 8,171 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 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)
Balance at 31 December 2004	6,607	6,961	10,271	3,615	1,494	28,948
Balance at 1 January 2005	6,607	6,961	10,271	3,615	1,494	28,948
Additions	16,528	12,084	7,825	5,845	915	43,197
Dry hole costs written off	(2,271)	—	—	—	—	(2,271)
Transferred to property, plant and equipment	(13,213)	(5,772)	(9,363)	(2,069)	(371)	(30,788)
Balance at 31 December 2005	7,651	13,273	8,733	7,391	2,038	39,086

NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2005

20 INVESTMENTS IN SUBSIDIARIES

	The Company	
	2005	2004
	RMB millions	RMB millions (Restated)
Investments in subsidiaries, at cost	75,579	66,930

Details of the Company's principal subsidiaries at 31 December 2005 are set out in Note 38.

21 INVESTMENTS

	The Group		The Company	
	2005	2004	2005	2004
	RMB millions	RMB millions	RMB millions	RMB millions
Unlisted investments, at cost	3,253	2,891	1,140	313
Less: Impairment losses	(327)	(353)	(103)	(155)
	2,926	2,538	1,037	158

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.

The impairment losses relating to investments for the year ended 31 December 2005 amounted to RMB 77 million (2004: RMB 96 million).

22 INTEREST IN ASSOCIATES

	The Group		The Company	
	2005	2004	2005	2004
	RMB millions	RMB millions	RMB millions	RMB millions (Restated)
Investments in associates, at cost	—	—	5,933	6,424
Share of net assets	9,217	10,222	—	—
	9,217	10,222	5,933	6,424

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 share of associates' taxation for the year ended 31 December 2005 was RMB 420 million (2004: RMB 340 million). 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 by the Company's subsidiaries		Principal activities
			Percentage of equity held by the Company %	Percentage of equity held 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	38.22	2.00	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
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
China Aviation Oil Supply Company Limited	Incorporated	Registered capital RMB 3,800,000,000	—	29.00	Marketing and distribution of refined 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 772 million (2004: RMB 479 million) and RMB 547 million (2004: RMB 1,516 million) respectively at 31 December 2005.

NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2005

23 INTEREST IN JOINTLY CONTROLLED ENTITIES

	The Company	
	2005	2004
	RMB millions	RMB millions (Restated)
Investments in jointly controlled entities, at cost	7,280	3,763

The Group's investments in jointly controlled entities are primarily engaged in the oil and gas and chemical operations in the PRC, 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 by the Company %	Percentage of equity held by the Company's subsidiaries %	Principal activities
Shanghai Secco Petrochemical Company Limited	Incorporated	Registered capital USD 901,440,964	30.00	20.00	Manufacturing and distribution of petrochemical products
BASF-YPC Company Limited	Incorporated	Registered capital RMB 8,793,000,000	30.00	10.00	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 Chengdao in Bohai Bay	Unincorporated	—	—	43.00	Exploration and production of crude oil and natural gas

Included in the consolidated financial statements are the following items that represent the Group's proportionate share of the jointly controlled entities' financial condition, results of operations and cash flows.

	2005	2004
	RMB millions	RMB millions
Results of operations:		
Operating revenue	10,082	313
Expenses	9,773	450
Net profit/(loss)	309	(137)

	2005	2004
	RMB millions	RMB millions
Financial condition:		
Current assets	2,631	520
Non-current assets	19,522	10,913
Current liabilities	2,543	1,699
Non-current liabilities	10,177	4,463
Net assets	9,433	5,271

	2005	2004
	RMB millions	RMB millions
Cash flows:		
Net cash (used in)/generated from operating activities	(1,434)	233
Net cash used in investing activities	(2,474)	(6,035)
Net cash generated from financing activities	4,011	5,909

24 LONG-TERM PREPAYMENTS AND OTHER ASSETS

Long-term prepayments and other assets primarily represent prepaid rental expenses over one year, computer software, goodwill and catalysts.

25 TRADE ACCOUNTS AND BILLS RECEIVABLES

	The Group		The Company	
	2005	2004	2005	2004
	RMB millions	RMB millions	RMB millions	RMB millions
Amounts due from third parties	13,546	10,989	4,136	5,179
Amounts due from subsidiaries	—	—	6,252	5,026
Amounts due from Sinopec Group Company and fellow subsidiaries	3,049	2,349	518	858
Amounts due from associates	572	89	10	19
Amounts due from jointly controlled entities	505	—	229	—
	17,672	13,427	11,145	11,082
Less: Impairment losses for bad and doubtful debts	(3,140)	(3,671)	(2,319)	(2,837)
	14,532	9,756	8,826	8,245
Bills receivable	7,143	7,812	1,334	1,597
	21,675	17,568	10,160	9,842

NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2005

25 TRADE ACCOUNTS AND BILLS RECEIVABLES (Continued)

The ageing analysis of trade accounts and bills receivables (net of impairment losses for bad and doubtful debts) is as follows:

	The Group		The Company	
	2005	2004	2005	2004
	RMB millions	RMB millions	RMB millions	RMB millions
Within one year	21,414	16,968	10,010	9,425
Between one and two years	178	225	112	127
Between two and three years	43	166	25	83
Over three years	40	209	13	207
	21,675	17,568	10,160	9,842

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. The impairment losses for bad and doubtful debts of trade accounts and bills receivables for the year ended 31 December 2005 amounted to RMB 328 million (2004: RMB 935 million).

26 INVENTORIES

	The Group		The Company	
	2005	2004	2005	2004
	RMB millions	RMB millions	RMB millions	RMB millions
Crude oil and other raw materials	53,333	32,562	25,471	14,544
Work in progress	9,422	8,341	4,659	3,605
Finished goods	23,163	20,804	17,980	15,163
Spare parts and consumables	4,448	3,528	2,616	1,126
	90,366	65,235	50,726	34,438
Less: Allowance for diminution in value of inventories	(892)	(906)	(309)	(394)
	89,474	64,329	50,417	34,044

The cost of inventories recognised as an expense in the consolidated income statement amounted to RMB 683,902 million for the year ended 31 December 2005 (2004: RMB 474,961 million), including the write-down of inventories amounted to RMB 262 million (2004: RMB 648 million) and the reversal of write-down of inventories made in prior years amounted to RMB 276 million (2004: RMB 261 million) mainly arising from the sales of inventories.

27 PREPAID EXPENSES AND OTHER CURRENT ASSETS

	The Group		The Company	
	2005	2004	2005	2004
	RMB millions	RMB millions	RMB millions	RMB millions
Advances to third parties	1,754	1,600	909	740
Amounts due from Sinopec Group Company and fellow subsidiaries	2,954	5,585	2,559	5,002
Amounts due from subsidiaries	—	—	2,964	11,908
Other receivables	1,781	2,161	742	1,223
Purchase deposits	2,496	2,547	1,106	2,059
Prepayments in connection with construction work and equipment purchases	5,583	4,727	4,584	2,679
Prepaid value-added tax and customs duty	4,288	3,166	2,184	2,600
Amounts due from associates	539	308	508	260
	19,395	20,094	15,556	26,471

NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2005

28 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	
	2005	2004	2005	2004	2005	2004
	RMB millions	RMB millions	RMB millions	RMB millions	RMB millions	RMB millions
<i>Current</i>						
Receivables and inventories	3,904	2,528	—	—	3,904	2,528
<i>Non-current</i>						
Property, plant and equipment	1,642	1,566	(1,619)	(1,704)	23	(138)
Accelerated depreciation	—	—	(4,217)	(3,932)	(4,217)	(3,932)
Tax value of losses carried forward, net of valuation allowances	128	66	—	—	128	66
Lease prepayments	359	366	—	—	359	366
Others	39	32	(66)	—	(27)	32
Deferred tax assets/(liabilities)	6,072	4,558	(5,902)	(5,636)	170	(1,078)

The Company:

	Assets		Liabilities		Net balance	
	2005	2004	2005	2004	2005	2004
	RMB millions	RMB millions	RMB millions	RMB millions	RMB millions	RMB millions
<i>Current</i>						
Receivables and inventories	1,635	2,245	—	—	1,635	2,245
<i>Non-current</i>						
Property, plant and equipment	1,553	1,457	(1,083)	(983)	470	474
Accelerated depreciation	—	—	(1,066)	(1,042)	(1,066)	(1,042)
Lease prepayments	17	16	—	—	17	16
Others	15	6	(67)	—	(52)	6
Deferred tax assets/(liabilities)	3,220	3,724	(2,216)	(2,025)	1,004	1,699

A valuation allowance on deferred tax assets is recorded if it is probable 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 on 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 381 million (2004: RMB 409 million) were provided for the year ended 31 December 2005. 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 probable 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 probable to be realised.

