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Disclaimer

This interim report contains "forward-looking statements". All statements, other than statements of historical facts, that address business activities, events or developments that the Company expects or anticipates will or may occur in the future (including, but not limited to projections, targets, estimates and business plans) are forward-looking statements. The actual results or developments of the Company 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 26 August 2005 and, unless otherwise required by the relevant regulatory authorities, undertakes no obligation to update these statements.

Company Profile

IMPORTANT NOTICE: THE BOARD OF DIRECTORS OF CHINA PETROLEUM & CHEMICAL CORPORATION ("SINOPEC CORP.") AND THE DIRECTORS WARRANT THAT THERE ARE NO MATERIAL OMISSIONS, OR MISREPRESENTATIONS OR MISLEADING STATEMENTS CONTAINED IN THIS INTERIM REPORT AND SEVERALLY AND JOINTLY ACCEPT FULL RESPONSIBILITY FOR THE AUTHENTICITY, ACCURACY AND COMPLETENESS OF THE INFORMATION CONTAINED IN THIS INTERIM REPORT. MESSRS. MOU SHULING, GAO JIAN, FAN YIFEI, SHI WANPENG AND ZHANG YOUCAI, DIRECTORS OF SINOPEC CORP., DID NOT ATTEND THE 19TH MEETING OF THE SECOND SESSION OF THE BOARD FOR REASONS OF OFFICIAL DUTIES. MR. MOU SHULING, DIRECTOR OF SINOPEC CORP., AUTHORISED MR. CAO XIANGHONG, DIRECTOR OF SINOPEC CORP., MR. GAO JIAN, DIRECTOR OF SINOPEC CORP., AUTHORISED MR. CHEN TONGHAI, CHAIRMAN OF THE BOARD, MR. FAN YIFEI, DIRECTOR OF SINOPEC CORP, AUTHORISED MR. WANG JIMING, VICE CHAIRMAN OF THE BOARD, AND MESSRS, SHI WANPENG AND ZHANG YOUCAI, DIRECTORS OF SINOPEC CORP., AUTHORISED MR. CHEN QINGTAI, DIRECTOR OF SINOPEC CORP. RESPECTIVELY, TO VOTE ON THEIR BEHALF IN RESPECT OF THE RESOLUTIONS PUT FORWARD IN THE 19TH MEETING OF THE SECOND SESSION OF THE BOARD. MR. CHEN TONGHAI, CHAIRMAN OF THE BOARD, MR. WANG TIANPU, PRESIDENT, MR. ZHANG JIAREN, DIRECTOR, SENIOR VICE PRESIDENT AND CHIEF FINANCIAL OFFICER AND MR. LIU YUN, HEAD OF THE ACCOUNTING DEPARTMENT WARRANT THE AUTHENTICITY AND COMPLETENESS OF THE FINANCIAL STATEMENTS CONTAINED IN THIS INTERIM REPORT. THE FINANCIAL STATEMENTS FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2005 OF SINOPEC CORP. AND ITS SUBSIDIARIES ("THE COMPANY") PREPARED IN ACCORDANCE WITH THE PRC ACCOUNTING RULES AND REGULATIONS, AND INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS") HAVE BEEN AUDITED BY KPMG HUAZHEN AND KPMG, RESPECTIVELY, AND BOTH FIRMS HAVE ISSUED STANDARD UNQUALIFIED OPINIONS ON THE FINANCIAL STATEMENTS CONTAINED IN THIS INTERIM REPORT.

COMPANY PROFILE

Sinopec Corp. is the first company in China listed on the stock exchanges in Hong Kong, New York, London and Shanghai, and is also an integrated energy and chemical company with upstream, midstream and downstream operations. The principal operations of the Company include: exploring for and developing, producing and trading crude oil and natural gas; processing crude oil, producing petroleum products and trading, transporting, distributing and marketing petroleum products; producing, distributing and trading petrochemical products. Sinopec Corp.'s basic information is as follows:

LEGAL NAME
中国石油化工股份有限公司

CHINESE ABBREVIATION
中國石化

ENGLISH NAME
China Petroleum & Chemical Corporation

ENGLISH ABBREVIATION
Sinopec Corp.

LEGAL REPRESENTATIVE
Mr. Chen Tonghai

AUTHORISED REPRESENTATIVES
Mr. Wang Jiming, Mr. Chen Ge

SECRETARY TO THE BOARD OF DIRECTORS
Mr. Chen Ge

REPRESENTATIVE ON SECURITIES MATTERS
Mr. Huang Wensheng

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Shanghai Securities News
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Hong Kong:
Hong Kong Economic Times
South China Morning Post (English)

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http://www.sse.com.cn

PLACES WHERE THE INTERIM REPORT IS AVAILABLE FOR INSPECTION
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New York, NY 10013 USA

UK: Citibank N. A.
Citigroup Centre
Canada Square
Canary Wharf
London E14 5LB UK

PLACES OF LISTING OF SHARES, STOCK NAMES AND STOCK CODES

A Shares: Shanghai Stock Exchange
Stock name: 中國石化
Stock code: 600028

H Shares: Hong Kong Stock Exchange
Stock name: SINOPEC CORP
Stock code: 0386

ADSs: New York Stock Exchange
Stock name: SINOPEC CORP
Stock code: SNP

London Stock Exchange
Stock name: SINOPEC CORP
Stock code: SNP

PRINCIPAL FINANCIAL DATA AND INDICATORS

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

(1) Financial Data and Indicators of the Company for the first half of 2005

Item	**At 30 June 2005 RMB millions**	At 31 December 2004 RMB millions	Changes from the end of last year (%)
Current assets	135,315	117,056	15.60
Current liabilities	151,747	143,910	5.45
Total assets	492,986	460,081	7.15
Shareholders' funds (excluding minority interests)	197,571	186,350	6.02
Net assets per share (RMB/share) (Fully diluted)	2.279	2.149	6.02
Adjusted net assets per share (RMB/share)	2.210	2.102	5.14

Item	**Six-month periods ended 30 June**		Changes over the same period of the preceding year
	2005	2004	
	RMB millions	RMB millions	(%)
Net profit	18,044	15,039	19.98
Net profit before non-operating profits/losses	18,087	16,332	10.75
Return on net assets (%) (Fully diluted)	9.13	8.73	4.58
Return on net assets (%) (Weighted average)	9.29	8.82	5.33
Earnings per share (RMB/share) (Fully diluted)	0.208	0.173	19.98
Earnings per share (RMB/share) (Weighted average)	0.208	0.173	19.98
Net cash flow from operating activities	25,044	21,694	15.44

Items under non-operating profits/losses:	**Six-month period ended 30 June 2005 RMB millions**
Loss on disposal of long-term equity investments	1
Written back of provisions on assets provided in previous years	(516)
Non-operating expenses: (excluding normal provisions on assets provided in accordance with the Accounting Regulations for Business Enterprises)	712
Of which: Loss on disposal of fixed assets	109
Employee reduction expenses	100
Donations	128
Non-operating income	(133)
Tax effect	(21)
Total	43

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

Item	Six-month period ended 30 June 2005 Return on net assets (%) Fully diluted	Weighted average	Six-month period ended 30 June 2004 Return on net assets (%) Fully diluted	Weighted average
Profit from principal operations	29.29	29.78	30.09	30.41
Operating profit	15.76	16.03	16.46	16.63
Net profit	9.13	9.29	8.73	8.82
Net profit before non-operating profits/losses	9.15	9.31	9.48	9.58

Item	Six-month period ended 30 June 2005 Earnings per share RMB Fully diluted	Weighted average	Six-month period ended 30 June 2004 Earnings per share RMB Fully diluted	Weighted average
Profit from principal operations	0.667	0.667	0.598	0.598
Operating profit	0.359	0.359	0.327	0.327
Net profit	0.208	0.208	0.173	0.173
Net profit before non-operating profits/losses	0.209	0.209	0.188	0.188

(3) Significant changes of items in the financial statements

Descriptions and reasons for changes of financial data during the reporting period where the fluctuation is more than 30%, or the fluctuation in such item represents 5% or more of the total assets or more than 10% of the profit before tax.

Item	At 30 June 2005 RMB millions	At 31 December 2004 RMB millions	Increase/(Decrease) Amount RMB millions	Percentage (%)	Analysis of Changes
Accounts receivable	15,247	9,756	5,491	56	Mainly due to the increase in income from principal operations
Construction materials	984	430	554	129	Since more construction projects were expected to commence after the end of the period, purchase of construction material increased
Accounts payable	34,152	23,792	10,360	44	Mainly due to the increase of crude oil prices which resulted in an increase in accounts payable for crude oil
Taxes payable	3,552	6,741	(3,189)	(47)	Please refer to Note 21 of the financial statements prepared under the PRC Accounting Rules and Regulations
Accrued expenses	2,395	652	1,743	267	Mainly due to the increase in accrued and unpaid production and operation costs
Current portion of long term liabilities	7,245	14,298	(7,053)	(49)	Please refer to Note 25 of the financial statements prepared under the PRC Accounting Rules and Regulations
Deferred tax liabilities	3	198	(195)	(98)	Please refer to Note 16 of the financial statements prepared under the PRC Accounting Rules and Regulations

(3) Significant changes of items in the financial statements *(Continued)*

Item	Six-month periods ended 30 June 2005 RMB millions	2004 RMB millions	Increase/(Decrease) Amount RMB millions	Percentage (%)	Analysis of Changes
Income from principal operations	359,248	265,709	93,539	35.2	Please refer to Management's Discussion and Analysis
Cost of sales	293,181	206,098	87,083	42.3	Please refer to Management's Discussion and Analysis
Financial expenses	2,852	2,094	758	36.2	Please refer to Management's Discussion and Analysis
Exploration expenses	3,355	2,475	880	35.6	Please refer to Management's Discussion and Analysis
Investment (loss)/income	(742)	516	(1,258)	(243.8)	Please refer to Note 36 of the financial statements prepared under the PRC Accounting Rules and Regulations
Non-operating expenses	1,109	4,952	(3,843)	(77.6)	Please refer to Note 37 of the financial statements prepared under the PRC Accounting Rules and Regulations
Unrecognised investment losses	(113)	507	(620)	(122.3)	Mainly due to the written-back of unrecognized investment losses exceeding the carrying value of long-term equity investment

(4) Details of provisions for assets in the consolidated financial statements **Unit: RMB millions**

Item	Lines	At the beginning of the period	Increase in the period	Written back for the period	Written off for the period	At the end of the period
Allowance for doubtful accounts	1	7,167	294	(450)	(9)	7,002
Of which: Allowance for doubtful accounts for trade accounts receivable		3,671	76	(194)	(1)	3,552
Allowance for doubtful accounts for other receivables		3,496	218	(256)	(8)	3,450
Provision for diminution in value of short-term investments	2	—	—	—	—	—
Provision for diminution in value of inventories	3	906	131	(61)	(40)	936
Provision for impairment losses on long-term investments	4	353	40	(5)	(18)	370
Of which: Long-term equity investments		353	40	(5)	(18)	370
Provision for impairment losses on fixed assets	5	5,816	397	—	—	6,213
Of which: Land and buildings		331	—	—	—	331
Oil and gas properties		783	—	—	—	783
Oil depots, storage tanks and service stations		1,249	5	—	—	1,254
Plant, machinery, equipment and others		3,453	392	—	—	3,845
Provision for impairment losses on intangible assets	6	—	—	—	—	—
Provision for impairment losses on construction in progress	7	—	—	—	—	—
Provision for impairment losses on entrusted loans	8	—	—	—	—	—
Total		14,242	862	(516)	(67)	14,521

2 FINANCIAL DATA AND INDICATORS OF THE COMPANY FOR THE FIRST HALF OF 2005 FROM THE FINANCIAL STATEMENTS PREPARED IN ACCORDANCE WITH INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS")

Item	Six-month periods ended 30 June **2005** **RMB millions**	2004 RMB millions	Changes over the same period of the preceding year (%)
Operating profit	33,682	28,562	17.93
Profit for the period attributable to equity holders of the parent	19,653	16,746	17.36
Return on capital employed (%)*	6.17	6.13	0.04 percentage point
Earnings per share (RMB/share)	0.227	0.193	17.36
Net cash flow from operating activities	21,082	20,698	1.86

* Return on capital employed = operating profit x (1 - income tax rate)/capital employed

Item	**At 30 June 2005** **RMB millions**	At 31 December 2004 RMB millions	Changes from the end of last year (%)
Current assets	139,104	120,271	15.66
Current liabilities	154,084	146,277	5.34
Total assets	509,380	474,594	7.33
Total equity attributable to equity holders of the parent	205,757	193,040	6.59
Net assets per share (RMB/share)	2.373	2.226	6.59
Adjusted net assets per share (RMB/share)	2.310	2.187	5.62

3 DIFFERENCES BETWEEN FINANCIAL STATEMENTS PREPARED UNDER THE PRC ACCOUNTING RULES AND REGULATIONS AND INTERNATIONAL FINANCIAL REPORTING STANDARDS

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

Item	Six-month periods ended 30 June **2005** **RMB millions**	2004 RMB millions
Net profit under the PRC Accounting Rules and Regulations	**18,044**	**15,039**
Adjustments:		
Equity investment differences	1,169	—
Pre-operating expenditures	442	(95)
Depreciation of oil and gas properties	417	370
Capitalisation of general borrowing costs, net of depreciation effect	216	247
Unrecognised losses of subsidiaries	113	(236)
Acquisition of Sinopec National Star	58	58
Acquisition of Tianjin Petrochemical, Luoyang Petrochemical, Zhongyuan Petrochemical and Catalyst Plants	—	899
Reduced amortisation on revaluation of land use rights	9	9
Reduced depreciation on government grants	1	—
Impairment losses on revalued assets	—	439
Disposal of oil and gas properties, net of depreciation effect	(209)	879
Effects of the above adjustments on taxation	(607)	(863)
Minority interests	2,116	2,175
Profit for the period under IFRS	**21,769**	**18,921**

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

Item	At 30 June 2005 RMB millions	At 31 December 2004 RMB millions
Shareholders' funds under the PRC Accounting Rules and Regulations	**197,571**	**186,350**
Adjustments:		
Equity investment differences	1,169	—
Pre-operating expenditures	(15)	(457)
Depreciation of oil and gas properties	12,012	11,595
Capitalisation of general borrowing costs	1,821	1,605
Acquisition of Sinopec National Star	(2,637)	(2,695)
Revaluation of land use rights	(968)	(977)
Government grants	(591)	(592)
Disposal of oil and gas properties	3,161	3,370
Impairment losses on long-lived assets	(113)	(113)
Effects of the above adjustments on taxation	(5,653)	(5,046)
Minority interests	29,019	31,046
Total equity under IFRS	**234,776**	**224,086**

CHANGES IN SHARE CAPITAL AND SHAREHOLDINGS OF PRINCIPAL SHAREHOLDERS

1 CHANGES IN THE SHARE CAPITAL OF SINOPEC CORP.

There were no changes in the total number of shares and equity structure of Sinopec Corp. during the reporting period.

2 SHAREHOLDINGS OF PRINCIPAL SHAREHOLDERS

As at 30 June 2005, there were a total of 287,800 shareholders of Sinopec Corp., of which 277,530 were domestic holders of A Shares and 10,270 were overseas holders of H Shares.

(1) Top ten shareholders as at 30 June 2005 **Unit: 1,000 shares**

Name of shareholders	Increase/ decrease during the reporting period	Number of shares held at the end of the reporting period	Percentage at the end		Nature of Shareholders	Type of Shares held	Pledges, lock-ups or trusts
			Among total shareholdings	Among the type of shares held			
China Petrochemical Corporation (“Sinopec Group Company”)	0	58,885,561	67.92	87.73	State-owned shares	Non-tradable	0
HKSCC (Nominees) Limited	(2,848)	16,675,942	19.23	99.38	H shares	Tradable	Unknown
China Cinda Asset Management Corp.	0	3,720,650	4.29	5.54	State-owned shares	Non-tradable	0
China Development Bank	0	2,632,570	3.04	3.92	State-owned shares	Non-tradable	0
China Orient Asset Management Corp.	0	1,296,410	1.50	1.93	State-owned shares	Non-tradable	0
GuoTai JunAn Corp.*	0	586,760	0.68	0.87	State-owned legal person shares	Non-tradable	293,380 (pledged)/ 38,230 (locked up)
	3,442	3,442	0.00	0.12	A shares	Tradable	0
China 50ETF	38,378	73,714	0.09	2.63	A shares	Tradable	0
E FUND 50 Index Fund	(8,656)	64,453	0.07	2.30	A shares	Tradable	0
Qingdao Port Authority	0	60,000	0.07	2.14	A shares	Tradable	0
CITIC Classic Allocation Fund	(2,367)	56,338	0.06	2.01	A shares	Tradable	0
Explanation for the relationships among the above shareholders or actions in concert:	The Company is not aware of any connection or actions in concert among the above shareholders and is not aware of any pledges, lock-ups or trust of shareholdings of holders of H Shares.						

* The additional 3.442 million shares in this reporting period are tradable A shares purchased by Guo Tai Jun An Corp. on the stock market, while the remainders are non-tradable shares. The pledged and locked-up shares are also non-tradable.

(2) Top ten shareholders with tradable shares as at 30 June 2005 **Unit: 1,000 shares**

Name of shareholders	Number of tradable shares held at end of the reporting period	Nature of Shareholders
HKSCC (Nominees) Limited	16,675,942	H shares
China 50 ETF	73,714	A shares
E FUND 50 Index Fund	64,453	A shares
Qingdao Port Authority	60,000	A shares
CITIC Classic Allocation Fund	56,338	A shares
Fortis Haitong Income Investment Management	50,000	A shares
Harvest Service Sector Fund	47,000	A shares
Social Securities Fund 102	30,487	A shares
Fortune SGAM Multi-strategy Growth Fund	29,856	A shares
Jingfu Securities Investment Fund	29,303	A shares
Explanation for the relationships among the above shareholders or actions in concert:	The Company is not aware of any connection or actions in concert among the above shareholders and is not aware of any pledges, lock-ups or trust of shareholdings of holders of H Shares.	

(3) Information disclosed by the shareholders of H Shares according to the Securities and Futures Ordinance as at 30 June 2005

Name of shareholders	Nature	Number of share interests held or regarded as held	Approximate percentage of Sinopec Corp's interests (H share) (%)
J.P. Morgan Chase & Co.	Beneficial owner	317,923,000(L)	1.90(L)
	Investment manager	290,220,905(L)	1.73(L)
	Custodian corporation/ approved lending agent, Physically settled derivatives	560,683,942(L)(P)	3.34(L)(P)
Credit Suisse Group	Corporate	1,076,046,844(L)	6.41(L)
	Corporate	826,314,296(S)	4.92(S)
	Lending pool	29,195,950(P)	0.17(P)
J.P. Morgan Chase & Co.	Beneficial owner	46,454,000(L)	0.28(L)
	Investment manager	634,707,194(L)	3.78(L)
	Others	347,184,277(L)(P)	2.07(L)(P)
Alliance Capital Management L.P.	Corporate	1,006,311,601(L)	6.00(L)

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

3 CHANGES IN THE CONTROLLING SHAREHOLDERS AND THE EFFECTIVE CONTROLLERS

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

BUSINESS REVIEW

In the first half of 2005, China's economy maintained a steady growth and the growth rate of GDP was 9.5%. Demand for petroleum and petrochemical products continued to grow modestly. According to the Company's statistics, apparent domestic consumption of refined oil products (i.e. gasoline, diesel and kerosene including jet fuel) in the first half of this year increased by 5.56% over that of the same period last year whilst the apparent domestic consumption of petrochemical products (in terms of ethylene) increased by 5.70% over that of the same period last year. During the same period, with the continued fluctuation of international oil prices at high levels, the price of chemical products maintained high despite of the decline compared with that of the fourth quarter last year. Due to the tight control on domestic prices of refined oil products, the price gap between domestic and overseas markets was further widened. The Company flexibly responded to the changing markets through optimizing resource allocation, rationalizing structure and intensifying internal management. As a result, the oil and gas production increased steadily. Major refining and petrochemical facilities were operated at a high utilization rate. The sales of refined oil products increased steadily and sales structure was further rationalized. Thanks to the joint efforts of all the employees, the Company achieved sound results.

According to the PRC Accounting Rules and Regulations, in the first half of 2005, the Company's income from principal operations was RMB 359.2 billion, up by 35.2% over that of the first half of 2004. The Company's net profit was RMB 18 billion, up by 20.0% over that of the first half of 2004. Based on the number of shares outstanding at the end of the reporting period, earnings per share was RMB 0.208. According to the International Financial Reporting Standards, turnover and other operating revenues amounted to RMB 368.5 billion, up by 31.9% over that of the first half of 2004. Profit attributable to equity holders of the Company was RMB 19.7 billion, up by 17.4% over that of the first half of 2004. Based on the number of shares outstanding at the end of the reporting period, earnings per share was RMB 0.227.

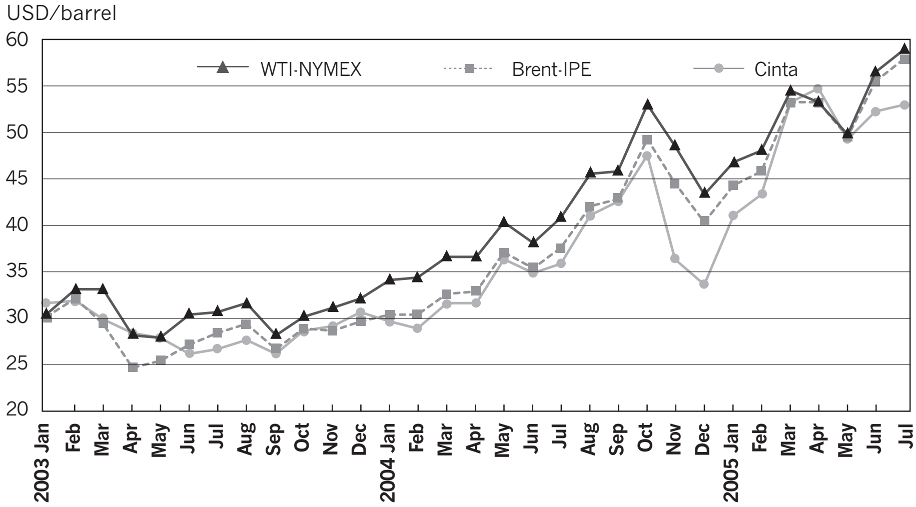
The Board of Directors decided to distribute an interim dividend of RMB 0.04 per share for the first half of 2005, which is equivalent to RMB 4.00 per ADS.

1 PRODUCTION AND OPERATION

(1) Exploration and Production Segment

In the first half of 2005, the international crude oil prices continued its climb to a higher level. The Platt's global Brent spot price averaged USD 51.40 per barrel, up by 52.75% over that of the first half of 2004. The average crude price realized by the Company during the first half of 2005 was USD 39.40 per barrel, up by 33.02% over that of the same period last year.

In the first half of 2005, in exploration, benefiting from theoretical and technological innovations, the Company strengthened progressive exploration and emphasized preliminary exploration in new blocks. Remarkable exploration results were achieved in hidden oil and gas reserves in the mature blocks in eastern China and important progress was achieved in the exploration in southwestern China. In the first half of 2005, the newly added proved geological crude oil reserves amounted to



Price Trend of International Crude Oil

approximately 95.72 million tonnes, whilst the newly added proved natural gas geological reserves were approximately 47.5 billion cubic meters. Since some exploration wells were not completed, newly added proved oil and gas reserves evaluated by the Company in accordance with SEC criteria declined compared with those of the same period of last year. In development, a number of key projects for production capacity building were started. In production, by seizing the opportunity of high oil prices, the Company carefully organized oil and gas production, stabilized production in mature oilfields and increased production in new blocks. As a result, oil and gas production increased steadily.

Summary of Operations of Exploration, Development and Production

	Six-month periods ended 30 June		Changes
	2005	2004	(%)
Crude oil production (million barrels)	136.69	135.85	0.62
Natural gas production (billion cubic feet)	104.8	100.06	4.74
Newly added proved crude oil reserves (million barrels)	85.69	124.40	(31.12)
Newly added proved natural gas reserves (billion cubic feet)	518.1	872.74	(40.64)
Proved crude oil reserves at the end of the reporting period (million barrels)	3,216.2	3,245.73	(0.91)
Proved natural gas reserves at the end of the reporting period (billion cubic feet)	3,446.3	3,660.30	(5.85)

Note: Crude oil production is converted at 1 tonne = 7.1 barrels, and natural gas production is converted at 1 cubic meter = 35.31 cubic feet.

(2) Refining Segment

In the first half of 2005, the Company adopted various measures to mitigate the adverse impact brought by the tight control on domestic prices of refined oil products. The Company strived to overcome the impact brought by the comprehensive quality upgrading of refined products and the maintenance of some refining facilities after long-term full-load operation. Through strengthening operation management of the facilities, the Company achieved full-load operation and met the market climate to the largest extent. Through optimising resource procurement, allocation and transportation, the Company increased the processing volume of sour and heavy crude based on the price gap between sour and sweet crude and light and heavy crude in order to reduce procurement cost. In addition, the Company constantly improved processing plan and product mix, while making efforts to increase the production of high value-added products and products of specific needs of the market. Furthermore, focusing on technology advancement, the Company further improved light yield and refining yield.

Summary of Operations of Refining

	Six-month periods ended 30 June		Changes
	2005	2004	(%)
Crude processing volume (million tonnes)	68.08	64.98	4.77
Of which: Sour crude processing volume (million tonnes)	16.87	13.39	25.99
Gasoline, diesel and kerosene (including jet fuel) output (million tonnes)	41.02	39.17	4.72
Of which: Gasoline (million tonnes)	11.32	11.42	(0.88)
Diesel (million tonnes)	26.31	24.72	6.43
Kerosene including jet fuel (million tonnes)	3.39	3.03	11.88
Light Chemical feedstock (million tonnes)	10.16	8.92	13.90
Light yield (%)	74.24	74.06	0.18 percentage point
Refining yield (%)	93.11	93.10	0.01 percentage point

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

(3) Marketing and Distribution Segment

In the first half of 2005, by means of closely monitoring the changes of the market, the Company increased procurement of refined oil products from various channels to meet the domestic demand and achieved remarkable increase in the total domestic sales volume of refined oil products. The Company also proactively developed market, optimised sales structure and further increased the volume of retail and direct sales. The portion of retail and direct sales volume to the Company's total domestic sales volume increased to 78.69% from 76.24% in the same period last year. At the same time, the Company actively expanded and optimised the marketing network to form a more rationalised network layout and resource flow.

The Company made new progress in promoting its petrol IC cards which have been put in use in 13,000 petrol stations.

Summary of Operations of Marketing and Distribution

	Six-month periods ended 30 June		Changes
	2005	2004	(%)
Total domestic sales volume of refined oil products (million tonnes)	50.77	45.49	11.61
Of which: Retail volume (million tonnes)	29.56	25.12	17.68
Direct sales volume (million tonnes)	10.39	9.56	8.68
Wholesale volume (million tonnes)	10.82	10.81	0.09
Average annual throughput per petrol station (tonne/station)	2,200	1,986	10.78
Total number of petrol stations	30,352	30,682	(1.08)
Of which: Number of self-operated petrol stations	26,870	25,306	6.18
Number of franchised petrol stations	3,482	5,376	(35.23)

(4) Chemicals Segment

In the first half of 2005, the Company seized the favorable opportunity of chemical product prices and fully leveraged the newly built production capacity. Operation management of facilities was reinforced to ensure safe, stable, long-term, full-capacity and high quality operation of key facilities. The production of ethylene and other major chemical products, such as synthetic resins, synthetic rubbers and monomers and polymers for synthetic fibers, was increased. The Company continued to reinforce product mix improvement, and output of high value-added products, such as performance compound of synthetic resins and differential fibers, was further increased.

The Company actively carried out reform of the chemical marketing system. On May 10th 2005, a chemical sales company was established to implement unified coordination of chemical product sales, which was of great importance in fully taking the overall advantages of the intensified operation and erecting a unified market image to improve comprehensive competitiveness and maximise the overall efficiency.

In the first half of 2005, the Company proactively pushed forward the construction of new projects. The two joint venture ethylene projects of BASF-YPC Company Limited ("BASF-YPC") and Shanghai Secco Petrochemical Co., Ltd. ("Shanghai Secco") were put into commercial operation on 28 June 2005 and 29 June 2005, respectively.

Production of Major Petrochemical Products (1) **Unit: thousand tonnes**

	Six-month periods ended 30 June		Changes
	2005	2004	(%)
Ethylene	2,434	2,081	16.96
Synthetic resin	3,528	3,102	13.73
Of which: Performance compound resin	1,689	1,545	9.32
Synthetic fiber monomers and polymers	3,152	3,030	4.03
Synthetic fiber	756	824	(8.25)
Of which: Differential fiber	384	359	6.96
Synthetic rubber	308	297	3.70
Urea	998	1,322	(24.51)

Note:

1. The operation data of the first half of 2004 and the first half of 2005 include that of the chemical assets acquired from Sinopec Group Company and its subsidiaries (excluding the Company) ("Sinopec Group") at the end of 2004.

2. 100% production of the two joint venture ethylene projects of BASF-YPC and Shanghai Secco was included.

Production of Major Petrochemical Products (2) **Unit: thousand tonnes**

	Six-month periods ended 30 June		Changes
	2005	2004	(%)
Ethylene	2,434	1,863	30.65
Synthetic resin	3,528	2,806	25.73
Of which: Performance compound resin	1,689	1,478	14.28
Synthetic fiber monomers and polymers	3,152	2,443	29.02
Synthetic fiber	756	641	17.94
Of which: Differential fiber	384	289	32.87
Synthetic rubber	308	297	3.70
Urea	998	1,322	(24.51)

Note:

1. The operation data of the first half of 2004 exclude that of the chemical assets acquired from Sinopec Group at the end of 2004, and the operation data of the first half of 2005 include the chemical assets acquired from Sinopec Group in 2004.

2. 100% production of the two joint venture ethylene projects of BASF-YPC and Shanghai Secco was included.

2 COST REDUCTION

In the first half of 2005, the Company adopted a series of measures to reduce costs: optimising resource allocation and fully leveraging the modern logistics system to reduce transportation costs; further increasing the processing volume of sour and heavy crude to reduce procurement costs; and optimising the operation of facilities to cut down material and energy consumption. In the first half of 2005, the Company reduced total costs of RMB 1.282 billion, including RMB 285 million from Exploration and Production Segment, RMB 365 million from Refining Segment, RMB 230 million from Marketing and Distribution Segment and RMB 402 million from Chemicals Segment. In addition, the Company further carried out measures aiming at improving efficiencies through staff reduction in the first half of 2005, and the total number of net head count reduction amounted to 20,500, of which, a net reduction number of 12,000 were reduced through spin-off of down-hole operation services and the acquisition of selected assets from Sinopec Group, and the relevant staff reduction expenses of which were recorded in the expenditure of 2004.

3 CAPITAL EXPENDITURE

In the first half of 2005, the Company's total capital expenditure was RMB 22.550 billion, accounting for 36.4% of the total planned capital expenditure of RMB 62.0 billion for the year. The capital expenditure in Exploration and Production Segment totaled RMB 10.077 billion: the Company achieved a number of important exploration results through strengthening progressive exploration and preliminary exploration in new blocks. The newly built production capacity of crude oil and natural gas was 2.712 million tonnes per year and 0.9 billion cubic meters per year respectively. The capital expenditure in Refining Segment was RMB 3.451 billion: the construction of the second phase of Ningbo-Shanghai-Nanjing crude oil pipeline was close to completion; the construction of Yizheng-Changling crude oil pipeline started; and a number of refining revamping and expansion projects were progressing smoothly. The capital expenditure in Chemicals Segment was RMB 2.242 billion: the second round of Maoming ethylene expansion project and the fertilizer facilities revamping projects in Jinling and other ferlilizers were proceeding as planned. The capital expenditure in Marketing and Distribution Segment was RMB 6.384 billion: part of the refined oil product pipeline in southwest China was put into operation, and the construction, acquisition and revamping of petrol stations were carried out according to schedule. The capital expenditure for Corporate and Others amounted to RMB 396 million.

In addition, the total capital expenditure for jointly controlled entities such as Shanghai Secco amounted to RMB 1.854 billion.

BUSINESS PROSPECTS

Looking into the second half of 2005, international crude price is expected to fluctuate at a high level and the global refining and chemical industry will remain at a high level of the cycle. For the domestic market, China's economy will continue to grow rapidly and demands for petroleum and petrochemical products will increase steadily. The adjustment of China's exchange rate regime and minor appreciation of RMB on July 21st 2005 was conducive to lowering the Comapny's crude procurement cost and likely to reduce the import price of chemical products. In addition, it is expected that the Chinese government shall continue to exert austere control over refined oil product prices during the second half of the year.