As at 31 December 2005, certain subsidiaries of the Company had tax value of losses carried forward for PRC income tax purpose, provided for valuation allowance, of RMB 4,072 million which were available to offset future PRC taxable income of respective subsidiaries, if any. RMB 503 million, RMB 425 million, RMB 751 million, RMB 1,239 million and RMB 1,154 million expire in 2006, 2007, 2008, 2009 and 2010, respectively.

NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2005

28 DEFERRED TAX ASSETS AND LIABILITIES (Continued)

Movements in the deferred tax assets and liabilities are as follows:

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>				
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
Net deferred tax (liabilities)/assets	(1,532)	(266)	720	(1,078)

	Balance at 1 January 2005 RMB millions	Recognised in other reserves RMB millions	Recognised in consolidated income statement RMB millions	Balance at 31 December 2005 RMB millions
<i>Current</i>				
Receivables and inventories	2,528	—	1,376	3,904
<i>Non-current</i>				
Property, plant and equipment	(138)	—	161	23
Accelerated depreciation	(3,932)	—	(285)	(4,217)
Tax value of losses carried forward, net of valuation allowance	66	—	62	128
Lease prepayments	366	—	(7)	359
Others	32	—	(59)	(27)
Net deferred tax (liabilities)/assets	(1,078)	—	1,248	170

The Company

	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>				
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
Net deferred tax assets/(liabilities)	771	(266)	1,194	1,699

	Balance at 1 January 2005 RMB millions	Recognised in other reserves RMB millions	Recognised in consolidated income statement RMB millions	Balance at 31 December 2005 RMB millions
<i>Current</i>				
Receivables and inventories	2,245	—	(610)	1,635
<i>Non-current</i>				
Property, plant and equipment	474	—	(4)	470
Accelerated depreciation	(1,042)	—	(24)	(1,066)
Lease prepayments	16	—	1	17
Others	6	—	(58)	(52)
Net deferred tax assets/(liabilities)	1,699	—	(695)	1,004

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 2005

29 SHORT-TERM AND LONG-TERM DEBTS AND LOANS FROM SINOPEC GROUP COMPANY AND FELLOW SUBSIDIARIES

Short-term debts represent:

	The Group		The Company	
	2005	2004	2005	2004
	RMB millions	RMB millions	RMB millions	RMB millions
Third parties' debts				
Short-term bank loans	15,392	20,009	3,094	10,527
Current portion of long-term bank loans	14,879	12,177	12,043	9,414
Current portion of long-term other loans	26	121	1	92
Current portion of long-term bank loans of jointly controlled entities	193	—	—	—
	15,098	12,298	12,044	9,506
Corporate bonds (a)	9,921	—	9,921	—
	40,411	32,307	25,059	20,033
Loans from Sinopec Group Company and fellow subsidiaries				
Short-term loans				
	732	6,714	3,846	5,727
Current portion of long-term loans	100	2,000	100	2,000
	832	8,714	3,946	7,727
	41,243	41,021	29,005	27,760

The Group's and the Company's weighted average interest rates on short-term loans were 4.0% (2004: 3.9%) and 3.2% (2004: 4.0%) at 31 December 2005, respectively.

Long-term debts comprise:

Interest rate and final maturity	The Group		The Company		
	2005	2004	2005	2004	
	RMB millions	RMB millions	RMB millions	RMB millions	
Third parties' debts					
Long-term bank loans					
Renminbi denominated	Interest rates ranging from interest free to 5.8% per annum at 31 December 2005 with maturities through 2013	59,769	52,227	54,792	45,233
Japanese Yen denominated	Interest rates ranging from 2.6% to 5.8% per annum at 31 December 2005 with maturities through 2024	3,394	4,562	3,394	4,556
US Dollar denominated	Interest rates ranging from interest free to 7.4% per annum at 31 December 2005 with maturities through 2031	5,056	7,729	3,571	5,278
Euro denominated	Fixed interest rate at 6.7% per annum at 31 December 2005 with maturities through 2010	117	165	117	165
Hong Kong Dollar denominated	Floating rate at Hong Kong Prime Rate plus 0.8% to 1.1% per annum at 31 December 2005 with maturities through 2007	94	5	—	—
		68,430	64,688	61,874	55,232
Long-term other loans					
Renminbi denominated	Interest rates ranging from interest free to 5.0% per annum at 31 December 2005 with maturities through 2008	170	359	37	200
US Dollar denominated	Interest rates ranging from interest free to 2.0% per annum at 31 December 2005 with maturities through 2015	51	110	34	89
		221	469	71	289
Corporate bonds					
Renminbi denominated	Fixed interest rate at 4.61% per annum at 31 December 2005 with maturity in February 2014 (b)	3,500	3,500	3,500	3,500
		72,151	68,657	65,445	59,021

NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2005

29 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	
		2005	2004	2005	2004
		RMB millions	RMB millions	RMB millions	RMB millions
Long-term bank loans of jointly controlled entities					
Renminbi denominated	Floating rate at 90% of PBOC's base lending rate per annum at 31 December 2005 with maturities through 2021	5,710	2,415	—	—
US Dollar denominated	Floating rate at London Interbank Offer Rate plus 0.4% to 0.7% per annum at 31 December 2005 with maturities through 2021	4,296	2,048	—	—
		10,006	4,463	—	—
Total third parties' long-term debts		82,157	73,120	65,445	59,021
Less: Current portion		(15,098)	(12,298)	(12,044)	(9,506)
		67,059	60,822	53,401	49,515
Long-term loans from Sinopec Group Company and fellow subsidiaries					
Renminbi denominated	Interest free with maturity in 2020	35,561	35,561	35,561	35,561
Renminbi denominated	Interest rates ranging from 5.0% to 5.2% per annum at 31 December 2005 with maturities through 2009	4,401	3,204	3,751	2,756
Long-term loans of jointly controlled entities from Sinopec Group Company and fellow subsidiaries					
Renminbi denominated	Floating rate at 90% of PBOC's base lending rate applicable to three-year tenor loan per annum at 31 December 2005 with maturities through 2021	71	—	—	—
Less: Current portion		(100)	(2,000)	(100)	(2,000)
		39,933	36,765	39,212	36,317
		106,992	97,587	92,613	85,832

(a) The Company issued six-month corporate bonds of face value at RMB 10 billion to corporate investors in PRC debenture market on 24 October 2005, at a discounted value of RMB 98.75 per RMB 100 par value, with an effective yield at 2.54% per annum with maturity in April 2006.

(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 with a fixed interest rate at 4.61% per annum.

Third parties' loans of RMB 35 million of the Group at 31 December 2005 (2004: RMB 40 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 83 million at 31 December 2005 (2004: RMB 123 million).

Third parties' loans of RMB 13 million of the Company at 31 December 2005 (2004: 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 2005 (2004: RMB 10 million).

The aggregate maturities of long-term debts and loans from Sinopec Group Company and fellow subsidiaries are as follows:

	The Group		The Company	
	2005	2004	2005	2004
	RMB millions	RMB millions	RMB millions	RMB millions
Within one year	15,198	14,298	12,144	11,506
Between one and two years	18,787	15,886	16,420	12,363
Between two and five years	39,142	36,041	34,771	31,279
After five years	49,063	45,660	41,422	42,190
	122,190	111,885	104,757	97,338

Included in short-term and long-term debts and loans from Sinopec Group Company and fellow subsidiaries of the Group are the follow amounts denominated in a currency other than the functional currency of the entity to which they relate:

	2005	2004
	millions	millions
US Dollar	USD2,158	USD2,494
Japanese Yen	JPY50,507	JPY60,889
Euro	EUR12	EUR15
Hong Kong Dollar	HKD128	HKD732

NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2005

Financial Statements (International)

30 TRADE ACCOUNTS AND BILLS PAYABLES

	The Group		The Company	
	2005	2004	2005	2004
	RMB millions	RMB millions	RMB millions	RMB millions
Amounts due to third parties	49,962	22,265	12,032	10,435
Amounts due to subsidiaries	—	—	15,805	9,876
Amounts due to Sinopec Group Company and fellow subsidiaries	2,304	1,527	996	826
Amounts due to jointly controlled entities	650	—	—	—
Amounts due to associates	51	—	—	—
	52,967	23,792	28,833	21,137
Bills payable	23,243	30,797	19,077	21,589
	76,210	54,589	47,910	42,726

Amounts due to Sinopec Group Company and fellow subsidiaries are repayable in accordance with normal commercial terms.

The maturities of trade accounts and bills payables are as follows:

	The Group		The Company	
	2005	2004	2005	2004
	RMB millions	RMB millions	RMB millions	RMB millions
Due within 1 month or on demand	44,194	25,444	23,251	21,839
Due after 1 month but within 6 months	31,704	28,877	24,353	20,807
Due after 6 months	312	268	306	80
	76,210	54,589	47,910	42,726

31 ACCRUED EXPENSES AND OTHER PAYABLES

	The Group		The Company	
	2005	2004	2005	2004
	RMB millions	RMB millions	RMB millions	RMB millions
Amounts due to Sinopec Group Company and fellow subsidiaries	7,144	10,897	4,538	7,336
Amounts due to subsidiaries	—	—	7,032	15,010
Accrued expenditures	19,566	17,213	13,984	11,801
Taxes other than income tax	3,090	3,717	1,415	2,079
Receipts in advance	12,368	7,387	9,133	5,013
Advances from third parties	1,226	1,009	1,100	961
Others	4,773	5,053	3,357	3,365
	48,167	45,276	40,559	45,565

32 SHARE CAPITAL

	The Group and the Company	
	2005	2004
	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
	86,702	86,702

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 2005

33 RESERVES

	The Group		The Company	
	2005	2004	2005	2004
	RMB millions	RMB millions	RMB millions	RMB millions (Restated)
Capital reserve				
At 1 January	(19,217)	(18,960)	13,672	13,672
Revaluation surplus of Petrochemical and Catalyst Assets	—	(257)	—	—
At 31 December	(19,217)	(19,217)	13,672	13,672
Share premium				
At 1 January/31 December	18,072	18,072	18,072	18,072
Revaluation reserve				
At 1 January	27,998	30,341	—	—
Revaluation surplus of Petrochemical and Catalyst Assets	—	257	—	—
Impairment losses on revalued assets	—	(709)	—	—
Revaluation surplus realised	(1,656)	(1,891)	—	—
At 31 December	26,342	27,998	—	—
Statutory surplus reserve				
At 1 January	9,558	6,330	9,558	6,330
Appropriation	3,956	3,228	3,956	3,228
At 31 December	13,514	9,558	13,514	9,558
Statutory public welfare fund				
At 1 January	9,558	6,330	9,558	6,330
Appropriation	3,956	3,228	3,956	3,228
At 31 December	13,514	9,558	13,514	9,558
Discretionary surplus reserve				
At 1 January/31 December	7,000	7,000	7,000	7,000
Other reserves				
At 1 January	247	3,868	247	3,868
Revaluation surplus of Petrochemical and Catalyst Assets	—	257	—	257
Realisation of deferred tax on land use rights	(5)	(5)	(5)	(5)
Transfer from retained earnings to other reserves	—	1,499	—	1,499
Net assets distributed to Sinopec Group Company	—	(2,244)	—	(2,244)
Consideration for Acquisition of Petrochemical and Catalyst Assets	—	(3,128)	—	(3,128)
At 31 December	242	247	242	247
Retained earnings				
At 1 January	53,122	31,832	(4,211)	1,511
Profit for the year attributable to equity shareholders of the Company	40,920	36,019	43,113	10,898
Final dividend for 2003 (Note 16)	—	(5,202)	—	(5,202)
Interim dividend for 2004 (Note 16)	—	(3,468)	—	(3,468)
Final dividend for 2004 (Note 16)	(6,936)	—	(6,936)	—
Interim dividend for 2005 (Note 16)	(3,468)	—	(3,468)	—
Appropriation	(7,912)	(6,456)	(7,912)	(6,456)
Revaluation surplus realised	1,656	1,891	—	—
Realisation of deferred tax on land use rights	5	5	5	5
Transfer from retained earnings to other reserves	—	(1,499)	—	(1,499)
At 31 December	77,387	53,122	20,591	(4,211)
	136,854	106,338	86,605	53,896

34 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 2005 and 2004, the future minimum lease payments under operating leases are as follows:

	The Group		The Company	
	2005	2004	2005	2004
	RMB millions	RMB millions	RMB millions	RMB millions
Within one year	3,593	3,452	3,424	3,272
Between one and two years	3,442	3,343	3,363	3,237
Between two and three years	3,388	3,278	3,319	3,213
Between three and four years	3,357	3,245	3,292	3,188
Between four and five years	3,353	3,225	3,290	3,170
Thereafter	95,176	97,527	93,601	95,968
	112,309	114,070	110,289	112,048

NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2005

Financial Statements (International)

34 COMMITMENTS AND CONTINGENT LIABILITIES (Continued)

Capital commitments

At 31 December 2005 and 2004, capital commitments are as follows:

	2005 RMB millions	2004 RMB millions
The Group		
Authorised and contracted for	71,666	43,001
Authorised but not contracted for	84,213	60,173
	155,879	103,174
Jointly controlled entities		
Authorised and contracted for	2,160	3,157
Authorised but not contracted for	60	2,088
	2,220	5,245
The Company		
Authorised and contracted for	55,496	28,143
Authorised but not contracted for	45,938	37,619
	101,434	65,762

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 interest 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 RMB 208 million for the year ended 31 December 2005 (2004: RMB 189 million).

Estimated future annual payments are as follows:

	The Group		The Company	
	2005 RMB millions	2004 RMB millions	2005 RMB millions	2004 RMB millions
Within one year	107	90	74	60
Between one and two years	112	120	81	85
Between two and three years	59	75	49	47
Between three and four years	67	67	58	55
Between four and five years	56	74	49	64
Thereafter	239	279	108	143
	640	705	419	454

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 2005 and 2004, guarantees given to banks in respect of banking facilities granted to the parties below were as follows:

	The Group		The Company	
	2005 RMB millions	2004 RMB millions	2005 RMB millions	2004 RMB millions
Subsidiaries	—	—	2,583	2,656
Associates and jointly controlled entities	79	4,828	11,986	12,059
	79	4,828	14,569	14,715

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 2005 and 2004, it is not probable that the Group will be required to make payments under the guarantees. Thus no liability has been accrued for a loss related to the Group's obligation under these guarantee arrangements.

34 COMMITMENTS AND CONTINGENT LIABILITIES (Continued)

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 493 million for the year ended 31 December 2005 (2004: RMB 248 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.

35 RELATED PARTY TRANSACTIONS

Parties are considered to be related to the Group if the Group has the ability, directly or indirectly, to control or jointly control the party or exercise significant influence over the party in making financial and operating decisions, or vice versa, or where the Group and the party are subject to common control or common significant influence. Related parties may be individuals (being members of key management personnel, significant shareholders and/or their close family members) or other entities and include entities which are under the significant influence of related parties of the Group where those parties are individuals, and post-employment benefit plans which are for the benefit of employees of the group or of any entity that is a related party of the Group.

(a) Transactions with Sinopec Group Company and fellow subsidiaries, associates and jointly controlled entities

The Group is part of a larger group of companies under Sinopec Group Company, which is owned by the PRC government, and has significant transactions and relationships with 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 unrelated parties.