Confronted with the complicated market situation, the Company will adopt flexible operating strategies, take the initiative in production and management and minimise operational risks. The Company will focus on the work in the following aspects:

In Exploration and Production Segment, the Company intends to conscientiously implement its resource strategy, accelerate exploration and development, and make efforts to realise 100% replacement ratio for the whole year. In addition, the Company will focus on the production capacity construction in Tahe Oilfield in western China and Shengli Oilfield shallow water blocks in eastern China. Seizing the favorable opportunity of high crude price, the Company will appropriately increase the production of high cost crude oil and proactively develop natural gas market. In the second half of 2005, the Company plans to produce 140.2 million barrels of crude oil and 109.0 billion cubic feet of natural gas.

In Refining Segment, the Company will closely follow the changes of international crude oil market, adhere to the strategy of diversified sources of crude, and strive to increase the procurement and refining volume of sour and heavy crude to reduce cost. Meanwhile, the Company will make full use of crude oil pipelines and optimise the resource flow and allocation to reduce the cost of storage and transportation. Based on market demands, the Company will optimise refining plan and product mix to increase the production of high value-added products. Furthermore, the Company plans to reinforce the process technology management of facilities to ensure safe, stable, and full-load operation. In the second half of 2005, the Company plans to process 72.0 million tonnes of crude oil.

In Marketing and Distribution Segment, the Company will conscientiously monitor the market trend and strive to expand total sales volume of refined products through active sales promotion. In addition, the Company will strengthen the operation management of petrol stations, and further increase the throughput per station and the retail plus direct sales proportion by means of improving service quality. The Company will bring modern logistics into full play, and optimise resource allocation to further reduce storage and transportation costs. Furthermore, the Company attempts to accelerate the construction of refined oil product pipelines and petrol stations in key areas while rationalising the layout of depots and marketing network. The application of IC cards will be expedited to realise the target of "One card, all Sinopec stations". In the second half of 2005, the Company will target its total domestic sales volume of refined oil products at 52.00 million tonnes, including 30.40 million tonnes of retail volume and 10.60 million tonnes of direct sales volume.

In the Chemicals Segment, the Company will fully exploit the newly added chemical production capacity and maintain full-load operation of major facilities to expand production of major chemicals. Following the market trend, the Company will make efforts to increase the output of products catering for the market and the production of performance compound for synthetic resins and differential fibers. In addition, the Company will give full play to the newly established chemical sales company to enhance the overall advantages of chemical production and marketing competitiveness. In the second half of 2005, the Company plans to produce 2.75 million tonnes of ethylene.

In the second half of 2005, fully aware of the current favorable conditions and austere challenges, we will continue to adhere to the operation guidelines featuring "reform, adjustment, innovation and development", make use of various favorable opportunities, spare no efforts to fulfill the production and operation objectives and maintain a sound operational results to lay a solid foundation for the long-term and sustainable development of the Company.

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. THE FINANCIAL INFORMATION PRESENTED IN THIS SECTION ARE DERIVED FROM THE COMPANY'S AUDITED FINANCIAL STATEMENTS THAT HAVE BEEN PREPARED IN ACCORDANCE WITH IFRS.

1 CONSOLIDATED RESULTS OF OPERATIONS

In the first half of 2005, the Company's turnover and other operating revenues were RMB 368.5 billion and the operating profit was RMB 33.7 billion, representing an increase of 31.9% and 17.9% over the same period of 2004 respectively. These results are largely attributable to the significant increase in international crude price, high prices of chemical products and steady growth of the domestic economy. By seizing the favorable opportunities, the Company proactively developed the market, maintained steady growth in oil and gas production and further increased the production of chemical products and sales volume of refined oil products, optimised crude processing structure, intensified corporate management and strived to relieve the pressure brought by the soaring crude price. Thus, good operation results were achieved.

The following table lists the major items in the consolidated income statement of the Company for the indicated periods:

	Six-month periods ended June 30		
	2005	2004	Changes
	RMB millions		(%)
Turnover and other operating revenues	**368,454**	**279,445**	**31.9**
Of which: Turnover	359,248	269,601	33.3
Other operating revenues	9,206	9,844	(6.5)
Operating expenses	**(334,772)**	**(250,883)**	**33.4**
Of which: Purchased crude oil, products, and operating supplies and expenses	(283,036)	(198,158)	42.8
Selling, general and administrative expenses	(15,510)	(14,859)	4.4
Depreciation, depletion and amortisation	(15,155)	(15,399)	(1.6)
Exploration expenses, including dry holes	(3,355)	(2,475)	35.6
Personnel expenses	(8,536)	(8,716)	(2.1)
Employee reduction expenses	(100)	(412)	(75.7)
Taxes other than income tax	(8,204)	(7,833)	4.7
Other operating expenses, net	(876)	(3,031)	(71.1)
Operating profit	**33,682**	**28,562**	**17.9**
Net finance costs	(2,566)	(2,079)	23.4
Investment income and share of profits less losses from associates	598	455	31.4
Profit before taxation	**31,714**	**26,938**	**17.7**
Taxation	(9,945)	(8,017)	24.0
Profit for the period	**21,769**	**18,921**	**15.1**
Attributable to: Equity holders of the parent	19,653	16,746	17.4
Minority interests	2,116	2,175	(2.7)

(1) Turnover and other operating revenues

In the first half of 2005, the Company's turnover and other operating revenues were RMB 368.5 billion. Of which, turnover was RMB 359.2 billion, up by 33.3% over the first half of 2004. This was mainly due to the fact that prices of crude oil and petrochemical products in the global market increased compared with those in the same period last year, and that the Company increased sales volume of petrochemical products and optimised sales structure. In the first half of 2005, the Company's other operating revenues was RMB 9.2 billion, down by 6.5% over the first half of 2004. This was mainly due to the decrease of sales revenue from its sale of raw and auxiliary materials to Sinopec Group and to third parties.

Most of crude oil and a small portion of natural gas produced by the Company were internally used for its refining and chemical production. The remaining was sold to the refineries owned by Sinopec Group and other customers. In the first half of 2005, external sales revenues of crude oil and natural gas amounted to RMB 8.7 billion, up by 17.3% over the first half of 2004, accounting for 2.4% of the Company's turnover and other operating revenues, which mainly due to increased prices of crude oil and expanded business of nature gas.

The Company's Refining Segment and Marketing and Distribution Segment sell petroleum products (mainly consisting of gasoline, diesel, jet fuel, kerosene and other refined petroleum products) to third parties. In the first half of 2005, the external sales revenue of petroleum products by these two segments were RMB 243.8 billion, accounting for 66.2% of the Company's turnover and other operating revenues, representing an increase of 31.7% compared with that in the first half of 2004. The increase was mainly due to the increased gasoline, diesel and naphtha prices and also due to the Company's proactive efforts in increasing sales volume, optimising sales structure and expanding the market of other refined petroleum products. The sales revenue of gasoline, diesel and kerosene was RMB 185.7 billion, accounting for 76.2% of the total sales revenue of petroleum products, representing an increase of 29.7% over that in the same period in 2004. The sales revenue of other refined petroleum products was RMB 58.1 billion, accounting for 23.8% of the total sales revenue of petroleum products, representing an increase of 38.7% compared with the first half of 2004.

The Company's external sales revenue of chemical products was RMB 74.7 billion, accounting for 20.3% of its turnover and other operating revenues, representing an increase of 29.5% compared with that in the first half of 2004. The increase was mainly due to the fact that the Company captured the favorable opportunity of the high chemical product prices and increased sales volume.

(2) Operating expenses

In the first half of 2005, the Company's operating expenses were RMB 334.8 billion, up by 33.4% over the first half of 2004. The operating expenses mainly consisted of the following:

Purchased crude oil, products and operating supplies and expenses

The Company's purchase of crude oil, products and operating supplies and expenses were RMB 283.0 billion, up by 42.8% over the first half of 2004, accounting for 84.5% of the operating expenses, of which:

Purchase of crude oil was RMB 148.3 billion, up by 44.3% over the first half of 2004, accounting for 44.3% of the total operating expenses, up by 3.3 percentage point over the first half of 2004.

The following table lists the Company's principal external sales volume and average realised prices, and changes between the first half of 2005 and the first half of 2004:

	Sales Volumes (thousand tonnes) Six-month period ended June 30			Average Realised Prices (RMB/tonne) Six-month period ended June 30		
	2005	2004	Changes (%)	**2005**	2004	Changes (%)
Crude oil	2,569	3,019	(14.9)	2,367	1,679	41.0
Natural gas (million cubic meters, RMB/thousand cubic metres)	1,962	1,767	11.0	658	601	9.5
Gasoline	14,609	13,266	10.1	4,151	3,580	15.9
Diesel	32,571	29,096	11.9	3,514	3,044	15.4
Kerosene including jet fuel	3,086	2,633	17.2	3,414	2,710	26.0
Basic chemical feedstock	3,836	3,242	18.3	4,948	3,644	35.8
Synthetic fiber monomer and polymer	1,412	1,364	3.5	9,026	7,378	22.3
Synthetic resin	2,898	2,667	8.7	9,144	7,337	24.6
Synthetic fiber	784	878	(10.7)	11,499	10,300	11.6
Synthetic rubber	303	299	1.3	12,394	9,301	33.3
Chemical fertilizer	1,004	1,287	(22.0)	1,463	1,327	10.2

To meet the increasing demands in the market associated with the rapid growth of the domestic economy, the Company increased its throughput of crude oil purchased from third parties. In the first half of 2005, the throughput of the Company's crude oil purchased externally was RMB 52.44 million tonnes (excluding amounts processed for third parties), representing an increase of 7% compared with the same period in 2004. Average cost for crude oil purchased externally in the first half of 2005 was RMB 2,828 per tonne (approximately USD 46.46 per barrel), representing an increase of 34.8% compared with that in the first half of 2004.

In the first half of 2005, the Company's other purchasing expenses were RMB 134.7 billion, up by 41.2% over the first half of 2004, accounting for 40.2% of the total operating expenses. This increase was mainly due to the increased costs of outsourced refined oil products and chemical feedstock.

Selling, general and administrative expenses

In the first half of 2005, the Company's selling, general and administrative expenses were RMB 15.5 billion, up by 4.4% over the first half of 2004. This increase was mainly due to the increase in sales expenses, such as the costs of transportation, as a result of the increase in the sales volume of refined oil products and the increased proportion of retail and direct sales volume over total sales volume of refined oil products.

Depreciation, depletion and amortisation

In the first half of 2005, the Company's depreciation, depletion and amortisation were RMB 15.2 billion, down by 1.6% compared with the first half of 2004. The decrease was mainly due to the decrease in depreciation as a result of the Company's disposal of less efficient assets and provision for impairment loss on some less efficient facilities in the previous years.

Exploration expenses

In the first half of 2005, the Company's exploration expenses were RMB 3.4 billion, representing an increase of 35.6% compared with the first half of 2004. The increase was mainly due to the fact that the Company increased exploration activities in major new blocks in the western and southern parts of China.

Personnel expenses

In the first half of 2005, the Company's personnel expenses were RMB 8.5 billion, representing a decrease of 2.1% compared with the first half of 2004. The decrease was largely due to the decreased personnel expenses of employees as a result of the disposal of the downhole operation in 2004.

Employee reduction expenses

In the first half of 2005, in accordance with the Company's voluntary employee reduction plan, the Company recorded employee reduction expenses of approximately RMB 0.1 billion relating to the reduction of approximately 1,800 employees, down by RMB 0.3 billion compared with that in the first half of 2004.

Taxes other than income tax

In the first half of 2005, the Company's taxes other than income tax were RMB 8.2 billion, up by 4.7% over the first half of 2004. The increase was mainly attributable to the increase of consumption tax and surcharges as a result of the increase in sales volume of gasoline and diesel of the Company.

Other operating expenses

In the first half of 2005, the Company's other operating expenses (net) were RMB 0.9 billion, down by 71.1% compared with the first half of 2004. This was mainly due to the impairment losses on long-lived assets decreased by RMB 1.9 billion compared with the first half of 2004 and the loss on disposals of assets decreased by RMB 0.4 billion.

(3) Operating profit

In the first half of 2005, the Company's operating profit was RMB 33.7 billion, up by 17.9% over the first half of 2004.

(4) Net finance costs

In the first half of 2005, the Company's net finance costs were RMB 2.6 billion, up by 23.4% compared with those in the first half of 2004, which was mainly due to the increase in interest expenses, as a result of the increase in long-term loan to finance investment, as well as other factors, such as the increased prices of crude oil, which led to an increase in short-term loan as a result of more capital being employed by operating activities, such as inventories.

(5) Profit before taxation

In the first half of 2005, the Company's profit before taxation was RMB 31.7 billion, up by 17.7% over the first half of 2004.

(6) Taxation

In the first half of 2005, the Company's income tax was RMB 9.9 billion, up by 24.0% over the first half of 2004.

(7) Profit attributable to minority interests

In the first half of 2005, the Company's profit attributable to minority interests were RMB 2.1 billion, down by 2.7% compared with the first half of 2004.

(8) Profit attributable to equity holders of the parent

In the first half of 2005, the Company's profit attributable to equity holders of the parent was RMB 19.7 billion, up by 17.4% over the first half of 2004.

2 DISCUSSION ON RESULTS OF SEGMENT OPERATIONS

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

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

	Operating revenues Six-month periods ended June 30		As a percentage of consolidated operating revenues before elimination of inter-segment sales Six-month periods ended June 30		As a percentage of consolidated operating revenues after elimination of inter-segment sales Six-month periods ended June 30	
	2005	2004	**2005**	2004	**2005**	2004
	RMB millions		%		%	
Exploration and Production Segment						
External sales*	12,278	10,920	2.0	2.4	3.3	3.9
Inter-segment sales	35,745	26,316	5.9	5.7		
Operating revenues	**48,023**	**37,236**	**7.9**	**8.1**		
Refining Segment						
External sales*	38,934	30,915	6.4	6.7	10.6	11.1
Inter-segment sales	172,035	130,319	28.4	28.5		
Operating revenues	**210,969**	**161,234**	**34.8**	**35.2**		
Marketing and Distribution Segment						
External sales*	207,296	156,901	34.1	34.2	56.2	56.1
Inter-segment sales	1,320	1,334	0.2	0.3		
Operating revenues	**208,616**	**158,235**	**34.3**	**34.5**		
Chemicals Segment						
External sales*	77,681	60,434	12.8	13.2	21.1	21.6
Inter-segment sales	8,335	4,794	1.4	1.0		
Operating revenues	**86,016**	**65,228**	**14.2**	**14.2**		
Corporate and others segment						
External sales*	32,265	20,275	5.3	4.4	8.8	7.3
Inter-segment sales	21,228	16,552	3.5	3.6		
Operating revenues	**53,493**	**36,827**	**8.8**	**8.0**		
Operating revenues before elimination of inter-segment sales	**607,117**	**458,760**	**100.0**	**100.0**		
Elimination of inter-segment sales	**(238,663)**	**(179,315)**				
Consolidated operating revenues	**368,454**	**279,445**			**100.0**	**100.0**

* Including other operating revenues

The following table shows the operating revenues, operating expenses and operating profit by each segment before elimination of the inter-segment transactions for the periods indicated, and the percentage change from the first half of 2004 to the first half of 2005:

	Six-month periods ended June 30		
	2005	2004	Changes
	RMB millions		%
Exploration and Production Segment			
Operating revenue	48,023	37,236	29.0
Operating expenses	30,228	26,716	13.1
Operating profit	**17,795**	**10,520**	**69.2**
Refining Segment			
Operating revenue	210,969	161,234	30.8
Operating expenses	212,265	156,947	35.2
Operating profit	**(1,296)**	**4,287**	**(130.2)**
Marketing and Distribution Segment			
Operating revenue	208,616	158,235	31.8
Operating expenses	201,973	149,666	34.9
Operating profit	**6,643**	**8,569**	**(22.5)**
Chemicals Segment			
Operating revenue	86,016	65,228	31.9
Operating expenses	75,201	59,223	27.0
Operating profit	**10,815**	**6,005**	**80.1**
Corporate and others segment			
Operating revenue	53,493	36,827	45.3
Operating expenses	53,768	37,646	42.8
Operating profit	**(275)**	**(819)**	**(66.4)**

(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 chemical operations. Most of the natural gas and a small portion of crude oil produced by the Company were sold to refineries owned by Sinopec Group and third party customers.

In the first half of 2005, the operating revenues of this segment were RMB 48.0 billion, up by 29.0% over the first half of 2004, which was mainly due to the increase in sales volume and the realised price of crude oil over those in the first half of 2004.

In the first half of 2005, this segment sold 17.97 million tonnes of crude oil, up by 0.1% over the first half of 2004. 2 billion cubic meters of natural gas were sold, up by 9.9% over the first half of 2004. The average realised price of crude oil was RMB 2,316 per tonne (approximately USD 39.4/barrel) up by 33.0% over the first half of 2004; the average realised price of natural gas was RMB 660 per thousand cubic meters, increased by 8.8% over the first half of 2004.

In the first half of 2005, the operating expenses of this segment were RMB 30.2 billion, up by 13.1% over the first half of 2004. This was mainly due to the following reasons:

- The rise in fuel and power costs as a result of the increase in oil and gas production and fuel prices, resulting in an increase in the operating expenses by approximately RMB 1.4 billion compared with the first half of 2004;
- Exploration expenses, including dry holes, were up by RMB 0.9 billion compared with the first half of 2004, which was mainly due to the fact that the Company increased exploration activities at major new blocks in the western and southern parts of China;
- Increase in enhanced oil recovery activities and other operating expenses including cost of sales of materials were up by RMB 0.6 billion compared with the first half of 2004;
- The Company endeavored to increase oil and gas production during the period of high oil prices, increased workload and repaired suspended wells, as a result, the downhole operation expense was up by RMB 0.3 billion compared with the first half of 2004;
- Due to the increase in crude oil prices and the sales revenues of crude oil increased accordingly, as a result, the natural resources compensation fee, city construction tax and education surcharge were increased by RMB 0.2 billion.

In the first half of 2005, due to the increases in water and electricity costs associated with the production of oil and gas and the increase in enhanced oil recovery activities in order to maintain a steady increase in oil and gas production, the lifting cost of crude oil and natural gas increased by 11.1% from USD 6.28 per barrel in the first half of 2004 to USD 6.98 per barrel in the first half of 2005.

In the first half of 2005, operating profit for the Exploration and Production Segment was RMB 17.8 billion, up by 69.2% over the first half of 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 petroleum products, selling gasoline, diesel and kerosene including jet fuel to the Marketing and Distribution Segment, and selling other refined petroleum products to domestic and overseas customers.

In the first half of 2005, the segment's operating revenues were RMB 211.0 billion, up by 30.8% over the first half of 2004. The increase was mainly due to the increase in the realised prices and sales volumes of various refined petroleum products.

The following table shows the sales volumes, average realised prices and the percentage change of various kinds of refined petroleum products of the segment between the first half of 2004 and the first half of 2005:

	Sales Volumes (thousand tonnes) Six-month periods ended June 30		Changes	Average Realized Prices (RMB/tonne) Six-month periods ended June 30		Changes
	2005	2004	(%)	**2005**	2004	(%)
Gasoline	10,323	10,167	1.5	3,451	2,771	24.5
Diesel	25,792	24,210	6.5	3,218	2,711	18.7
Chemical feedstock	12,781	11,580	10.4	3,456	2,439	41.7
Other refined petroleum products	16,263	15,520	4.8	2,846	2,372	20.0

In the first half of 2005, the sales revenues of gasoline realised by the segment were RMB 35.6 billion, representing an increase of 26.4% compared with the first half of 2004, accounting for 16.9% of this segment's operating revenues, down by 0.6 percentage points compared with the first half of 2004.

In the first half of 2005, the sales revenues of diesel realised by the segment were RMB 83.0 billion, representing an increase of 26.4% compared with the first half of 2004, accounting for 39.3% of this segment's operating revenues, down by 1.4 percentage points compared with the first half of 2004.

In the first half of 2005, the sales revenues of chemical feedstock realised by the segment were RMB 44.2 billion, representing an increase of 56.4% compared with the first half of 2004, accounting for 20.9% of this segment's operating revenues, up by 3.4 percentage points compared with the first half of 2004. The growth rate of the sales revenues of chemical feedstock was higher than the growth rate of sales revenues in gasoline and diesel, which was mainly due to increased naphtha price and increased supply volume of chemical feedstock.

In the first half of 2005, the sales revenues of refined petroleum products other than gasoline, diesel and chemical feedstock were RMB 46.3 billion, representing an increase of 25.8% compared with that in the first half of 2004, and accounting for 21.9% of this segment's operating revenues, down by 0.9 percentage point compared with that in the first half of 2004

In the first half of 2005, the segment's operating expenses were RMB 212.3 billion, up by 35.2% over the first half of 2004, principally due to the high price of crude oil and increased processing volume.

In the first half of 2005, the average cost of crude oil was RMB 2,745 per tonne (approximately USD 45.1/barrel), representing an increase by 34.8% compared with that in the first half of 2004. Refining throughput was 65.88 million tonnes (excluding amounts processed for third parties), representing an increase of 4.1% compared with that in the first half of 2004. In the first half of 2005, the total crude oil costs were RMB 180.9 billion, representing an increase of 40.5%, accounting for 85.2% of the segment's operating expenses, up by 3.2 percentage points compared with that in the first half of 2004.

In the first half of 2005, with the oil price maintaining at a high level, the refining margin was reduced as a result of the Chinese government's macro economic control on prices of refined oil products. Despite the fact that the Company endeavored to increase the revenue of refined oil products and expand the market of refined petroleum products other than gasoline, diesel and kerosene, the growth rate of refined oil price was less than that of crude oil prices. The refining margin was USD 2.32 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), down by USD 1.75 per barrel compared with USD 4.07 per barrel in the first half of 2004, representing a decrease of 43%.

In the first half of 2005, the unit refining cash operating cost (defined as operating expenses less the purchasing costs of crude oil and refining feedstock, depreciation and amortisation, taxes other than income tax, other operating expenses; and divided by the throughput of crude oil and refining feedstock) was USD 1.93 per barrel, down by USD 0.05 per barrel compared with the first half of 2004, representing a decrease of 2.53%. This is mainly due to the continous cost savings and increase in refining volume.

In the first half of 2005, operating loss of the Refining Segment was RMB 1.3 billion. Operating profit was RMB 5.6 billion lower compared with that in the first half of 2004.

(3) Marketing and Distribution Segment

The business of Marketing and Distribution Segment includes purchasing refined oil products from the Refining Segment and third parities, conducting wholesale and direct sale to domestic users, and retailing, distributing refined oil products through the segment's retail and distribution network, as well as providing services related to refined product sales.

In the first half of 2005, the operating revenues of this segment was RMB 208.6 billion, up by 31.8% over the first half of 2004. The increase was mainly due to the increases in sales volume and prices of refined oil products and the sustained optimisation of sales structure, which further increased the retail proportion of gasoline and diesel.

In the first half of 2005, the operating revenues from sales of gasoline and diesel were RMB 176.2 billion, accounting for 84.5% of the operating revenues of this segment. The percentage of retail sales volume of gasoline and diesel in the total sales volume of gasoline and diesel increased from 53.3% in the first half of 2004 to 56.8% in the first half of 2005, representing an increase of 3.5 percentage points. The percentage of sales volume of gasoline and diesel by distribution in the total sales volume decreased from 21.0% in the first half of 2004 to 20.0% in the first half of 2005, down by 1 percentage point. The percentage of wholesale volume in the total sales volume of gasoline and diesel decreased from 25.7% in the first half of 2004 to 23.3% in the first half of 2005, down by 2.4 percentage points.

The following table shows the sales volumes, average realised prices, and respective percentages of changes of the four product categories in the first half of 2004 and 2005, including detailed information of different sales channels for gasoline and diesel.

		Sales Volumes (thousand tonnes)			Average Realised Prices (RMB/tonne)		
		Six-month periods ended June 30		Changes	Six-month periods ended June 30		Changes
		2005	2004	(%)	**2005**	2004	(%)
Gasoline		**14,660**	**13,356**	**9.8**	**4,150**	**3,577**	**16.0**
Of which:	Retail	10,040	8,783	14.3	4,293	3,733	15.0
	Direct sales	1,429	1,454	(1.7)	3,904	3,347	16.6
	Wholesale	3,191	3,119	2.3	3,810	3,245	17.4
Diesel		**32,866**	**29,428**	**11.7**	**3,510**	**3,039**	**15.5**
Of which:	Retail	16,935	13,999	21.0	3,635	3,164	14.9
	Direct sales	8,057	7,541	6.8	3,501	3,045	15.0
	Wholesale	7,874	7,888	(0.2)	3,249	2,811	15.6
Kerosene including jet fuel		**3,058**	**2,597**	**17.8**	**3,412**	**2,706**	**26.1**
Fuel oil		**6,459**	**4,973**	**29.9**	**2,099**	**1,715**	**22.4**

In the first half of 2005, this segment's operating expenses were RMB 202.0 billion, up by 34.9% compared with that in the first half of 2004, mainly due to the increase of procurement costs, of which purchasing costs of gasoline and diesel were RMB 159.0 billion, accounting for 78.7% of the segment's operating expenses, up by 34.6% over that in the first half of 2004. In the first half of 2005, average purchased prices of gasoline and diesel increased by 24.9% and 19.4%, respectively, compared with that in the first half of 2004, to RMB 3,506 per tonne and RMB 3,273 per tonne, respectively. The purchasing volume of gasoline and diesel increased by 9.7% and 11.7%, respectively, compared with that in the first half of 2004, to 14.66 million tonnes and 32.87 million tonnes, respectively.

In the first half of 2005, the segment's cash operating cost per tonne of petroleum products (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 149.93 per tonne, down by 2.2% compared with that in the first half of 2004. This decrease was primarily attributable to diluted expenses caused by increased total sales volume and measures of cost savings.

In the first half of 2005, the Marketing and Distribution Segment's operating profit was RMB 6.6 billion, down by 22.5% compared with the first half of 2004.

(4) Chemicals Segment

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

In the first half of 2005, operating revenues of the Chemicals Segment were RMB 86.0 billion, up by 31.9% over the first half of 2004, mainly because of the increase in sales volume of major chemical products and the increase in realised prices.

The sales revenue mainly generated from the Company's six categories of chemical products (i.e. basic organic chemicals, synthetic resin, synthetic rubber, synthetic fiber monomer and polymer, synthetic fiber and chemical fertilizer) totaled RMB 75.3 billion, accounting for 87.6% of the operating revenues of this segment, up by 34.9% over the first half of 2004.

The following table lists the sales volumes, average realised price and rates of change of each of these six categories of chemical products of this segment in the first half of 2004 and 2005.

	Sales Volumes (thousand tonnes)			Average Realised Prices (RMB/tonne)		
	Six-month periods ended June 30		Changes	Six-month periods ended June 30		Changes
	2005	2004	(%)	**2005**	2004	(%)
Basic organic chemicals	4,454	3,507	27.0	4,885	3,593	36.0
Synthetic fiber monomer and polymer	1,420	1,371	3.6	9,018	7,376	22.3
Synthetic resin	2,899	2,667	8.7	9,144	7,337	24.6
Synthetic fiber	784	878	(10.7)	11,499	10,300	11.6
Synthetic rubber	303	299	1.3	12,393	9,301	33.2
Chemical fertilizer	1,005	1,314	(23.5)	1,463	1,326	10.3

In the first half of 2005, operating expenses of the Chemicals Segment were RMB 75.2 billion, up by 27% over the first half of 2004. This was primarily due to the increase in the price of feedstock and the significant increase in the Segment's production, the expenses for various raw materials and ancillary materials, other variable expenses and fixed costs increased accordingly. Of which:

- The purchasing costs for raw materials, operating supplies and other related expenses increased by approximately RMB 16.8 billion compared with that in the first half of 2004 due to the increase in the consumption of raw materials and ancillary materials and the increase in their unit prices.
- Provision for the impairment losses on assets was RMB 0.4 billion, down by RMB 1.3 billion compared with that in the first half of 2004.

In the first half of 2005, operating profit for chemical segment was RMB 10.8 billion, up by 80.1% over the first half of 2004. The percentage of operating profit of the Chemicals Segment in the Company's total operating profit increased from 21.0% in the first half of 2004 to 32.1% in the first half of 2005, representing an increase of 11.1 percentage points.

(5) Corporate and Others

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

In the first half of 2005, the operating revenues generated from corporate and others was RMB 53.5 billion, up by 45.3% over the first half of 2004. The increase was largely because China Petrochemical International Company Limited and its subsidiaries increased their trading volume in importing and exporting of crude oil and refined oil products and other business transactions.

In the first half of 2005, the operating expenses were RMB 53.8 billion, up by 42.8% over the first half of 2004. This increase was mainly due to the increase in the purchasing costs of China Petrochemical International Company Limited and its subsidiaries associated with the increase in operating revenue.

In the first half of 2005, the operating losses were RMB 0.3 billion , representing an decrease in losses by RMB 0.5 billion compared with that in the first half of 2004.

3 ASSETS, LIABILITIES, EQUITY, AND CASH FLOW

(1) Assets, liabilities and equity

Units: RMB millions

	At 30 June 2005	At 31 December 2004	Changes
Current assets	139,104	120,271	18,833
Non-current assets	370,276	354,323	15,953
Total assets	509,380	474,594	34,786
Current liabilities	154,084	146,277	7,807
Non-current liabilities	120,520	104,231	16,289
Total liabilities	274,604	250,508	24,096
Total equity attributable to equity holders of the parent	205,757	193,040	12,717
Share capital	86,702	86,702	—
Reserves	119,055	106,338	12,717
Minority interests	29,019	31,046	(2,027)
Total equity	234,776	224,086	10,690

At 30 June 2005, the Company's total assets were RMB 509.38 billion, up by RMB 34.786 billion compared with that at the end of 2004, of which:

- Current assets were RMB 139.104 billion, up by RMB 18.833 billion compared with that at the end of 2004. The change was mainly due to the increase in inventories by RMB 15.104 billion during the first half of 2005, of which, crude oil and other feedstock increased by RMB 12.532 billion, the work in progress and finished products increased by RMB 1.701 billion. In the first half of 2005, with significant increase in the income from principal operations, accounts receivable and bills receivable increased by RMB 6.035 billion, prepaid expenses and other current assets increased by RMB 652 million. The Company also further reinforced the centralised fund management and as a result cash and cash equivalents and time deposits decreased by RMB 2.958 billion.

- The Company's non-current assets were RMB 370.276 billion, up by RMB 15.953 billion compared with that at the end of 2004. The change was primarily attributable to the additions of property, plant and equipment and construction in progress of RMB 15.368 billion according to the annual investment plan.

At 30 June 2005, the Company's total liabilities were RMB 274.604 billion, up by RMB 24.096 billion compared with that at the end of 2004, of which:

- Current liabilities were RMB 154.084 billion, up by RMB 7.807 billion compared with that at the end of 2004. Such increases was mainly due to the increase in accounts payable and bills payable by RMB 6.456 billion.

- Non-current liabilities were RMB 120.520 billion, up by RMB 16.289 billion compared with that at the end of 2004. This was mainly due to the increase in long-term loans as a result of the implementation of the investment projects.

At 30 June 2005, the Company's total equity attributable to equity holders of the parent was RMB 205.757 billion, up by RMB 12.717 billion compared with that at the end of 2004, which was due to the increase of reserves.

(2) Cash flow

In the first half of 2005, cash and cash equivalents decreased by a net amount of RMB 2.765 billion from RMB 16.381 billion as at 31 December 2004 to RMB 13.616 billion as at 30 June 2005.

The following table lists the major items in the consolidated cash flow statements of the Company for the first half of 2005 and the first half of 2004.

Units: RMB millions

Major items of cash flows	Six-month period ended June 30 2005	2004	Changes
Net cash inflow from operating activities	21,082	20,698	384
Net cash used in investing activities	(31,400)	(31,050)	(350)
Net cash inflow from financing activities	7,553	9,500	(1,947)
Net decrease in cash and cash equivalents	(2,765)	(852)	(1,913)

Net cash inflow from operating activities was RMB 21.082 billion

Major sources: In the first half of 2005, profit before taxation was RMB 31.714 billion, deducted by cash outflow of income tax of RMB 12.424 billion, and adjusted for operating expenses items that have no cash flow effect : depreciation, depletion and amortization of RMB 15.155 billion; impairment losses on long-lived assets of RMB 397 million and the dry holes costs of RMB 1.325 billion, amounting to a total of RMB 36.167 billion.

After deducting the cash outflow caused by the increase in inventory, including crude oil, by RMB 14.957 billion and the cash outflow from changes in operating receivables and payables of RMB 128 million, the net cash inflow from operating activities was RMB 21.082 billion.

Net cash used in investing activities was RMB 31.4 billion, which was mainly used for:

- The Company's capital expenditure of RMB 25.368 billion;
- The jointly controlled entities' capital expenditure of RMB 1.896 billion;
- Acquisition of a subsidiary's minority interests of RMB 4.088 billion;

Net cash inflow from financing activities was RMB 7.553 billion. This was mainly derived from bank loans.

(3) Contingent liabilities

At 30 June 2005, the amount of guarantees provided by the Company in respect of banking facilities granted to associates amounted to approximately RMB 109 million.

4 CAPITAL EXPENDITURE

Please refer to "Capital Expenditure" in the section headed "Business Review and Prospects".