The principal related party transactions with Sinopec Group Company and fellow subsidiaries, associates and jointly controlled entities, which were carried out in the ordinary course of business, are as follows:

	Note	2005 RMB millions	2004 RMB millions
Sales of goods	(i)	95,123	63,507
Purchases	(ii)	48,454	36,828
Transportation and storage	(iii)	1,959	2,003
Exploration and development services	(iv)	17,001	14,446
Production related services	(v)	10,653	9,036
Ancillary and social services	(vi)	1,790	1,740
Operating lease charges	(vii)	3,213	3,297
Agency commission income	(viii)	48	41
Intellectual property license fee paid	(ix)	9	10
Interest received	(x)	52	59
Interest paid	(xi)	994	622
Net deposits (withdrawn from)/placed with related parties	(xii)	(82)	340
Net loans (repaid to)/obtained from related parties	(xiii)	(4,714)	1,575

The amounts set out in the table above in respect of the years ended 31 December 2005 and 2004 represent the relevant costs to the Group as determined by the corresponding contracts with the related parties.

At 31 December 2005 and 2004, there were no guarantees given to banks by the Group in respect of banking facilities to Sinopec Group Company and fellow subsidiaries. Guarantees given to banks by the Group in respect of banking facilities to associates are disclosed in Note 34.

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 materials 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 such as geophysical, drilling, well testing and well measurement services.

35 RELATED PARTY TRANSACTIONS (Continued)

(a) Transactions with Sinopec Group Company and fellow subsidiaries, associates and jointly controlled entities (Continued)

- (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 equipment.
- (viii) Agency commission income represents commission earned for acting as an agent in respect of sales of products and purchase of materials 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 certain licenses, 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 2005 was RMB 4,589 million (2004: RMB 4,671 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 withdrawn from/placed with Sinopec Finance Company Limited.
- (xiii) The Group repaid loans to/obtained loans from Sinopec Group Company and Sinopec Finance Company Limited.

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 in 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 2,557 million and RMB 568 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 and the amount should not 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 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, including certain property, plant and equipment with net book value of RMB 1,883 million, 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 RMB 1,857 million, and certain other assets and liabilities, related to its oilfield downhole operation (the "Downhole Assets") to Sinopec Group Company for a total 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. The consideration was fully paid during the year ended 31 December 2005.

NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2005

35 RELATED PARTY TRANSACTIONS (Continued)

(a) Transactions with Sinopec Group Company and fellow subsidiaries, associates and jointly controlled entities (Continued)

Amounts due from/to Sinopec Group Company and fellow subsidiaries, associates and jointly controlled entities included in respective accounts caption are summarised as follows:

	2005	2004
	RMB millions	RMB millions
Trade accounts receivable	4,126	2,438
Prepaid expenses and other current assets	3,493	5,893
Total amounts due from Sinopec Group Company and fellow subsidiaries, associates and jointly controlled entities	7,619	8,331
Trade accounts payable	3,005	1,527
Accrued expenses and other payables	7,144	10,897
Short-term loans and current portion of long-term loans from Sinopec Group Company and fellow subsidiaries	832	8,714
Long-term loans excluding current portion from Sinopec Group Company and fellow subsidiaries	39,933	36,765
Total amounts due to Sinopec Group Company and fellow subsidiaries, associates and jointly controlled entities	50,914	57,903

Amounts due from/to Sinopec Group Company and fellow subsidiaries, associates and jointly controlled entities, other than short-term loans and long-term loans, bear no interest, are unsecured and are repayable in accordance with normal commercial terms. The terms and conditions associated with short-term loans and long-term loans payable to Sinopec Group Company and fellow subsidiaries are set out in Note 29.

As at and for the year ended 31 December 2005, no impairment losses for bad and doubtful debts were recorded in respect of amounts due from Sinopec Group Company and fellow subsidiaries, associates and jointly controlled entities.

(b) Key management personnel emoluments

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including directors and supervisors of the Group. The key management personnel compensations are as follows:

	2005	2004
	RMB '000	RMB '000
Short-term employee benefits	2,868	3,997
Retirement scheme contributions	115	202
	2,983	4,199

Total emoluments are included in "personnel expenses" as disclosed in Note 7.

Key management personnel also participate in the Group's share appreciation rights plan (Note 36).

(c) Contributions to defined contribution retirement plans

The Group participates in various defined contribution retirement plans organised by municipal and provincial governments for its staff. The details of the Group's employee benefits plan are disclosed in Note 36. As at 31 December 2005, there was no material outstanding contribution to post-employment benefit plans.

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

The Group is a state-owned entity and operates in an economic regime currently predominated by state-owned entities. Apart from transactions with Sinopec Group Company and fellow subsidiaries, the Group conducts a majority of its business activities with entities directly or indirectly owned or controlled by the PRC government and numerous government authorities and agencies (collectively referred to as "state-owned entities") in the ordinary course of business. These transactions, which include sales and purchase of goods and ancillary materials, rendering and receiving services, lease of assets, purchase of property, plant and equipment and obtaining finance, are carried out at terms similar to those that would be entered into with non-state-owned entities and have been reflected in the financial statements. The Group believes that it has provided meaningful disclosure of related party transactions as summarised above.

36 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 2005 were RMB 2,269 million (2004: RMB 2,242 million).

The Company implemented a share appreciation rights plan for members of its management, including the key management personnel, 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 3 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 the year ended 31 December 2003, the Company granted 258.6 million share appreciation right units to eligible employees accordingly. No share appreciation rights were granted during the years ended 31 December 2004 and 2005.

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 2005, compensation expense recognised was RMB 19 million (2004: RMB 150 million). As at 31 December 2005, the carrying amount of liability arising from share appreciation rights was RMB 289 million (2004: RMB 270 million).

37 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 (Note 2). Corporate administrative costs and assets are not allocated to the operating segments; instead, operating segments are charged 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 2005

37 SEGMENTAL REPORTING (Continued)

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

	2005	2004
	RMB millions	RMB millions
Turnover		
Exploration and production		
External sales	19,862	15,970
Inter-segment sales	84,423	60,053
	104,285	76,023
Refining		
External sales	82,810	63,388
Inter-segment sales	386,456	289,699
	469,266	353,087
Marketing and distribution		
External sales	459,292	342,840
Inter-segment sales	3,172	2,831
	462,464	345,671
Chemicals		
External sales	160,783	126,013
Inter-segment sales	12,199	12,510
	172,982	138,523
Corporate and others		
External sales	76,368	48,986
Inter-segment sales	44,897	32,046
	121,265	81,032
Elimination of inter-segment sales	(531,147)	(397,139)
Turnover	799,115	597,197
Other operating revenues		
Exploration and production	10,745	9,283
Refining	5,421	5,186
Marketing and distribution	1,358	755
Chemicals	5,841	6,170
Corporate and others	637	1,192
Other operating revenues	24,002	22,586
Other income		
Refining	9,415	—
Total other income	9,415	—
	832,532	619,783
Result		
Operating profit		
By segment		
– Exploration and production	46,871	25,614
– Refining	(3,505)	5,943
– Marketing and distribution	10,350	14,716
– Chemicals	14,296	18,721
– Corporate and others	(1,198)	(1,925)
Total operating profit	66,814	63,069
Share of profits less losses from associates		
– Exploration and production	326	447
– Refining	23	58
– Marketing and distribution	241	302
– Chemicals	1	(164)
– Corporate and others	266	154
Aggregate share of profits less losses from associates	857	797
Finance costs		
Interest expense	(5,920)	(4,583)
Interest income	382	374
Foreign exchange losses	(79)	(223)
Foreign exchange gains	996	61
Net finance costs	(4,621)	(4,371)
Investment income	178	111
Profit before taxation	63,228	59,606
Taxation	(19,388)	(17,815)
Profit for the year	43,840	41,791

NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2005

37 SEGMENTAL REPORTING (Continued)

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.

Interest in and earnings from associates are included in the segments in which the associates operate. Information on associates is included in Note 22. Additions to long-lived assets by operating segment are included in Notes 18 and 19.

	2005	2004
	RMB millions	RMB millions
Assets		
Segment assets		
– Exploration and production	123,631	110,509
– Refining	135,731	111,878
– Marketing and distribution	102,935	93,722
– Chemicals	115,942	105,032
– Corporate and others	20,570	17,574
Total segment assets	498,809	438,715
Interests in associates		
– Exploration and production	1,494	1,396
– Refining	521	314
– Marketing and distribution	4,298	2,410
– Chemicals	1,092	4,315
– Corporate and others	1,812	1,787
Aggregate interests in associates	9,217	10,222
Unallocated assets	29,295	25,657
Total assets	537,321	474,594
Liabilities		
Segment liabilities		
– Exploration and production	18,882	16,241
– Refining	26,486	28,130
– Marketing and distribution	23,713	23,419
– Chemicals	19,442	16,528
– Corporate and others	35,855	15,547
Total segment liabilities	124,378	99,865
Unallocated liabilities	159,947	150,643
Total liabilities	284,325	250,508

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.