5 ANALYSIS OF FINANCIAL STATEMENTS PREPARED UNDER THE PRC ACCOUNTING RULES AND REGULATIONS

(1) The major differences between the Company's financial statements prepared under the PRC Accounting Rules and Regulations and IFRS are set out in Section C of the financial statements of the Company on page 106 to page 107 of this report.

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

	Six-month period ended June 30	
	2005	2004
	RMB millions	RMB millions
Income from principal operations		
Exploration and Production Segment	44,396	33,692
Refining Segment	209,118	158,890
Marketing and Distribution Segment	208,083	157,873
Chemicals Segment	83,066	55,740
Others	53,248	35,108
Elimination of inter-segment sales	(238,663)	(175,594)
Consolidated income from principal operations	**359,248**	**265,709**
Cost of sales, sales taxes and surcharges		
Exploration and Production Segment	17,920	16,165
Refining Segment	208,147	151,772
Marketing and Distribution Segment	190,761	138,914
Chemicals Segment	68,283	45,685
Others	52,619	34,769
Elimination of the cost of inter-segment sales	(236,345)	(173,431)
Consolidated cost of sales, sales taxes and surcharges	**301,385**	**213,874**
Profit from principal operations		
Exploration and Production Segment	23,738	15,568
Refining Segment	1,391	6,914
Marketing and Distribution Segment	17,322	18,959
Chemicals Segment	14,783	10,055
Others	629	339
Consolidated profit from principal operations	**57,863**	**51,835**
Consolidated net profit	**18,044**	**15,039**

Profit from principal operations: In the first half of 2005, the profit from principal operations realized by the Company was RMB 57.863 billion, up by RMB 6.028 billion, representing an increase of 11.63% over the first half of 2004. This increase was mainly due to the increase in prices of crude oil and petrochemical products during the first half of 2005. The Company captured market opportunities, expanded the production volume and sales, rationalised marketing structure and improved its operating efficiency.

Net profit: In the first half of 2005, the Company's realised net profit was RMB 18.044 billion, up by RMB 3.005 billion, representing an increase of 19.98% over the first half of 2004. This was mainly due to the increase in profit from principal operations.

(3) Financial data prepared in accordance with the PRC Accounting Rules and Regulations:

	At June 30 2005 RMB millions	At December 31 2004 RMB millions
Total assets	492,986	460,081
Long-term liabilities	114,491	98,407
Shareholders' funds	197,571	186,350

Analysis of changes

Total assets: At 30 June 2005, the Company's total assets were RMB 492.986 billion, up by RMB 32.905 billion compared with that at the end of 2004, representing an increase of 7.15%. Current assets were RMB 135.315 billion, up by RMB 18.259 billion compared with that at the end of 2004. The change was mainly due to the increase in the Company's inventory by RMB 14.549 billion, of which the increase in crude oil and other feedstock amounted to RMB 12.531 billion and the work in progress and finished products amounted to RMB 1.701 billion, the increase in accounts receivable, bills receivable and advance payments by RMB 7.448 billion, which was mainly due to the significant increase in sales revenue compared with that in the first half of 2004. During the first half of 2005, the Company further reduced working capital occupied, and as a result, cash at bank and in hand decreased by RMB 2.958 billion and other receivables decreased by RMB 780 million. Non-current assets were RMB 357.671 billion, increased by RMB 14.646 billion compared with that at the end of 2004. This was mainly due to the additions of RMB 15.4 billion of fixed assets and construction in progress according to the annual investment plan.

Long-term liabilities: At 30 June 2005, the Company's long-term liabilities were RMB 114.491 billion, up by RMB 16.084 billion compared with that at the end of 2004, representing an increase by 16.34%. This was mainly due to the increase in long-term loans.

Shareholders' funds: At 30 June 2005, the shareholders' funds of the Company were RMB 197.571 billion, up by RMB 11.221 billion compared with that at the end of 2004, representing an increase of 6.02%.

6 SIGNIFICANT DIFFERENCES BETWEEN THE FINANCIAL STATEMENTS PREPARED UNDER IFRS AND US GAAP

The significant 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 108 to page 109 of this report.

1 CORPORATE GOVERNANCE

During the first half of 2005, Sinopec Corp. has further strengthened its corporate governance. Pursuant to the relevant domestic and overseas regulatory requirements, the Company revised and improved the "Working Rules and Procedures of Audit Committee of the Board of Directors", and responsively adjusted the composition of the audit committee to the Board of the Directors. The Company has fully implemented its internal control system and carried out inspection thereof. As a result, internal supervision and control of the Company was improved. In accordance with the requirements of China Securities Regulatory Commission ("CSRC"), the Company implemented procedures to monitor the use of proceeds from issuance of shares, guarantees and the use of funds by connected parties, and put forward remedies for the problems discovered during the inspection. During the same period, the company further improved quality of disclosure of information and strengthened investor relations.

During the first half of 2005, Sinopec Corp. considered the "Code on Corporate Governance Practice" issued by The Stock Exchange of Hong Kong Limited ("the Hong Kong Stock Exchange") and compiled relevant training materials for the directors, supervisors and other members of the senior management. The "Rules of Securities Transactions by Corporate Employees" was prepared by the Company taking into account the circumstances of the Company. Save as the above, the Company is not aware of any breach of the "Code on Corporate Governance Practice".

2 DIVIDEND DISTRIBUTION FOR THE YEAR ENDED 31 DECEMBER 2004 AND INTERIM DIVIDEND DISTRIBUTION PLAN FOR THE PERIOD ENDED 30 JUNE 2005

(1) Dividend distribution for the year ended 31 December 2004

As approved at the Annual General Meeting of Sinopec Corp. for the Year 2004, a final cash dividend of RMB 0.08 (inclusive of tax) per share for the year ended 31 December 2004 was distributed, which amounted to an aggregate of RMB 6.936 billion. Shareholders whose names appeared on the register of members of Sinopec Corp. on 3 June 2005 had already received the final dividend on 27 June 2005.

For the Year 2004, the annual cash dividend of RMB 0.12 (inclusive of tax) per share was distributed and the total cash dividend amounted to RMB 10.404 billion.

(2) Interim dividend distribution plan for the six-month period ended 30 June 2005

According to the provisions of the Articles of Association of Sinopec Corp., the Board approved the Interim Dividend Distribution Plan for the period ended 30 June 2005 at the nineteenth meeting of the Second Session of the Board of Directors. An interim cash dividend of RMB 0.04 (inclusive of tax) per share will be distributed, based on the total number of shares of 86,702.439 million as at 30 June 2005. The total cash dividend amounts to approximately RMB 3.468 billion.

The interim dividend will be distributed on or before Friday, 30 September 2005 to the shareholders whose names appear on the register of members of Sinopec Corp. on Tuesday, 20 September 2005.

To be entitled to the interim dividend, holders of H shares shall lodge their share certificate(s) and transfer documents with Hong Kong Registrars Limited at Shops 1712-1716, 17/F., Hopewell Center, 183 Queen's Road East, Wanchai, Hong Kong for registration of transfer, no later than 4:00pm on Tuesday, 13 September 2005. The register of members of the H shares of Sinopec Corp. will be closed from Wednesday, 14 September 2005 to Tuesday, 20 September 2005 (both dates inclusive).

Dividends will be denominated and declared in Renminbi. Dividends for domestic shares will be paid in Renminbi and dividends for foreign shares will be paid in Hong Kong dollars. The exchange rate for dividends to be paid in Hong Kong dollars is the mean of the average rate of Hong Kong dollar to Renminbi published by the People's Bank of China during the calendar week (from 15 August 2005 to 19 August 2005) prior to the date of declaration of dividends, being Friday, 26 August 2005.

3 THE COMPANY HAS NOT BEEN INVOLVED IN ANY MATERIAL LITIGATIONS AND ARBITRATIONS DURING THE REPORTING PERIOD

4 CONNECTED TRANSACTIONS

(1) Connected transactions entered into by the Company during the reporting period

During the reporting period, the aggregate amount of connected transactions incurred between the Company and the connected parties was RMB 72.495 billion, of which, incoming trade amounted to RMB 35.469 billion, and outgoing trade amounted to RMB 37.026 billion (including RMB 36.976 billion of sales of products and services). Details of the connected transactions incurred during the reporting period are set out in the notes to the financial statements contained in this report.

All connected transactions incurred during the reporting period have been carried out in compliance with its respective agreements as published in the relevant announcements.

The following table shows the principal operations categorised by business segments and the details of the connected transactions, including income from principal operations and cost of sales for each business segment which are extracted from the Company's financial statements prepared under the PRC Accounting Rules and Regulations:

Categorised by business segments	Income from principal operations (RMB millions)	Cost of sales (RMB millions)	Gross profit ratio* (%)	Increase/decrease of income from principal operations compared to the same period of preceding year (%)	Increase/decrease of cost of sales compared to the same period of preceding year (%)	Increase/decrease of gross profit ratio compared to the same period of preceding year (percentage point)
Exploration and production	44,396	17,215	53.47	31.77	10.54	7.26
Refining	209,118	201,315	0.67	31.61	38.69	(3.68)
Chemicals	83,066	67,905	17.80	49.02	49.58	(0.24)
Marketing and distribution	208,083	190,487	8.33	31.80	37.40	(3.68)
Others	53,248	52,604	1.18	51.67	51.32	0.21
Elimination of inter-segment sales	(238,663)	(236,345)	—	—	—	—
Total	359,248	293,181	16.11	35.20	42.25	(3.40)
Of which: connected transactions	31,795	28,777	9.07	44.52	47.39	(1.39)
Pricing policy for connected transactions	(1) Government-prescribed prices and government-guided prices are adopted for products or items if such prices are available; (2) Where there is no government-prescribed price or government-guided price for products or items, 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 reasonable cost incurred plus sales taxes and reasonable profit. Reasonable cost means the average production cost of products by the same type of enterprises within regions with proximity using the same kind of raw materials. Reasonable profit means profit margin of not more than 6% of the cost incurred based on the current interest rate level set by the government.					

Of which: during the reporting period, the total amount of connected transactions of the products sold and the services provided by the Company to Sinopec Group was RMB 22,090 million.

* Gross profit ratio = profit from principal operations/income from principal operations

5 ACQUISITIONS, DISPOSALS AND REORGANISATIONS OF ASSETS

(1) Acquisitions or purchases of assets

The other party to the transaction and the assets acquired or invested	Date of purchase	Transaction price	Net profit/(loss) contributed to the Company during the period from the purchase day to the end of the reporting period	Whether it constituted a connected transaction (if yes, explain the pricing principle)	Whether the assets has been transferred	Whether related debts and liabilities have been transferred
Acquisition of 10.5% of the shares in Qingdao Qirun held by Hong Kong Huarun	21 Jan 2005	RMB 124 million	RMB(5.94) million	No	No	No

(2) Sales or disposals of assets

There was no major sales or disposals of assets during the reporting period.

6 DELISTING OF BEIJING YANHUA

Sinopec Corp. privatised Beijing Yanhua Petrochemical Company Limited ("Beijing Yanhua") by way of merger by absorption through Beijing Feitian Petrochemical Company Limited ("Beijing Feitian"), a wholly-owned subsidiary of Sinopec Corp., established for the purpose of such merger. Pursuant to the agreement entered into between Beijing Feitian and Beijing Yanhua on 29 December 2004, Beijing Feitian purchased the listed shares of Beijing Yanhua from shareholders at a price of HK$ 3.80 per share in cash. The total consideration amounted to approximately HK$ 3.846 billion. Beijing Yuanhua was delisted on 11 May 2005. Please refer to Sinopec Corp.'s announcement published in China Securities, Shanghai Securities and Securities Times in Mainland China and South China Morning Post and Hong Kong Economic Times in Hong Kong on 30 December 2004 and 7 March 2005 for details.

7 SIGNIFICANT TRUSTEESHIP, CONTRACT AND LEASE

During this reporting period, Sinopec Corp. did not have any 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 which were required to be disclosed.

8 DURING THIS REPORTING PERIOD, SINOPEC CORP. DID NOT ENTRUST ANY OTHER PARTY TO CARRY OUT CASH ASSETS MANAGEMENT

9 SIGNIFICANT GUARANTEES [1]

Guarantees provided by Sinopec Corp. (excluding the guarantees provided for its controlling subsidiaries)

Obligors	Date of occurrence (date of execution of agreement)	Amount RMB millions	Type	Term	Whether discharged or not	Whether for a connected party
Shanghai Secco Petrochemical Co., Ltd.	9 Feb. 2002	2,930	Joint and several liability	9 Feb. 2002 – 20 Dec. 2021	No	Yes
Shanghai Secco Petrochemical Co., Ltd.	9 Feb. 2002	4,062	Joint and several liability	9 Feb. 2002 – 20 Dec. 2013	No	Yes
BASF-YPC Co., Ltd.	7 Mar. 2003	4,680	Joint and several liability	7 Mar. 2003 – 31 Dec. 2008	No	Yes
Yueyang Sinopec Shell Coal Gasification Co., Ltd.	10 Dec. 2003	377	Joint and several liability	10 Dec. 2003 – 10 Dec. 2017	No	Yes
Fujian Zhangzhao Expressway service Company Limited	21 Jan 2003	10	Joint and several liability	21 Jan. 2003–31 Oct. 2007	No	Yes
External guarantees of Sinopec Shanghai Petrochemical Co.,Ltd. [2]	N/A	44				
External guarantees of Sinopec Zhenhai Refining and Chemical Co.,Ltd. [2]	N/A	14				
Total amount of guarantee provided during the reporting period		None				
Total amount of guarantee outstanding at the end of the reporting period						RMB 12,117 million

Guarantees provided by Sinopec Corp. for its controlling subsidiaries	
Total amount of guarantee provided for its controlling subsidiaries during the reporting period	None
Total amount of guarantee for its controlling subsidiaries outstanding at the end of the reporting period	RMB 2,617 million

Total amount of guarantee provided by Sinopec Corp. (including those provided for its controlling subsidiaries)	
Total amount of guarantee [3]	RMB 14,734 million
Total amount of guarantee as a percentage of the Sinopec Corp. net assets	7.5%

Guarantees not in compliance with the requirements of Zheng Jian Fa [2003] No. 56 [4]	
Amount of guarantee provided for the holding shareholder or the other connected parties in which less than 50% (excluding 50%) shares are owned by Sinopec Corp. [5]	RMB 24 million
Amount of debt guarantee provided for the companies with liabilities to assets ratio of over 70% [5]	RMB 170 million
Whether the total guaranteed amount is over 50% of the net assets [5]	No
Total amount of guarantee not in compliance with the requirements of Zheng Jian Fa [2003] No. 56 [5]	RMB 194 million

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

Note 2: This represents the sum of the external guarantees provided by the controlling subsidiaries of Sinopec Corp. in the reporting period multiplied by the respective shareholdings held by Sinopec Corp. in the subsidiaries.

Note 3: Total amount of guarantee is the aggregate amount of guarantee outstanding (excluding the guarantee to controlling subsidiaries) plus total amount of guarantee outstanding provided to its controlling subsidiaries at the end of the reporting period.

Note 4: It refers to the Notice on Certain Issues Relating to Regulating Fund Transfers between a Listed Company and Connected Parties and the External Guarantees of Listed Company (Zheng Jian Fa [2003] No.56) jointly issued by CSRC and State Assets Supervision and Administration Commission (SASAC) in August, 2003.

Note 5: Pursuant to the provisions in the "Disclosure Format Guideline for the Summary of Interim Report" issued by the Shanghai Stock Exchange in 2005, the relevant amounts are as follow:

1. The amount of the guarantees provided by Sinopec Corp. not in compliance with the requirements of Zheng Jian Fa [2003] No. 56; and
2. The amount of the guarantees provided by controlling subsidiaries of Sinopec Corp. not in compliance with the requirements of Zheng Jian Fa [2003] No. 56 multiplied by the respective shareholdings held by Sinopec Corp.

Material Items of 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 RMB 6.992 billion. For further details, please refer to Sinopec Corp.'s announcement published in China Securities, Shanghai Securities and Securities Times in Mainland China on 2 April 2002 and the results announcement for the year 2001 published in South China Morning Post and Hong Kong Economic Times in Hong Kong.

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

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

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

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

Specific explanations and independent opinions on the external guarantees presented by the independent directors

As independent directors of Sinopec Corp., we have carefully reviewed the external guarantees of Sinopec Corp. The explanations on Sinopec Corp.'s accumulative and current external guarantees for the first half of 2005 (ended 30 June 2005) are as follows:

In the first half of 2005, no new external guarantees were provided by Sinopec Corp. The outstanding amount of accumulative external guarantees was approximately RMB 14.734 billion, decreased by approximately RMB 65 million compared with that at the end of 2004, and the total amount of guarantees accounted for 7.5% of the net assets of the Company. The total amount of the guarantees (including the related amount of external guarantees provided by controlling subsidiaries calculated with reference to respective shareholdings) not in compliance with the requirements of Zheng Jian Fa [2003] No. 56 was approximately RMB 194 million, of which, the amount of guarantees provided by the Company not in compliance with the requirements of Zheng Jian Fa [2003] No. 56 was RMB 145 million.

Information related to the external guarantees incurred in or before 2004 had been disclosed in details in Sinopec Corp.'s 2004 Annual Report.

We present our independent opinions as follows:

Sinopec Corp. has carried out self-inspection on the accumulative and current external guarantees incurred in the first half of 2005 and has taken steps to eliminate them. The result shows that there was no new external guarantees incurred in the first half year of 2005 and the amount of accumulative guarantees decreased approximately by RMB 65 million compared with that at the end of 2004. The amount of guarantees provided by the Company not in compliance with Zheng Jian Fa [2003] No. 56 decreased by RMB 38 million compared with that at the end of 2004.

Sinopec Corp. shall, in accordance with the laws and regulations of the PRC and the Articles of Association and other internal rules and regulations, further reinforce the risk management of external guarantees, and decrease those guarantees that are not in compliance with the requirements under Zheng Jian Fa [2003] No. 56.

10 PROVISION OF FUND TO AND FUND PROVIDED BY CONNECTED PARTIES

Unit: RMB millions

Connected party	Relationship	Provision of funds to connected party: Net occurrence	Provision of funds to connected party: Balance	Funds provided by connected party to the Company: Net occurrence	Funds provided by connected party to the Company: Balance
Sinopec Group	Controlling shareholder and its controlled legal persons	(2,103)	4,032	34	9,713
Other connected parties	Associates	248	556	—	—
Total		(1,855)	4,588	34	9,713

11 SUMMARY OF THE USE OF FUNDS BY THE CONTROLLING SHAREHOLDER AND OTHER CONNECTED PARTIES FOR THE FIRST HALF OF 2005

Unit: RMB millions

Nature of the use of funds	Name of connected parties	Relationship	Account caption	Opening balance of the period	Increase during the period	Decrease during the period	Ending balance of the period
Borrowings	—	—	—	—	—	—	—
Entrusted loans	BASF-YPC Styrene Co., Ltd.	Other connected parties	Long-term investment	60	66	24	102
Entrusted investment	—	—	—	—	—	—	—
Issuing commercial bills without genuine business transaction	—	—	—	—	—	—	—
Repay debt on behalf of other entities	—	—	—	—	—	—	—
Accounts receivable and other receivables aged over one year as at 30 June 2005	Sinopec Group Company	Controlling shareholder	Other receivables	2,502	—	500	2,002
	Fellow subsidiaries controlled by Sinopec Group Company/other connected companies	Other connected parties	Other receivables/ accounts receivable	1,696	120	1,348	468
Total				4,258	186	1,872	2,572

Significant Events

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

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

(a) Carrying out the reorganisation of its three wholly-owned subsidiaries, namely, Sinopec Shengli Oilfield Company Limited, Sinopec Sales Company Limited and Sinopec International Company Limited, in accordance with the PRC Company Law within a specified period of time;

(b) Changing the logo currently used at the petrol stations within a specified period of time;

(c) Setting up separate office buildings between Sinopec Group Company and Sinopec Corp. within a specified period of time; and

(d) Complying with the relevant applicable provisions and rules of the Hong Kong Stock Exchange regarding the waiver of connected transactions.

(2) As at the end of the reporting period, the major undertakings given by Sinopec Group Company include:

(a) Complying with the agreements concerning connected transactions;

(b) Solving the issues arising from the land use rights certificates and property ownership rights certificates within a specified period of time;

(c) Implementing the Reorganisation Agreement (defined in the Prospectus for the Issuance of H Shares);

(d) Granting licenses for intellectual property rights;

(e) Avoiding competition within the industry; and

(f) Giving up the business competition and conflict of interests with Sinopec Corp.

Details of the above commitments were included in the prospectus for the issuance of A shares published by Sinopec Corp. in China Securities, Shanghai Securities, and Securities Times on 22 June 2001. During the period of the report, Sinopec Corp. did not breach and was not aware of itself or the above-mentioned principal shareholders having breached the commitments.

13 USE OF PROCEEDS FROM ISSUANCE OF A SHARE

The proceeds from the issuance of A shares of Sinopec Corp. amounted to RMB 11.816 billion. After deducting the issuance expenses, the net proceeds from the issuance of A shares amounted to RMB 11.648 billion. In the year of 2001, RMB 7.766 billion was used, of which, RMB 6.446 billion was used to acquire Sinopec National Star, RMB 50 million to cover the initial preparation cost of the southwest refined oil product pipeline project and RMB 1.27 billion to supplement Sinopec Corp.'s working capital. RMB 696 million was used in 2002, of which, RMB 46 million was used to cover the initial preparation cost of the southwest refined oil product pipeline project and RMB 650 million to build the Ningbo-Shanghai-Nanjing crude oil pipeline. During the year of 2003, RMB 1.514 billion was used, of which, RMB 814 million was used for the construction of Ningbo-Shanghai-Nanjing crude oil pipeline, RMB 700 million for the construction of the southwest refined oil product pipeline project. RMB 1.061 billion was used for the southwest refining oil product pipeline project in 2004.

During this reporting period, RMB 611 million was used for the southwest refining oil product pipeline project. As at 30 June 2005, the proceeds from the issuance of A shares had been completely used.

14 QINGDAO REFINING PROJECT

On 22 June 2004, the Report of Feasibility Study on Qingdao Refining Project was approved by National Development and Reform Commission. The capacity of the refinery is expected to be 10 million tonnes per year. Sinopec Qingdao Refining and Chemical Company Limited ("Qingdao Refinery") was established in Qingdao on 18 November 2004. In June 2005, the ground breaking ceremony was held in Qiangdao, marking the commencement of the construction of the Qingdao Refinery.

15 ACQUISITION OF 40.5% OF THE SHARES IN QINGDAO QIRUN HELD BY HONG KONG HUARUN

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

To facilitate oil products storage and transportation for Qingdao Refining Project, Sinopec Corp. and Hong Kong Huarun entered into a share transfer agreement on 17 November 2004, pursuant to which Sinopec Corp. acquired 30% interest in Qingdao Qirun from Hong Kong Huarun. During the reporting period, Sinopec Corp. and Hong Kong Huarun entered into another share transfer agreement on 21 January 2005, pursuant to which Sinopec Corp. acquired the remaining 10.5% interest in Qingdao Qirun from Hong Kong Huarun. The consideration of such share transfer amounted to RMB 124 million.

16 BASF-YPC INTEGRATED PROJECT FORMALLY PUT INTO OPERATION

On 28 June 2005, the 600,000 tonnes per year ethylene project of BASF-YPC was officially put into commercial operation.

BASF-YPC is a joint venture invested by Sinopec Corp. and its related parties, and BASF with the capital proportion of 50:50. The joint venture has nine production units, which collectively have production capacities of 600,000 tonnes per year of ethylene, 300,000 tonnes per year of ethylene glycol, 160,000 tonnes per year of acrylic acid, 215,000 tonnes per year of acrylic ester, 250,000 tonnes per year of C4-Oxo, 400,000 tonnes per year of polyethylene, 50,000 tonnes per year of formic acid, 36,000 tonnes per year of methylamine, 40,000 tonnes per year of dimethylformamide, 30,000 tonnes per year of propionic acid.
In addition, BASF-YPC has a syngas unit, a self-suporting power plant and related utilities and ancillary facilities.

17 SHANGHAI SECCO 900,000 TONNES ETHYLENE PROJECT FORMALLY PUT INTO OPERATION

On June 29 2005, the 900,000 tonnes per year ethylene project of Shanghai Secco was officially put into operation.

Shanghai Secco is a joint venture invested by Sinopec Corp., Sinopec Shanghai Petrochemical Co.,Ltd. and BP with the investment proportion of 30:20:50. The said project consists of 8 major production facilities with production capacities of 900,000 tonnes per year of ethylene, 600,000 tonnes-per-year of polyethylene, 250,000 tonnes per year of polypropylene, 300,000 tonnes per year of polystyrene and etc.

18 COMMENCEMENT OF THE CONSTRUCTION OF FUJIAN REFINING AND ETHYLENE INTEGRATED JV PROJECT

On 8 July 2005, the opening ceremony for the construction of Fujian Refining and Ethylene Integrated JV project was held in Quanzhou, Fujian Province, the world class integrated refining and chemical project officially entered into its construction stage. On the day of the ceremony, the three parties of the joint venture initialed cooperative documents including the Joint Venture Contract and the Articles of Association for Associate and agreed to submit the documents to the Ministry of Commerce.

Fujian Refining and Ethylene Integrated JV project is a joint venture funded by Fujian Refinery Company Limited, Aramco Overseas Company BV, and ExxonMobil China Petroleum and Petrochemical Company Limited with the investment proportion of 50%, 25% and 25%, respectively. The project will increase the processing capacity of Fujian Refinery from current 4 million tonnes per year to 12 million tonnes per year and improve its sour crude oil processing capacity. The said project involves construction of new chemical facilities including a 800,000 tonnes per year ethylene cracker, 650,000 tonnes per year polyethylene unit, 400,000 tonnes per year polypropylene unit and a 1,000,000 tonnes per year aromatics unit.
In addition, the said project involves the construction of auxiliary utilities and a 300,000 tonnes per year crude oil berth.

19 AUDITORS

At the Annual General Meeting of Sinopec Corp. for the Year 2004 held on 18 May 2005, KPMG Huazhen and KPMG were reappointed as the domestic and international auditors of the Company for the year of 2005, respectively, and the Board of Directors was authorised to determine the remunerations for them. The audit fee accrued for the first half of 2005 was RMB 25 million. The financial statements for the first half of 2005 have been audited by KPMG Huazhen and KPMG. The signing certified public accountants of KPMG Huazhen are Wu Wei and Zhang Jingjing.

20 ISSUANCE AND LISTING OF CORPORATE BONDS

On 8 March 2004, Sinopec Corp. successfully issued domestic 10-year term corporate bonds which amounted to RMB 3.5 billion with a fixed coupon rate of 4.61%. On 28 September 2004, the said corporate bonds were listed on the Shanghai Stock Exchange. For further details, please refer to Sinopec Corp.'s announcement published in China Securities, Shanghai Securities, and Securities Times in Mainland China, and South China Morning Post and Hong Kong Economic Times in Hong Kong on 24 February 2004 and 28 September 2004. As of 31 December 2004, the outstanding principal balance of the said corporate bonds was RMB 3.5 billion. From 24 February 2005 to 23 March 2005, Sinopec Corp. has fully repaid the coupon interests for the first year.

21 ISSUANCE OF SHORT-TERM FINANCIAL PAPER

At the eighteenth meeting of the second session of the Board of Directors of Sinopec Corp. held on 29 July 2005, the Board considered and approved the proposal concerning the issuance of short-term financial paper, and approved that the total amount of short-term financial paper to be issued by Sinopec Corp. should not exceed 10% of its net assets recorded in the latest audited consolidated balance sheet in accordance with the PRC accounting rules and regulations. The Board of Directors or more than two directors were unconditionally authorised to decide on the specified terms, regulations, conditions and related issues on the issuance of financial paper in accordance with the requirements of Sinopec Corp. and the market conditions. The Board approved the submission of the proposal to the first Extraordinary General Meeting on 19 September 2005 to be considered and approved. For further details, please refer to Sinopec Corp.'s announcement published in China Securities, Shanghai Securities, and Securities Times in Mainland China, and South China Morning Post and Hong Kong Economic Times in Hong Kong SAR on 1 August 2005.

22 APPLICATION OF THE MODEL CODE

During this reporting period, no director has infringed the requirements set out under the Model Code for Securities Transactions by Directors of Listed Issuers, Appendix 10 to the Listing Rules stipulated by the Hong Kong Stock Exchange.

23 REPURCHASE, SALE AND REDEMPTION OF SHARES

Apart from those as disclosed above, Sinopec Corp. or any of its subsidiaries, has not repurchased, sold or redeemed any securities of Sinopec Corp. or its subsidiaries during the reporting period.

24 INTERESTS OF DIRECTORS, SUPERVISORS AND OTHER MEMBERS OF THE SENIOR MANAGEMENT IN THE SHARE CAPITAL AND THEIR ENGAGEMENT OR DISMISSAL

(1) Interests of Directors, Supervisors and Other Members of the Senior Management in the Share Capital

As of 30 June 2005, none of the directors, supervisors or senior management of Sinopec Corp. had any interest in any shares of Sinopec Corp.

As of 30 June 2005, none of the directors, supervisors or senior management or any of their respective associates had any interests and short positions in any shares, debentures or related shares of Sinopec Corp. or its associated corporations (as defined in Part XV of the Securities and Futures Ordinance) which were required to be notified to 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 were required pursuant to section 352 of the Securities and Futures Ordinance to be entered in the register referred to therein, or which were required to be notified to 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 Stock Exchange of Hong Kong Limited (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).

(2) The engagement or dismissal of Directors, Supervisors and Other Members of the Senior Management

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

25 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 Commission 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.

KPMG Huazhen

To the Shareholders of China Petroleum & Chemical Corporation:

We have audited the accompanying Company's consolidated balance sheet and balance sheet at 30 June 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 six-month period ended 30 June 2005. 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 30 June 2005, and the consolidated results of operations, results of operations, consolidated cash flows and cash flows for the six-month period ended 30 June 2005.

KPMG Huazhen

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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

26 August 2005

(A) FINANCIAL STATEMENTS PREPARED UNDER THE PRC ACCOUNTING RULES AND REGULATIONS
CONSOLIDATED BALANCE SHEET
at 30 June 2005

	Note	At 30 June 2005 RMB millions	At 31 December 2004 RMB millions
Assets			
Current assets			
Cash at bank and in hand	4	15,322	18,280
Bills receivable	5	8,356	7,812
Trade accounts receivable	6	15,247	9,756
Other receivables	7	11,682	12,462
Advance payments	8	6,241	4,828
Inventories	9	78,467	63,918
Total current assets		**135,315**	**117,056**
Long-term equity investments (Including equity investment differences of RMB 572 million (2004: RMB 383 million))	10	**10,549**	**13,409**
Fixed assets			
Fixed assets, at cost		548,413	519,462
Less: Accumulated depreciation		258,317	243,510
Net book value of fixed assets before impairment losses	11	290,096	275,952
Less: Provision for impairment losses on fixed assets	11	6,213	5,816
Net book value of fixed assets		283,883	270,136
Construction materials	12	984	430
Construction in progress	13	47,629	45,976
Total fixed assets		**332,496**	**316,542**
Intangible assets and other assets			
Intangible assets	14	6,125	5,345
Long-term deferred expenses	15	3,783	3,563
Total intangible assets and other assets		**9,908**	**8,908**
Deferred tax assets	16	**4,718**	**4,166**
Total assets		**492,986**	**460,081**
Liabilities and shareholders' funds			
Current liabilities			
Short-term loans	17	34,419	26,723
Bills payable	18	26,893	30,797
Trade accounts payable	19	34,152	23,792
Receipts in advance	20	9,189	8,605
Wages payable		3,615	3,223
Staff welfare payable		1,095	1,101
Taxes payable	21	3,552	6,741
Other payables	22	1,808	1,519
Other creditors	23	27,384	26,459
Accrued expenses	24	2,395	652
Current portion of long-term liabilities	25	7,245	14,298
Total current liabilities		**151,747**	**143,910**
Long-term liabilities			
Long-term loans	26	110,099	94,087
Debentures payable	27	3,500	3,500
Other long-term payables	28	892	820
Total long-term liabilities		**114,491**	**98,407**
Deferred tax liabilities	16	**3**	**198**
Total liabilities		**266,241**	**242,515**
Minority interests		**29,174**	**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 11,362 million (2004: RMB 9,558 million))	31	29,724	26,116
Unrecognised investment losses		(600)	(713)
Undistributed profits (Including cash dividend declared after the balance sheet date of RMB 3,468 million (2004: Proposed cash dividend of RMB 6,936 million))	39	44,624	37,124
Total shareholders' funds		**197,571**	**186,350**
Total liabilities and shareholders' funds		**492,986**	**460,081**

Approved by the Board of Directors on 26 August 2005.

Chen Tonghai
Chairman
(Authorised representative)

Wang Tianpu
President

Zhang Jiaren
Director, Senior Vice President and Chief Financial Officer

Liu Yun
Head of Accounting Division

The notes on pages 47 to 74 form part of these financial statements.