	2005	2004
	RMB millions	RMB millions
Capital expenditure		
Exploration and production	23,095	21,234
Refining	14,127	14,272
Marketing and distribution	10,954	16,678
Chemicals	9,386	11,025
Corporate and others	1,164	1,550
	58,726	64,759
Capital expenditure of jointly controlled entities		
Exploration and production	772	1,323
Chemicals	1,830	5,178
	2,602	6,501
Depreciation, depletion and amortisation		
Exploration and production	10,915	12,066
Refining	7,053	7,730
Marketing and distribution	3,026	2,759
Chemicals	9,697	9,325
Corporate and others	722	462
	31,413	32,342
Impairment losses on long-lived assets recognised in income statement		
Exploration and production	60	98
Refining	—	14
Marketing and distribution	366	1,769
Chemicals	1,425	2,038
	1,851	3,919
Impairment losses on revalued long-lived assets recognised in equity attributable to equity shareholders of the Company		
Chemicals	—	709

NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2005

38 PRINCIPAL SUBSIDIARIES

At 31 December 2005, 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 held by the		Principal activities
			Company	Company's subsidiary	
			%	%	
China Petrochemical International Company Limited	RMB 1,704	Limited company	100.00	—	Trading of crude oil and petrochemical products
Sinopec Beijing Yanshan Petrochemical Company Limited ("Beijing Yanhua") (i)	RMB 3,404	Limited company	100.00	—	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 (ii)	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 (ii)	RMB 147	Limited company	46.25	—	Marketing and distribution of refined petroleum products
Sinopec Wuhan Phoenix Company Limited (ii)	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
Sinopec Yizheng Chemical Fibre Company Limited (ii)	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
Sinopec Zhongyuan Petrochemical Company Limited	RMB 2,400	Limited company	93.51	—	Manufacturing of chemical products
Sinopec Shell (Jiangsu) Petroleum Marketing Company Limited	RMB 830	Limited company	60.00	—	Marketing and distribution of refined petroleum products
BP Sinopec (Zhejiang) Petroleum Company Limited	RMB 800	Limited company	60.00	—	Marketing and distribution of refined petroleum products
Sinopec Qingdao Refining and Chemical Company Limited	RMB 800	Limited company	85.00	—	Manufacturing of intermediate petrochemical products and 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) During the year ended 31 December 2005, the Group acquired the entire 1,012,000,000 H shares, representing approximately 29.99% of the issued share capital of Beijing Yanhua from minority interests at HK\$ 3.80 per share. The total consideration paid by the Group was approximately RMB 4,088 million which was settled in cash. The excess of the cost of purchase over the fair value of the underlying assets and liabilities (on a proportionate share) was recorded as goodwill, amounting to RMB 1,157 million, which is included in long-term prepayments and other assets.

(ii) 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.

NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2005

39 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 2005 and 2004.

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 and deposits, 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 impairment loss for bad and doubtful debts 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.

With the authorisation from the PRC government, the People's Bank of China announced that the PRC government reformed the exchange rate regime by moving into a managed floating exchange rate regime based on market supply and demand with reference to a basket of currencies on 21 July 2005. The exchange rate of US dollars against RMB was adjusted to 8.11 yuan per US dollar with effect from the time of 19:00 hours on 21 July 2005.

Other than the amounts as disclosed in Note 29, the amounts of other financial assets and liabilities of the Group are substantially denominated in the functional currency of respective entity of the Group.

Interest rate risk

The interest rates and terms of repayment of short-term and long-term debts of the Group are disclosed in Note 29.

Fair values

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 judgement 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.

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 2005 and 2004:

	2005 RMB millions	2004 RMB millions
Carrying amount	82,157	73,120
Fair value	82,161	73,263

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

The fair values of all other financial instruments approximate their carrying amounts due to the nature or short-term maturity of these instruments.

NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2005

40 MAJOR DOMESTIC SUPPLIERS

The Group's major domestic suppliers of crude oil and refined petroleum products are China National Petroleum Corporation and its subsidiaries ("CNPC Group") and China National Offshore Oil Corporation and its subsidiaries ("CNOOC Group"). Failure in negotiating another contract with another key supplier at similar terms and costs could have a severe and significant impact on the Group's results of operations.

The following table presents the aggregate amount of crude oil purchased by refining segment and refined petroleum products purchased by marketing and distribution segment from CNPC Group and the amount of crude oil purchased by refining segment from CNOOC Group during the years ended 31 December 2005 and 2004:

	2005	2004
	RMB millions	RMB millions
CNPC Group	44,814	30,214
CNOOC Group	14,143	11,438

41 ACCOUNTING ESTIMATES AND JUDGEMENTS

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

The selection of critical accounting policies, the judgements and other uncertainties affecting application of those policies and the sensitivity of reported results to changes in conditions and assumptions are factors to be considered when reviewing the financial statements. The principal accounting policies are set forth in Note 2. The Group believes the following critical accounting policies involve the most significant judgements and estimates used in the preparation of the financial statements.

Oil and gas properties and reserves

The accounting for the exploration and production's oil and gas activities is subject to accounting rules that are unique to the oil and gas business. There are two methods to account for oil and gas business activities, the successful efforts method and the full cost method. The Group has elected to use the successful efforts method. The successful efforts method reflects the volatility that is inherent in exploring for mineral resources in that costs of unsuccessful exploratory efforts are charged to expense as they are incurred. These costs primarily include dry hole costs, seismic costs and other exploratory costs. Under the full cost method, these costs are capitalised and written-off or depreciated over time.

Engineering estimates of the Group's oil and gas reserves are inherently imprecise and represent only approximate amounts because of the subjective judgements involved in developing such information. There are authoritative guidelines regarding the engineering criteria that have to be met before estimated oil and gas reserves can be designated as "proved". Proved and proved developed reserves estimates are updated at least annually and take into account recent production and technical information about each field. In addition, as prices and cost levels change from year to year, the estimate of proved and proved developed reserves also changes. This change is considered a change in estimate for accounting purposes and is reflected on a prospective basis in related depreciation rates.

Despite the inherent imprecision in these engineering estimates, these estimates are used in determining depreciation expense and impairment expense. Depreciation rates are determined based on estimated proved developed reserve quantities (the denominator) and capitalised costs of producing properties (the numerator). Producing properties' capitalised costs are amortised based on the units of oil or gas produced.

Impairment for long-lived assets

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

Depreciation

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

Impairment for bad and doubtful debts

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

NOTES ON THE FINANCIAL STATEMENTS (CONTINUED)

for the year ended 31 December 2005

Financial Statements (International)

42 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE ANNUAL ACCOUNTING PERIOD ENDED 31 DECEMBER 2005

Up to the date of issue of these financial statements, the IASB has issued the following amendments, new standards and interpretations which are not yet effective for the annual accounting period ended 31 December 2005 and which have not been adopted in these financial statements:

	Effective for accounting period beginning on or after
IFRS 6, Exploration for and evaluation of mineral resources	1 January 2006
IFRS 7, Financial instruments: disclosures	1 January 2007
IFRIC 4, Determining whether an arrangement contains a lease	1 January 2006
IFRIC 5, Rights to interests arising from decommissioning, restoration environmental rehabilitation funds	1 January 2006
IFRIC 6, Liabilities arising from participating in a specific market – Waste electrical and electronic equipment	1 December 2005
IFRIC 7, Applying the restatement approach under IAS 29, Financial reporting in hyperinflationary economies	1 March 2006
IFRIC 8, Scope of IFRS 2	1 May 2006
IFRIC 9, Reassessment of Embedded Derivatives	1 June 2006
Amendment to IAS 1, Presentation of financial statements: capital disclosures	1 January 2007
Amendment to IAS 19, Employee benefits – Actuarial Gains and Losses, Group Plans and Disclosures	1 January 2006
Amendment to IAS 21, Net investment in a foreign operation	1 January 2006
Amendments to IAS 39, Financial instruments: Recognition and measurement:	
– Cash flow hedge accounting of forecast intragroup transactions	1 January 2006
– The fair value option	1 January 2006
– Financial guarantee contracts	1 January 2006
Amendments to IFRS 1, First-time Adoption of International Financial Reporting Standards	1 January 2006

The Group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application. Up to the date of issuance of these financial statements, the Group believes that the adoption of IFRIC 4, IFRIC 5, IFRIC 6, IFRIC 7, IFRIC 8, IFRIC 9 and the amendments to IAS 19, IAS 21 and IFRS 1 are not applicable to any of the Group's operations and that the adoption of the remainder of the above amendments, new standards and new interpretations is unlikely to have a significant impact on the Group's results of operations and financial position.