BALANCE SHEET

at 30 June 2005

	Note	At 30 June 2005 RMB millions	At 31 December 2004 RMB millions
Assets			
Current assets			
Cash at bank and in hand	4	4,692	6,299
Bills receivable	5	1,244	1,597
Trade accounts receivable	6	8,790	8,245
Other receivables	7	16,137	19,625
Advance payments	8	5,072	4,358
Inventories	9	39,000	33,951
Total current assets		**74,935**	**74,075**
Long-term equity investments (Including equity investment differences of RMB 582 million (2004: RMB 400 million))	10	**126,733**	**124,211**
Fixed assets			
Fixed assets, at cost		278,794	271,120
Less: Accumulated depreciation		120,917	113,572
Net book value of fixed assets before impairment losses	11	157,877	157,548
Less: Provision for impairment losses on fixed assets	11	4,043	4,038
Net book value of fixed assets		153,834	153,510
Construction materials	12	215	93
Construction in progress	13	35,706	28,779
Total fixed assets		**189,755**	**182,382**
Intangible assets and other assets			
Intangible assets	14	4,316	4,261
Long-term deferred expenses	15	2,906	2,530
Total intangible assets and other assets		**7,222**	**6,791**
Deferred tax assets	16	**2,376**	**3,708**
Total assets		**401,021**	**391,167**
Liabilities and shareholders' funds			
Current liabilities			
Short-term loans	17	20,482	16,254
Bills payable	18	23,054	21,589
Trade accounts payable	19	17,296	21,137
Receipts in advance	20	7,513	6,106
Wages payable		2,171	1,854
Staff welfare payable		467	498
Taxes payable	21	(269)	3,170
Other payables	22	510	442
Other creditors	23	27,467	34,156
Accrued expenses	24	624	430
Current portion of long-term liabilities	25	3,802	11,506
Total current liabilities		**103,117**	**117,142**
Long-term liabilities			
Long-term loans	26	95,094	82,332
Debentures payable	27	3,500	3,500
Other long-term payables	28	476	438
Total long-term liabilities		**99,070**	**86,270**
Deferred tax liabilities	16	**1**	**16**
Total liabilities		**202,188**	**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 11,362 million (2004: RMB 9,558 million))	31	29,724	26,116
Undistributed profits (Including cash dividend declared after the balance sheet date of RMB 3,468 million (2004: Proposed cash dividend of RMB 6,936 million))	39	44,610	37,124
Total shareholders' funds		**198,833**	**187,739**
Total liabilities and shareholders' funds		**401,021**	**391,167**

Approved by the Board of Directors on 26 August 2005.

Chen Tonghai
Chairman
(Authorised representative)

Wang Tianpu
President

Zhang Jiaren
Director, Senior Vice President and Chief Financial Officer

Liu Yun
Head of Accounting Division

The notes on pages 47 to 74 form part of these financial statements.

CONSOLIDATED INCOME STATEMENT AND PROFIT APPROPRIATION STATEMENT

for the six-month period ended 30 June 2005

	Note	Six-month periods ended 30 June 2005 RMB millions	2004 RMB millions
Income from principal operations	32	359,248	265,709
Less: Cost of sales		293,181	206,098
Sales taxes and surcharges	33	8,204	7,776
Profit from principal operations		**57,863**	**51,835**
Add: Profit from other operations		447	616
Less: Selling expenses		10,359	8,664
Administrative expenses		10,600	10,865
Financial expenses	34	2,852	2,094
Exploration expenses, including dry holes	35	3,355	2,475
Operating profit		**31,144**	**28,353**
Add: Investment (loss) / income	36	(742)	516
Non-operating income		133	181
Less: Non-operating expenses	37	1,109	4,952
Profit before taxation		**29,426**	**24,098**
Less: Taxation	38	9,168	7,154
Minority interests		2,101	2,412
Add: Unrecognised investment losses		(113)	507
Net profit		**18,044**	**15,039**
Add: Undistributed profits at the beginning of the period		37,124	19,975
Distributable profits		**55,168**	**35,014**
Less: Transfer to statutory surplus reserve	31	1,804	1,504
Transfer to statutory public welfare fund	31	1,804	1,504
Distributable profits to shareholders		**51,560**	**32,006**
Less: Distribution of ordinary shares' dividends	39	6,936	5,202
Undistributed profits at the end of the period (Including dividend declared after the balance sheet date of RMB 3,468 million (2004: RMB 3,468 million))	39	**44,624**	**26,804**

Approved by the Board of Directors on 26 August 2005.

Chen Tonghai
Chairman
(Authorised representative)

Wang Tianpu
President

Zhang Jiaren
Director, Senior Vice President and Chief Financial Officer

Liu Yun
Head of Accounting Division

Financial Statements (PRC)

The notes on pages 47 to 74 form part of these financial statements.

INCOME STATEMENT AND PROFIT APPROPRIATION STATEMENT

for the six-month period ended 30 June 2005

	Note	Six-month periods ended 30 June 2005 RMB millions	2004 RMB millions
Income from principal operations	32	241,340	183,836
Less:Cost of sales		212,726	154,678
Sales taxes and surcharges	33	5,386	4,661
Profit from principal operations		**23,228**	**24,497**
Add: Profit from other operations		175	29
Less:Selling expenses		6,609	5,590
Administrative expenses		6,141	7,204
Financial expenses	34	1,852	1,287
Exploration expenses, including dry holes	35	2,678	1,831
Operating profit		**6,123**	**8,614**
Add: Investment income	36	20,934	16,640
Non-operating income		99	112
Less:Non-operating expenses	37	432	3,552
Profit before taxation		**26,724**	**21,814**
Less:Taxation	38	8,694	6,532
Net profit		**18,030**	**15,282**
Add: Undistributed profits at the beginning of the period		37,124	19,732
Distributable profits		**55,154**	**35,014**
Less:Transfer to statutory surplus reserve	31	1,804	1,504
Transfer to statutory public welfare fund	31	1,804	1,504
Distributable profits to shareholders		**51,546**	**32,006**
Less:Distribution of ordinary shares' dividends	39	6,936	5,202
Undistributed profits at the end of the period (Including dividend declared after the balance sheet date of RMB 3,468 million (2004: RMB 3,468 million))	39	**44,610**	**26,804**

Approved by the Board of Directors on 26 August 2005.

Chen Tonghai
Chairman
(Authorised representative)

Wang Tianpu
President

Zhang Jiaren
Director, Senior Vice President and Chief Financial Officer

Liu Yun
Head of Accounting Division

The notes on pages 47 to 74 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

for the six-month period ended 30 June 2005

	Note	Six-month periods ended 30 June **2005** **RMB millions**	 2004 RMB millions
Cash flows from operating activities			
Cash received from sale of goods and rendering of services		423,708	313,412
Rentals received		89	202
Other cash received relating to operating activities		1,787	1,105
Sub-total of cash inflows		**425,584**	**314,719**
Cash paid for goods and services		(349,021)	(246,030)
Cash paid for operating leases		(2,691)	(2,122)
Cash paid to and on behalf of employees		(8,272)	(8,282)
Value added tax paid		(14,217)	(12,672)
Income tax paid		(12,424)	(8,347)
Taxes paid other than value added tax and income tax		(8,986)	(8,456)
Other cash paid relating to operating activities		(4,929)	(7,116)
Sub-total of cash outflows		**(400,540)**	**(293,025)**
Net cash flows from operating activities	(a)	**25,044**	**21,694**
Cash flows from investing activities			
Cash received from sale of investments		63	31
Dividends received		362	222
Net cash received from sale of fixed assets and intangible assets		201	187
Maturity of time deposits with financial institutions		527	800
Other cash received relating to investing activities		168	170
Sub-total of cash inflows		**1,321**	**1,410**
Cash paid for acquisition of fixed assets and intangible assets		(26,339)	(26,424)
Cash paid for acquisition of fixed assets and intangible assets of jointly controlled entities		(1,896)	(3,368)
Cash paid for purchases of investments		(706)	(919)
Increase in time deposits with financial institutions		(334)	(1,371)
Cash paid for acquisition of operating assets and the associated liabilities from China Petrochemical Corporation		(3,128)	(1,828)
Cash paid for acquisition of H shares of a subsidiary		(4,088)	—
Sub-total of cash outflows		**(36,491)**	**(33,910)**
Net cash flows from investing activities		**(35,170)**	**(32,500)**
Cash flows from financing activities			
Proceeds from contribution from minority shareholders		86	92
Proceeds from issuance of corporate bonds, net of issuing expenses		—	3,472
Proceeds from borrowings		292,505	160,356
Proceeds from borrowings of jointly controlled entities		2,603	1,621
Sub-total of cash inflows		**295,194**	**165,541**
Repayments of borrowings		(281,804)	(150,838)
Cash paid for dividends, distribution of profit or interest		(5,515)	(4,703)
Dividends paid to minority shareholders by subsidiaries		(514)	(141)
Sub-total of cash outflows		**(287,833)**	**(155,682)**
Net cash flows from financing activities		**7,361**	**9,859**
Effects of foreign exchange rate		—	**(1)**
Net decrease in cash and cash equivalents	(c)	**(2,765)**	**(948)**

The notes on pages 47 to 74 form part of these financial statements.

for the six-month period ended 30 June 2005
notes to the consolidated cash flow statement

	Six-month periods ended 30 June 2005 RMB millions	2004 RMB millions
(a) Reconciliation of net profit to cash flows from operating activities		
Net profit	18,044	15,039
Add: (Reversal of) / provision for allowance for doubtful accounts	(156)	505
Provision for diminution in value of inventories	70	145
Depreciation of fixed assets	15,107	14,749
Amortisation of intangible assets	305	287
Impairment losses on fixed assets	397	2,763
Impairment losses on long-term investments	35	39
Net loss on disposal of fixed assets and intangible assets	21	1,376
Financial expenses	2,852	2,094
Dry hole costs	1,325	764
Investment loss / (income)	707	(403)
Deferred tax liabilities (less: assets)	(747)	(1,414)
Increase in inventories	(15,026)	(14,653)
Increase in operating receivables	(6,599)	(6,681)
Increase in operating payables	6,608	4,672
Minority interests	2,101	2,412
Net cash flows from operating activities	**25,044**	**21,694**
(b) Financing activities not requiring the use of cash		
Current portion of convertible bonds	—	**1,500**
(c) Net decrease in cash and cash equivalents		
Cash and cash equivalents at the end of the period	13,616	14,273
Less: Cash and cash equivalents at the beginning of the period	16,381	15,221
Net decrease in cash and cash equivalents	**(2,765)**	**(948)**

Approved by the Board of Directors on 26 August 2005.

Chen Tonghai
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(Authorised representative)

Wang Tianpu
President

Zhang Jiaren
Director, Senior Vice President and Chief Financial Officer

Liu Yun
Head of Accounting Division

The notes on pages 47 to 74 form part of these financial statements.

CASH FLOW STATEMENT

for the six-month period ended 30 June 2005

	Note	Six-month periods ended 30 June 2005 RMB millions	2004 RMB millions
Cash flows from operating activities			
Cash received from sale of goods and rendering of services		290,762	217,649
Rentals received		45	106
Other cash received relating to operating activities		1,450	820
Sub-total of cash inflows		**292,257**	**218,575**
Cash paid for goods and services		(254,608)	(181,662)
Cash paid for operating leases		(2,084)	(1,472)
Cash paid to and on behalf of employees		(4,640)	(4,314)
Value added tax paid		(6,338)	(7,122)
Income tax paid		(2,837)	(3,265)
Taxes paid other than value added tax and income tax		(5,878)	(5,193)
Other cash paid relating to operating activities		(12,269)	(6,924)
Sub-total of cash outflows		**(288,654)**	**(209,952)**
Net cash flows from operating activities	(a)	**3,603**	**8,623**
Cash flows from investing activities			
Cash received from sale of investments		62	62
Dividends received		15,910	4,908
Net cash received from sale of fixed assets and intangible assets		104	98
Maturity of time deposits with financial institutions		184	422
Other cash received relating to investing activities		57	74
Sub-total of cash inflows		**16,317**	**5,564**
Cash paid for acquisition of fixed assets and intangible assets		(18,044)	(18,628)
Cash paid for purchases of investments		(1,161)	(1,240)
Increase in time deposits with financial institutions		—	(395)
Cash paid for acquisition of operating assets and the associated liabilities from China Petrochemical Corporation		(3,128)	(1,828)
Cash paid for acquisition of H shares of a subsidiary		(4,088)	—
Sub-total of cash outflows		**(26,421)**	**(22,091)**
Net cash flows from investing activities		**(10,104)**	**(16,527)**
Cash flows from financing activities			
Proceeds from issuance of corporate bonds, net of issuing expenses		—	3,472
Proceeds from borrowings		186,066	73,745
Sub-total of cash inflows		**186,066**	**77,217**
Repayments of borrowings		(176,629)	(64,779)
Cash paid for dividends, distribution of profit or interest		(4,359)	(3,760)
Sub-total of cash outflows		**(180,988)**	**(68,539)**
Net cash flows from financing activities		**5,078**	**8,678**
Net (decrease) / increase in cash and cash equivalents	(b)	**(1,423)**	**774**

The notes on pages 47 to 74 form part of these financial statements.

	Six-month periods ended 30 June 2005 RMB millions	2004 RMB millions
(a) Reconciliation of net profit to cash flows from operating activities		
Net profit	18,030	15,282
Add: Provision for allowance for doubtful accounts	11	613
Provision for diminution in value of inventories	1	87
Depreciation of fixed assets	7,539	6,201
Amortisation of intangible assets	203	173
Impairment losses on fixed assets	5	1,741
Impairment losses on long-term investments	7	—
Net loss on disposal of fixed assets and intangible assets	19	1,207
Financial expenses	1,852	1,287
Dry hole costs	990	408
Investment income	(13,292)	(12,103)
Deferred tax liabilities (less: assets)	1,317	(881)
Increase in inventories	(5,172)	(9,158)
Decrease / (increase) in operating receivables	3,304	(1,009)
(Decrease) / increase in operating payables	(11,211)	4,775
Net cash flows from operating activities	**3,603**	**8,623**
(b) Net (decrease) / increase in cash and cash equivalents		
Cash and cash equivalents at the end of the period	4,628	7,119
Less:Cash and cash equivalents at the beginning of the period	6,051	6,345
Net (decrease) / increase in cash and cash equivalents	**(1,423)**	**774**

Approved by the Board of Directors on 26 August 2005.

Chen Tonghai
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(Authorised representative)

Wang Tianpu
President

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Director, Senior Vice President and Chief Financial Officer

Liu Yun
Head of Accounting Division

The notes on pages 47 to 74 form part of these financial statements.

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 2004, the Company acquired the principal assets and 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 2004, the Company acquired all operating assets and liabilities of two wholly owned subsidiaries of Sinopec Group Company, being Tahe Oilfield Petrochemical Factory ("Tahe Petrochemical") and Xi'an Petrochemical Main Factory ("Xi'an Petrochemical") from Sinopec Group Company, for considerations of RMB 0.14 billion and RMB 0.22 billion, respectively (hereinafter referred to as the "Acquisition of Refining Assets").

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

2 SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted by the 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 MOF of the PRC.

(a) Accounting year

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

(b) Basis of consolidation

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(c) Basis of preparation

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

(d) Reporting currency and translation of foreign currencies

The Group's reporting currency is the Renminbi.

Foreign currency transactions during the period 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 period/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 materials, work in progress and finished goods include direct labour and appropriate proportion of production overheads.

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

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

Inventories are recorded by perpetual method.

(h) Long-term equity investments

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

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

Any excess of the initial investment cost over the share of shareholders' funds of the investee enterprise is amortised on a straight-line basis. The amortisation period is determined according to the investment period as stipulated in the relevant agreement, or 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 period end.

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

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

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

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

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(i) Fixed assets and construction in progress

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

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

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

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

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

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

(j) Oil and gas properties

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

(k) Intangible assets

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

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

(l) Pre-operating expenditures

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

(m) Debentures payable

Debentures payable is stated in the balance sheet at proceeds received upon issuance. Interest expense is calculated based on stipulated interest rate.

(n) Revenue recognition

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

Revenue from the rendering of services only involving in one accounting year is recognised in the income statement upon performance of services. If a transaction lasts more than one accounting 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 are recognised only to the extent that costs incurred which are expected to be recoverable.

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

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(o) Income tax

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

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

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

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

(p) Borrowing costs

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

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

(q) Repairs and maintenance expenses

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

(r) Environmental expenditures

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

(s) Research and development costs

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

(t) Operating leases

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

(u) Dividends

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

(v) Retirement benefits

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

(w) Provision for impairment

The carrying amounts of assets (including long-term equity investments, fixed assets, construction in progress, intangible assets and other assets) are reviewed periodically in order to assess whether the recoverable amounts have declined below the carrying amounts. Assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. When such a decline has occurred, the carrying amount is reduced to the recoverable amount. The amount by which the carrying amount is reduced is the impairment loss.