43 CHANGES IN PRINCIPAL ACCOUNTING POLICIES

The IASB has issued a number of new and revised IFRS that are effective for accounting periods beginning on or after 1 January 2005.

The accounting policies of the Group after the adoption of these new and revised IFRS have been summarised in Note 2. The following sets out information on the significant changes in accounting policies for the current and prior accounting periods reflected in these financial statements.

(a) Minority interests (IAS 1 “Presentation of financial statements” and IAS 27 “Consolidated and separate financial statements”)

In prior years, minority interests at the balance sheet date were presented in the consolidated balance sheet separately from liabilities and as deduction from net assets. Minority interests in the results of the Group for the year were also separately presented in the consolidated statement of income as a deduction before arriving at the profit attributable to shareholders.

With effect from 1 January 2005, in order to comply with IAS 1 and IAS 27, the Group has changed its accounting policy relating to presentation of minority interests. Under the new accounting policy, minority interests are presented in the consolidated balance sheet within equity, separately from the equity attributable to equity shareholders of the Company, and minority interests in the results of the Group for the year to be presented on the face of the consolidated income statement as an allocation of the total profit or loss for the year between the minority interests and equity shareholders of the Company. The presentations of minority interests in the consolidated balance sheet, consolidated income statement and consolidated statement of changes in equity for the comparative period have been restated accordingly.

(b) Accounting for investments in subsidiaries, associates and jointly controlled entities (IAS 27 “Consolidated and separate financial statements”, IAS 28 “Investments in associates” and IAS 31 “Interests in joint ventures”)

In prior years, in the balance sheet of the Company investments in subsidiaries, associates and jointly controlled entities are accounted for using the equity method.

With effect from 1 January 2005, in order to comply with IAS 27, IAS 28 and IAS 31, investments in subsidiaries, associates and jointly controlled entities are accounted for using the cost method. Investments in subsidiaries, interest in associates, interest in jointly controlled entities and reserves balance in the balance sheet of the Company for the comparative period has been restated accordingly. There was no impact to the Group's consolidated financial statements.

The following table discloses the adjustments that have been made in accordance with IAS 27, IAS 28 and IAS 31 to each of the line items in the balance sheet of the Company as previously reported as at 31 December 2004.

	2004 (as previously reported)	Effect on new accounting policies (increase/ (decrease) in net assets)	2004 (as restated)
	RMB millions	RMB millions	RMB millions
Investments in subsidiaries	118,451	(51,521)	66,930
Interest in associates	7,540	(1,116)	6,424
Interest in jointly controlled entities	3,568	195	3,763
Reserves	106,338	(52,442)	53,896

43 CHANGES IN PRINCIPAL ACCOUNTING POLICIES (Continued)**(c) Related party disclosures (IAS 24 “Related party disclosures”)**

The definition of related parties under IAS 24 as disclosed in Note 35 has been expanded to clarify that related parties include entities that are under the significant influence of a related party that is an individual (i.e. key management personnel, significant shareholders and/or their close family members) and post-employment benefit plans which are for the benefit of employees of the Group or of any entity that is a related party of the Group.

With effect from 1 January 2005, in order to comply with IAS 24, the Group has made further disclosure of key management personnel compensation and contributions to post-retirement benefit plans.

(d) Property, Plant and Equipment (IAS 16 “Property, Plant and Equipment”)

With effect from 1 January 2005, IAS 16 requires an entity to determine cost, useful life and depreciation charge separately for each significant part of an item of property, plant and equipment, and derecognise the carrying amount of a part of an item of property, plant and equipment if that part has been replaced. IAS 16 also requires an entity to include the costs of dismantlement, removal or restoration, the obligation for which an entity incurs as a consequence of installing the item in the cost of that item of property, plant and equipment. The change in accounting policy relating to these new requirements of IAS 16 did not have a material impact on the Group's financial statements.

44 POST BALANCE SHEET EVENT

On 12 November 2005, the Group announced its proposal to acquire all of the equity interests which the Group does not own of Sinopec Zhenhai Refining & Chemical Company Limited (“Zhenhai”), a non-wholly owned subsidiary in which the Group holds approximately 71.3% of the equity interests. According to the proposal, the Group will acquire the entire 723,754,468 H shares, representing approximately 28.7% of the issued share capital of Zhenhai at HK\$ 10.60 per share. The total consideration required to be paid by the Group is approximately HK\$ 7,762 million which will be settled in cash. Pursuant to the resolution passed in the Special General Meeting of Zhenhai on 12 January 2006, the shareholders of H shares in Zhenhai agreed to dispose of and sell their shares in Zhenhai to the Group at the above mentioned price.

On 15 February 2006, the Group announced its proposals to acquire all of the equity interests which the Group does not own of Sinopec Qilu Petrochemical Company Limited, Sinopec Yangzi Petrochemical Company Limited, Sinopec Zhongyuan Petroleum Company Limited and Sinopec Shengli Oilfield Dynamic Company Limited, being non-wholly owned subsidiaries and an associate in which the Group holds approximately 82%, 85%, 71% and 26% of the equity interests, respectively. According to the proposals, the Group will acquire the entire shares not held by the Group in Sinopec Qilu Petrochemical Company Limited, Sinopec Yangzi Petrochemical Company Limited, Sinopec Zhongyuan Petroleum Company Limited and Sinopec Shengli Oilfield Dynamic Company Limited. The total consideration required to be paid by the Group is approximately RMB 14,247 million which will be settled in cash. On 6 March 2006, these proposals were approved by the relevant PRC governmental and regulatory body.

45 COMPARATIVE FIGURES

Certain comparative figures have been adjusted as a result of the changes in accounting policies. Further details are disclosed in Note 43.

46 PARENT AND ULTIMATE HOLDING COMPANY

The directors consider the parent and ultimate holding company of the Group as at 31 December 2005 is Sinopec Group Company, a state-owned enterprise established in the PRC. This entity does not produce financial statements available for public use.

(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 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. Such information has not been subject to independent audit or review. The major differences are:

(i) 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.

(ii) 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.

(iii) 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.

(iv) Equity investment differences

Under the PRC Accounting Rules and Regulations, equity investment difference, being the excess of the initial investment cost over the investor's share of equity 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 less than ten years if the investment period is not specified in the agreement.

Under IFRS, goodwill, being the excess of the cost of the business combination over the investor's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities, is not amortised. Instead, goodwill is tested for impairment annually, or more frequently if events or changes in circumstance indicate that it might be impaired.

(v) 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. Further losses are debited to a separate reserve in the shareholders' funds. Any profits earned by the subsidiaries subsequently are firstly credited to this reserve before being included in the Group's consolidated income statement to the extent that the aggregate amounts credited do not exceed the accumulated losses debited to this reserve previously for that same subsidiary.

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.

(vi) Acquisitions of Sinopec National Star, Tianjin Petrochemical, Luoyang Petrochemical, Zhongyuan Petrochemical and Catalyst Plants

Under the PRC Accounting Rules and Regulations, the acquisitions of Sinopec National Star, 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 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, 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, 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, Tianjin Petrochemical, Luoyang Petrochemical, Zhongyuan Petrochemical and Catalyst Plants on a combined basis. The considerations paid by the Group are treated as equity transactions.

(vii) 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.

(viii) Government grants

Under the PRC Accounting Rules and Regulations, government grants relating to the purchase of equipment used for technology improvements 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.

(ix) Impairment losses on revalued assets

Under the PRC Accounting Rules and Regulations, impairment losses on property, plant and equipment are recognised as an 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.

(C) DIFFERENCES BETWEEN FINANCIAL STATEMENTS PREPARED UNDER THE PRC ACCOUNTING RULES AND REGULATIONS AND IFRS (CONTINUED)

(x) 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 an 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.

(xi) Minority interests

Under the PRC Accounting Rules and Regulations, minority interests at the balance sheet date are presented in the consolidated balance sheet separately from liabilities and as deduction from the shareholders' funds. Minority interests in the results of the Group for the period are also separately presented in the consolidated income statement as deduction before arriving at the net profit.

Under IFRS, minority interests at the balance sheet date are presented in the consolidated balance sheet within equity, separately from the equity attributable to the equity holders of the Company, and minority interests in the results of the Group for the period are presented on the face of the consolidated income statement as an allocation of the total profit or loss for the period between the minority interests and the equity holders of the Company.

Effects of major differences between the net profit under the PRC Accounting Rules and Regulations and the profit for the year under IFRS are analysed as follows:

	Note	2005 RMB millions	2004 RMB millions
Net profit under the PRC Accounting Rules and Regulations		39,558	32,275
Adjustments:			
Depreciation of oil and gas properties	(i)	751	761
Capitalisation of general borrowing costs, net of depreciation effect	(ii)	507	480
Pre-operating expenditures	(iii)	435	(288)
Equity investment differences	(iv)	200	—
Unrecognised losses of subsidiaries	(v)	119	(531)
Acquisition of Sinopec National Star	(vi)	117	117
Acquisitions of Tianjin Petrochemical, Luoyang Petrochemical, Zhongyuan Petrochemical and Catalyst Plants	(vi)	—	2,119
Reduced amortisation on revaluation of land use rights	(vii)	24	19
Reduced depreciation on government grants	(viii)	4	3
Impairment losses on revalued assets	(ix)	—	709
Disposal of oil and gas properties, net of depreciation effect	(x)	(310)	2,110
Effects of the above adjustments on taxation		(485)	(1,755)
Minority interests	(xi)	2,920	5,772
Profit for the year under IFRS*		43,840	41,791

Effects of major differences between the shareholders' funds under the PRC Accounting Rules and Regulations and the total equity under IFRS are analysed as follows:

	Note	2005 RMB millions	2004 RMB millions
Shareholders' funds under the PRC Accounting Rules and Regulations		215,623	186,350
Adjustments:			
Depreciation of oil and gas properties	(i)	12,233	11,482
Capitalisation of general borrowing costs	(ii)	2,112	1,605
Pre-operating expenditures	(iii)	(22)	(457)
Equity investment differences	(iv)	200	—
Acquisition of Sinopec National Star	(vi)	(2,578)	(2,695)
Revaluation of land use rights	(vii)	(953)	(97)
Government grants	(viii)	(588)	(592)
Disposal of oil and gas properties	(x)	3,060	3,370
Effects of the above adjustments on taxation		(5,531)	(5,046)
Minority interests	(xi)	29,440	31,046
Total equity under IFRS*		252,996	224,086

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

(D) SUPPLEMENTAL INFORMATION FOR NORTH AMERICAN SHAREHOLDERS

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 unaudited, 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. For the years presented herein, the US GAAP adjustments represent the amortisation effect of such originating adjustments described above. Accordingly, the carrying amount of property, plant and equipment under IFRS was higher than the amount under US GAAP by RMB 241 million (2004: RMB 295 million) as of 31 December 2005.

(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 and the US GAAP adjustments represent the amortisation effect of such originating adjustments described above. The amounts were fully amortised as of 31 December 2004. Accordingly, there was no difference in the carrying amount of property, plant and equipment under IFRS and US GAAP as of 31 December 2005 and 2004.

(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 equity 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 equity.

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.

Accordingly, the carrying amount of property, plant and equipment under IFRS was higher than the amount under US GAAP by RMB 1,838 million (2004: RMB 7,692 million) as of 31 December 2005.

(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. For the years presented herein, the US GAAP adjustments represent the amortisation effect of such originating adjustments described above. Accordingly, the carrying amount of property, plant and equipment under IFRS was higher than the amount under US GAAP by RMB 509 million (2004: RMB 532 million) as of 31 December 2005.

(e) Reversal of 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 fair value less costs to sell 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 difference between the asset's carrying value and 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.

For the years presented herein, the US GAAP adjustment represents the effect of reversing the recovery of previous impairment charges recorded under IFRS. Accordingly, the carrying amount of property, plant and equipment under IFRS was higher than the amount under US GAAP by RMB 456 million (2004: RMB 532 million) as of 31 December 2005.

(D) SUPPLEMENTAL INFORMATION FOR NORTH AMERICAN SHAREHOLDERS (CONTINUED)

(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 initially capitalised and subsequently amortised when the operation of the qualifying assets begin. Accordingly, the carrying amount of the interest in associates under IFRS was lower than the amount under US GAAP by RMB 486 million (2004: RMB 526 million) as of 31 December 2005.

(g) Goodwill

Under IFRS, with reference to IFRS 3, "Business Combination", goodwill arising from a business combination for which the agreement date is on or after 31 March 2004 is not amortised, or goodwill arising from a business combination for which the agreement date was before 31 March 2004 is no longer amortised from the first annual reporting period beginning on or after 31 March 2004. Instead, goodwill is tested for impairment annually.

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.

As a result, there is no difference in respect of goodwill amortisation effective 1 January 2005. Accordingly, the carrying amount of the goodwill under IFRS was lower than the amount under US GAAP by RMB 43 million (2004: RMB 43 million) as of 31 December 2005.

(h) Presentation of minority interests

Under IFRS, minority interests at the balance sheet date are presented in the consolidated balance sheet within equity, separately from the equity attributable to the equity shareholders of the Company, and minority interests in the results of the Group for the period are presented on the face of the consolidated income statement as an allocation of the profit for the year between the minority interests and the equity shareholders of the Company. Under US GAAP, minority interests at the balance sheet date are presented in the consolidated balance sheet either as liabilities or separately from liabilities and equity. Minority interests in the results of the Group for the period are also separately presented in the consolidated income statement as deduction before arriving at the net income.

(i) 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 equity shareholders of the Company or the total equity attributable to the equity shareholders of the Company 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	
	2005	2004
	RMB millions	RMB millions
Revenues	53,768	28,004
Profit before taxation	286	1,373
Net (loss)/profit	(204)	969

	At 31 December	
	2005	2004
	RMB millions	RMB millions
Current assets	12,101	7,084
Total assets	64,560	41,213
Current liabilities	8,901	7,222
Total liabilities	31,727	16,452
Total equity	32,833	24,761

(D) SUPPLEMENTAL INFORMATION FOR NORTH AMERICAN SHAREHOLDERS (CONTINUED)

The effect on profit attributable to equity shareholders of the Company of significant differences between IFRS and US GAAP is as follows:

	Reference in note above	Years ended 31 December		
		2005 US\$ millions	2005 RMB millions	2004 RMB millions
Profit attributable to equity shareholders of the Company under IFRS		5,071	40,920	36,019
US GAAP adjustments:				
Foreign exchange gains and losses	(a)	7	54	60
Capitalisation of property, plant and equipment	(b)	—	—	22
Depreciation on revalued property, plant and equipment	(c)	498	4,016	4,301
Disposal of property, plant and equipment	(c)	228	1,838	2,099
Exchange of assets	(d)	3	23	23
Depreciation effect of reversal of impairment of long-lived assets	(e)	9	76	29
Capitalised interest on investments in associates, net of amortisation effect	(f)	(5)	(40)	205
Goodwill amortisation for the year	(g)	—	—	13
Deferred tax effect of US GAAP adjustments		(221)	(1,786)	(2,277)
Minority interests	(h)	(61)	(489)	(519)
Profit attributable to equity shareholders of the Company under US GAAP		5,529	44,612	39,975
Basic and diluted earnings per share under US GAAP		US\$0.06	RMB0.51	RMB0.46
Basic and diluted earnings per ADS under US GAAP*		US\$6.38	RMB51.45	RMB46.11

* Basic and diluted earnings per ADS is calculated on the basis that one ADS is equivalent to 100 shares.

The effect on the total equity attributable to equity shareholders of the Company of significant differences between IFRS and US GAAP is as follows:

	Reference in note above	At 31 December		
		2005 US\$ millions	2005 RMB millions	2004 RMB millions
Total equity attributable to equity shareholders of the Company under IFRS		27,701	223,556	193,040
US GAAP adjustments:				
Foreign exchange gains and losses	(a)	(30)	(241)	(295)
Revaluation of property, plant and equipment	(c)	(228)	(1,838)	(7,692)
Exchange of assets	(d)	(63)	(509)	(532)
Reversal of impairment of long-lived assets	(e)	(57)	(456)	(532)
Capitalised interest on investments in associates	(f)	60	486	526
Goodwill	(g)	5	43	43
Effect of US GAAP adjustments on deferred tax assets		115	921	2,720
Effect of US GAAP adjustments on deferred tax liabilities		(17)	(134)	(147)
Minority interests	(h)	28	230	719
Total equity attributable to equity shareholders of the Company under US GAAP		27,514	222,058	187,850

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 = RMB 8.0702 being the noon buying rate in New York City on 31 December 2005 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 2005 and 2004, 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

	2005	2004
	RMB millions	RMB millions
Property cost	—	—
Wells and related equipment and facilities	176,785	158,422
Supporting equipment and facilities	12,997	12,324
Uncompleted wells, equipment and facilities	10,884	9,262
Total capitalised costs	200,666	180,008
Accumulated depreciation, depletion, amortisation and impairment allowances	(87,140)	(79,541)
Net capitalised costs	113,526	100,467

Table II: Cost incurred in exploration and development

	2005	2004
	RMB millions	RMB millions
Exploration	9,086	8,272
Development	21,192	20,681
Total cost incurred	30,278	28,953

Table III: Results of operations for oil and gas producing activities

	2005	2004
	RMB millions	RMB millions
Revenues		
Sales	14,121	11,833
Transfers	84,423	60,053
	98,544	71,886
Production costs excluding taxes	(20,982)	(17,182)
Exploration expenses	(6,411)	(6,396)
Depreciation, depletion, amortisation and impairment provisions	(10,332)	(11,457)
Taxes other than income tax	(1,654)	(1,144)
Income before income tax	59,165	35,707
Income tax expense	(19,525)	(11,783)
Results of operations from producing activities	39,640	23,924

The results of operations for producing activities for the years ended 31 December 2005 and 2004 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 2005 and 2004 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.

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.

(E) SUPPLEMENTAL INFORMATION ON OIL AND GAS PRODUCING ACTIVITIES (UNAUDITED) (CONTINUED)

	2005	2004
Proved developed and undeveloped reserves (oil) (million barrels)		
Beginning of year	3,267	3,257
Revisions of previous estimates	26	23
Improved recovery	142	127
Extensions and discoveries	138	134
Production	(279)	(274)
End of year	3,294	3,267
Proved developed reserves		
Beginning of year	2,808	2,786
End of year	2,870	2,808
Proved developed and undeveloped reserves (gas) (billion cubic feet)		
Beginning of year	3,033	2,888
Revisions of previous estimates	(42)	(95)
Extensions and discoveries	183	447
Production	(222)	(207)
End of year	2,952	3,033
Proved developed reserves		
Beginning of year	1,398	1,249
End of year	1,557	1,398

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 2005 and 2004 and should not be relied upon as an indication of the Group's future cash flows or value of its oil and gas reserves.

	2005	2004
	RMB millions	RMB millions
Future cash flows	1,401,283	1,003,511
Future production costs	(440,743)	(350,012)
Future development costs	(26,994)	(25,577)
Future income tax expenses	(270,607)	(174,060)
Undiscounted future net cash flows	662,939	453,862
10% annual discount for estimated timing of cash flows	(304,893)	(204,183)
Standardised measure of discounted future net cash flows	358,046	249,679

Table VI: Changes in the standardised measure of discounted future net cash flows

	2005	2004
	RMB millions	RMB millions
Sales and transfers of oil and gas produced, net of production costs	(61,346)	(46,145)
Net changes in prices and production costs	130,221	69,305
Net change due to extensions, discoveries and improved recoveries	56,131	36,209
Revisions of previous quantity estimates	3,964	2,204
Previously estimated development costs incurred during the year	8,134	7,148
Accretion of discount	21,352	16,176
Net change in income taxes	(50,397)	(22,733)
Others	308	213
Net change for the year	108,367	62,377

STATUTORY NAME

中国石油化工股份有限公司

ENGLISH NAME

China Petroleum & Chemical Corporation

CHINESE ABBREVIATION

中國石化

ENGLISH ABBREVIATION

Sinopec Corp.

LEGAL REPRESENTATIVE

Mr. Chen Tonghai

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Mr. Chen Ge

SECRETARY TO THE BOARD OF DIRECTORS

Mr. Chen Ge

REPRESENTATIVE ON SECURITIES MATTERS

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NEWSPAPERS FOR INFORMATION DISCLOSURE

Hong Kong Economic Times (Hong Kong)
South China Morning Post (Hong Kong)
(in English)
China Securities Journal
Shanghai Securities News
Securities Times

INTERNET WEBSITE PUBLISHING ANNUAL REPORT DESIGNATED BY THE CHINA SECURITIES REGULATORY COMMISSION

<http://www.sse.com.cn>

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PLACES OF LISTING OF SHARES, STOCK NAMES AND STOCK CODES

H Shares:
 Hong Kong Stock Exchange
 Stock name: Sinopec Corp
 Stock code: 0386

ADRs:

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

FIRST REGISTRATION DATE OF SINOPEC CORP.

25 February 2000

FIRST REGISTRATION PLACE OF SINOPEC CORP.

6A Huixindong Street, Chaoyang District,
 Beijing, PRC

ENTERPRISE LEGAL BUSINESSES LICENSE REGISTRATION NO.

1000001003298 (10-10)

TAXATION REGISTRATION NO.

Jing Guo Shui Chao Zi 110105710926094

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 Beijing 100738, PRC

Overseas Auditors : KPMG Certified Public
 Accountants

Address : 8th Floor
 Prince's Building
 Central, Hong Kong

The following documents will be available for inspection during normal business hours after 31 March 2006 (Friday) at the registered 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 laws and regulations 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. for the year ended 31 December 2005, prepared in accordance with IFRS and the PRC Accounting Rules and Regulations and 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; and
- d) All original copies of the documents and announcements Sinopec Corp. has published in the newspapers stipulated by the CSRC during the reporting period.

By Order of the Board
Chen Tonghai
Chairman


Beijing, PRC, 31 March 2006

CONFIRMATION FROM THE DIRECTORS AND SENIOR MANAGEMENT

According to the relevant provisions and requirements of the Securities Law of the People's Republic of China and the Contents and Formats Standard No.2 Concerning Information Disclosure of Companies Offering Shares to the Public - Contents and Formats of Annual Report (revised 2005) constituted by China Securities Regulatory Commission, as the Board Directors and Senior Management of Sinopec Corp., we have carefully reviewed the

2005 annual report and accounts of Sinopec Corp. and concluded that this annual report truly and objectively represents the Company's business performance in 2005, contains no false representations, misleading statements or material omissions and complies with the requirements of the China Securities Regulatory Commission and other relevant regulatory bodies.

Signatures of the Directors and Senior Management



Chen Tonghai



Wang Jiming



Mou Shuling



Zhang Jiaren



Cao Xianghong




Liu Genyuan



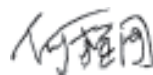
Gao Jian



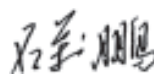
Fan Yifei



Chen Qingtai



Ho Tsu Kwok, Charles



Shi Wanpeng



Zhang Youcai



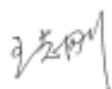
Cao Yaofeng



Wang Tianpu



Zhang Jianhua



Wang Zhigang



Cai Xiyou



Dai Houliang



Zhang Haichao



Chen Ge

March 31, 2006

This annual report is published in both English and Chinese. Should any conflict regarding meaning arises, the Chinese version shall prevail.