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

Provision for impairment loss is calculated on an item by item basis and recognised as an expense in the income statement. However, when a difference between the initial investment cost and the Group's share of the shareholders' funds of the investee enterprise has been credited to the capital reserve, any impairment losses for long-term equity investment is firstly set off against the difference initially recognised in the capital reserve in connection with the related investment and any excess impairment 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. Reversal of impairment loss is recognised in current period's income statement. Impairment loss is reversed to the extent of the asset's carrying amount that would has been determined had no impairment loss been recognised in prior years. In respect of the reversal of an impairment loss for a long-term equity investment, the reversal starts with the impairment loss that had previously been recognised in the income statement and then the impairment loss that had been charged to the capital reserve.

(x) Related parties

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

2 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(y) Provisions and contingent liabilities

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

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

3 TAXATION

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

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

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

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

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

The 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

	At 30 June 2005			At 31 December 2004		
	Original currency millions	**Exchange rates**	**RMB millions**	Original currency millions	Exchange rates	RMB millions
Cash in hand						
Renminbi			61			115
Cash at bank						
Renminbi			12,759			12,621
US Dollars	63	8.2765	527	96	8.2765	795
Hong Kong Dollars	124	1.0649	133	47	1.0637	50
Japanese Yen	253	0.0751	19	220	0.0797	18
Euro	3	9.9610	26	1	11.2627	10
			13,525			**13,609**
Deposits at related parties						
Renminbi			1,796			4,657
US Dollars	—	8.2765	1	2	8.2765	14
Total cash at bank and in hand			**15,322**			**18,280**

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

The Company

	At 30 June 2005 Original currency millions	Exchange rates	RMB millions	At 31 December 2004 Original currency millions	Exchange rates	RMB millions
Cash in hand						
Renminbi			14			107
Cash at bank						
Renminbi			4,366			4,892
US Dollars	2	8.2765	16	1	8.2765	6
			4,396			**5,005**
Deposits at related parties						
Renminbi			295			1,280
US Dollars	—	8.2765	1	2	8.2765	14
Total cash at bank and in hand			**4,692**			**6,299**

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

5 BILLS RECEIVABLE

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

6 TRADE ACCOUNTS RECEIVABLE

	The Group At 30 June 2005 RMB millions	At 31 December 2004 RMB millions	The Company At 30 June 2005 RMB millions	At 31 December 2004 RMB millions
Subsidiaries	—	—	5,142	5,026
Sinopec Group Company and fellow subsidiaries	2,705	2,349	812	858
Associates	563	89	27	19
Jointly controlled entities	404	—	248	—
Others	15,127	10,989	5,300	5,179
	18,799	**13,427**	**11,529**	**11,082**
Less: Allowance for doubtful accounts	3,552	3,671	2,739	2,837
Total	**15,247**	**9,756**	**8,790**	**8,245**

Allowance for doubtful accounts are analysed as follows:

	The Group At 30 June 2005 RMB millions	At 31 December 2004 RMB millions	The Company At 30 June 2005 RMB millions	At 31 December 2004 RMB millions
Balance at 1 January	3,671	3,185	2,837	2,299
Provision for the period/year	76	931	51	708
Written back for the period/year	(194)	(85)	(149)	(37)
Written off for the period/year	(1)	(360)	—	(133)
Balance at 30 June/31 December	**3,552**	**3,671**	**2,739**	**2,837**

Ageing analysis on trade accounts receivable are as follows:

The Group	At 30 June 2005 Amount RMB millions	%	Allowance RMB millions	%	At 31 December 2004 Amount RMB millions	%	Allowance RMB millions	%
Within one year	14,964	79.6	201	1.3	9,546	71.1	390	4.1
Between one and two years	278	1.5	52	18.7	308	2.3	83	26.9
Between two and three years	259	1.4	124	47.9	527	3.9	361	68.5
Over three years	3,298	17.5	3,175	96.3	3,046	22.7	2,837	93.1
Total	**18,799**	**100.0**	**3,552**		**13,427**	**100.0**	**3,671**	

The Company	At 30 June 2005 Amount RMB millions	%	Allowance RMB millions	%	At 31 December 2004 Amount RMB millions	%	Allowance RMB millions	%
Within one year	8,706	75.5	139	1.6	8,103	73.1	275	3.4
Between one and two years	186	1.6	38	20.4	193	1.8	66	34.2
Between two and three years	135	1.2	86	63.7	334	3.0	251	75.1
Over three years	2,502	21.7	2,476	99.0	2,452	22.1	2,245	91.6
Total	**11,529**	**100.0**	**2,739**		**11,082**	**100.0**	**2,837**	

6 TRADE ACCOUNTS RECEIVABLE *(Continued)*

Major trade accounts receivable of the Group at 30 June 2005 are set out below:

Name of entity	Balance RMB millions	Percentage of trade accounts receivable %
Trafigura Pte Limited	378	2.0
Baling Petrochemical Yueyang Petrochemical Company	283	1.5
Qingdao Petrochemical Plant	191	1.0
Maoming Petrochemical Shihua Company Limited	166	0.9
Sinopec Railway Oil Marketing Company Limited	165	0.9

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

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

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

During the six-month period ended 30 June 2005, the Group and the Company had no individually significant trade accounts receivable which had been fully or substantially provided for.

During the six-month period ended 30 June 2005, 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 30 June 2005 and 31 December 2004, the Group and the Company had no individually significant trade accounts receivable that aged over three years.

7 OTHER RECEIVABLES

	The Group		The Company	
	At 30 June 2005 RMB millions	At 31 December 2004 RMB millions	**At 30 June 2005 RMB millions**	At 31 December 2004 RMB millions
Subsidiaries	—	—	7,810	11,004
Sinopec Group Company and fellow subsidiaries	4,032	6,135	3,578	5,616
Associates	556	308	426	260
Others	10,544	9,515	7,631	6,168
	15,132	**15,958**	**19,445**	**23,048**
Less: Allowance for doubtful accounts	3,450	3,496	3,308	3,423
Total	**11,682**	**12,462**	**16,137**	**19,625**

Allowance for doubtful accounts are analysed as follows:

	The Group		The Company	
	At 30 June 2005 RMB millions	At 31 December 2004 RMB millions	**At 30 June 2005 RMB millions**	At 31 December 2004 RMB millions
Balance at 1 January	3,496	2,348	3,423	1,967
Provision for the period/year	218	1,245	80	1,514
Written back for the period/year	(256)	(41)	(189)	(26)
Written off for the period/year	(8)	(56)	(6)	(32)
Balance at 30 June/31 December	**3,450**	**3,496**	**3,308**	**3,423**

7 OTHER RECEIVABLES *(Continued)*

Ageing analysis of other receivables are as follows:

	The Group							
	At 30 June 2005				At 31 December 2004			
	Amount RMB millions	**%**	**Allowance RMB millions**	**%**	Amount RMB millions	%	Allowance RMB millions	%
Within one year	8,776	58.0	23	0.3	8,577	53.8	14	0.2
Between one and two years	888	5.9	129	14.5	485	3.0	17	3.5
Between two and three years	200	1.3	100	50.0	3,549	22.2	430	12.1
Over three years	5,268	34.8	3,198	60.7	3,347	21.0	3,035	90.7
Total	**15,132**	**100.0**	**3,450**		**15,958**	**100.0**	**3,496**	

	The Company							
	At 30 June 2005				At 31 December 2004			
	Amount RMB millions	**%**	**Allowance RMB millions**	**%**	Amount RMB millions	%	Allowance RMB millions	%
Within one year	13,959	71.8	14	0.1	16,168	70.1	12	0.1
Between one and two years	701	3.6	613	87.4	923	4.0	592	64.1
Between two and three years	129	0.7	39	30.2	2,620	11.4	48	1.8
Over three years	4,656	23.9	2,642	56.7	3,337	14.5	2,771	83.0
Total	**19,445**	**100.0**	**3,308**		**23,048**	**100.0**	**3,423**	

Major other receivables of the Group at 30 June 2005 are set out below:

Name of entity	Particulars	Balance RMB millions	Percentage of other receivables %
China Petrochemical Corporation	Current Account	2,002	13.2
Jinhuang Real Estate Company Limited	Current Account	219	1.4
Shenzhen Material Group Company	Current Account	200	1.3
Sinopec Shengli Oil Field Dynamic Company Limited	Current Account	200	1.3
China Ruilian Industrial Group Corporation	Current Account	184	1.2

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

Name of entity	Particulars	Balance RMB millions	Percentage of other receivables %
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 40, there is no amount due from shareholders who hold 5% or more voting right of the Company included in the balance of other receivables.

During the six-month period ended 30 June 2005, the Group and the Company had no individually significant other receivables which had been fully or substantially provided for.

During the six-month period ended 30 June 2005, 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 30 June 2005, other than the other receivables due from Sinopec Group Company, the Group and the Company had no individually significant other receivables that aged over three years.

8 ADVANCE PAYMENTS

All advance payments are aged within one year.

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

9 INVENTORIES

	The Group		The Company	
	At 30 June 2005 RMB millions	At 31 December 2004 RMB millions	**At 30 June 2005 RMB millions**	At 31 December 2004 RMB millions
Raw materials	45,112	32,581	18,044	14,544
Work in progress	11,598	8,341	3,877	3,605
Finished goods	19,248	20,804	16,020	15,163
Spare parts and consumables	3,445	3,098	1,430	1,033
	79,403	**64,824**	**39,371**	**34,345**
Less: Provision for diminution in value of inventories	936	906	371	394
	78,467	**63,918**	**39,000**	**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 are analysed as follows:

	The Group		The Company	
	At 30 June 2005 RMB millions	At 31 December 2004 RMB millions	**At 30 June 2005 RMB millions**	At 31 December 2004 RMB millions
Balance at 1 January	906	519	394	226
Provision for the period/year	131	621	38	314
Written back for the period/year	(61)	(188)	(37)	(124)
Written off	(40)	(46)	(24)	(22)
Balance at 30 June/31 December	**936**	**906**	**371**	**394**

The cost of inventories recognised as costs and expenses by the Group and the Company amounted to RMB 298,803 million (2004: RMB 211,880 million) and RMB 218,070 million (2004: RMB 158,638 million) for the six-month period ended 30 June 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
Addition for the period	—	505	1,358	—	1,863
Share of profits less losses from investments accounted for under the equity method	35	330	—	—	365
Long-term equity investments accounted for as jointly controlled entities	—	(3,516)	—	—	(3,516)
Dividends receivable/received	(48)	(217)	—	—	(265)
Disposal for the period	—	(121)	—	—	(121)
Amortisation for the period	—	—	(1,169)	—	(1,169)
Movement of provision for impairment losses	—	—	—	(17)	(17)
Balance at 30 June 2005	**777**	**9,570**	**572**	**(370)**	**10,549**

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
Addition for the period	—	3,897	1,352	—	5,249
Reclassification	(6,856)	6,856	—	—	—
Share of profits less losses from investments accounted for under the equity method	5,417	9,021	—	—	14,438
Dividends receivable/received	(2,487)	(13,399)	—	—	(15,886)
Disposal for the period	—	(102)	—	—	(102)
Amortisation for the period	—	—	(1,170)	—	(1,170)
Movement of provision for impairment losses	—	—	—	(7)	(7)
Balance at 30 June 2005	**45,805**	**80,508**	**582**	**(162)**	**126,733**

10 LONG-TERM EQUITY INVESTMENTS *(Continued)*

Provision for impairment losses are analysed as follows:

	The Group		The Company	
	At 30 June 2005 RMB millions	At 31 December 2004 RMB millions	**At 30 June 2005 RMB millions**	At 31 December 2004 RMB millions
Balance at 1 January	353	271	155	160
Provision for the period/year	40	96	7	2
Written back for the period/year	(5)	(8)	—	(2)
Written off	(18)	(6)	—	(5)
Balance at 30 June/31 December	**370**	**353**	**162**	**155**

At 30 June 2005 and 31 December 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 entities which the Group has over 50% equity interest but the costs of investment are not significant or the Group has no control on the entities. Stock investments of the Company represent investments in subsidiaries, associates and jointly controlled entities. Details of the Company's principal subsidiaries are set out in Note 41.

At 30 June 2005, details of listed stock investment of the Group are as follows:

Name of investee enterprise	Type of equity interest	No. of shares millions	Percentage of equity interest held by the Group	Initial investment cost RMB millions	Balance at 1 January 2005 RMB millions	Shares of profits accounted for under the equity method RMB millions	Dividends receivable/ received RMB millions	**Balance at 30 June 2005 RMB millions**	**Market value at 30 June 2005* RMB millions**
Sinopec Shengli Oil Field Dynamic Co Ltd	Legal person shares	96	26.33%	223	461	24	(29)	456	471
Sinopec Shandong Taishan Petroleum Co Ltd	Legal person shares	186	38.68%	124	329	11	(19)	321	524
					790	**35**	**(48)**	**777**	

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

At 30 June 2005, details of principal unlisted stock and other equity investment of the Group are as follows:

Name of investee enterprise	Initial investment cost RMB millions	Investment period	Percentage of equity interest held by the Group	Balance at 1 January 2005 RMB millions	Addition for the year RMB millions	Share of profits/ (losses) accounted for under the equity method RMB millions	Dividends receivable/ received RMB millions	**Balance at 30 June 2005 RMB millions**
Sinopec Finance Company Limited	1,205	—	40%	1,311	—	69	—	1,380
Shanghai Petroleum National Gas Corporation	300	—	30%	912	—	131	(135)	908
Shanghai Chemical Industry Park Development Company Limited	608	30 years	38%	651	—	(15)	(2)	634
China Shipping & Sinopec Suppliers Company Limited	438	—	50%	468	—	19	—	487
Sinopec Changjiang Fuel Company Limited	190	20 years	50%	251	—	(16)	—	235
Hunan Highway Industrial Development Company Limited	215	—	49%	218	—	—	—	218
Beijng International Trust and Investment Company Limited	200	—	8%	—	200	—	—	200
Zhejiang Express Petroleum Development Company Limited	174	30 years	50%	—	174	2	—	176
China Gas Holdings Ltd	136	—	11%	136	—	—	—	136
Sinopec Railway Oil Marketing Company Limited	74	20 years	50%	110	24	18	(48)	104
Shanghai Jinpu Packaging Material Company Limited	102	30 years	50%	93	—	(3)	—	90

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 30 June 2005, the Group's and the Company's proportion of the total investments to the net assets was 5% (2004: 7%) and 64% (2004: 66%) respectively.

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 period	8	85	77	96	147	413
Transferred from construction in progress	3,386	3,120	5,753	15,390	95	27,744
Proportionate share of a new jointly controlled entity	—	—	—	1,315	—	1,315
Disposals	(97)	(84)	(220)	(102)	(18)	(521)
At 30 June 2005	**173,754**	**120,184**	**70,385**	**179,774**	**4,316**	**548,413**
Accumulated depreciation:						
At 1 January 2005	86,550	56,614	11,657	87,282	1,407	243,510
Depreciation charge for the period	5,451	3,271	1,357	4,894	134	15,107
Written back on disposal	(87)	(58)	(95)	(54)	(6)	(300)
At 30 June 2005	**91,914**	**59,827**	**12,919**	**92,122**	**1,535**	**258,317**
Net book value:						
At 30 June 2005	**81,840**	**60,357**	**57,466**	**87,652**	**2,781**	**290,096**
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 period	8	66	54	—	120	248
Transferred from construction in progress	2,352	1,426	3,733	142	90	7,743
Disposals	(97)	(9)	(196)	(11)	(4)	(317)
At 30 June 2005	**63,288**	**89,376**	**65,004**	**57,850**	**3,276**	**278,794**
Accumulated depreciation:						
At 1 January 2005	26,483	42,803	11,117	32,112	1,057	113,572
Depreciation charge for the period	2,081	2,557	1,281	1,531	89	7,539
Written back on disposal	(87)	(7)	(92)	(7)	(1)	(194)
At 30 June 2005	**28,477**	**45,353**	**12,306**	**33,636**	**1,145**	**120,917**
Net book value:						
At 30 June 2005	**34,811**	**44,023**	**52,698**	**24,214**	**2,131**	**157,877**
At 31 December 2004	**34,542**	**45,090**	**50,296**	**25,607**	**2,013**	**157,548**

The Group – by asset class

	Land and buildings RMB millions	Oil and gas properties RMB millions	Oil depots, storage tanks and service stations RMB millions	Plant, machinery, equipment and others RMB millions	Total RMB millions
Cost/valuation:					
At 1 January 2005	47,107	151,945	59,963	260,447	519,462
Addition for the period	43	1	63	306	413
Transferred from construction in progress	1,265	3,130	5,054	18,295	27,744
Proportionate share of a new jointly controlled entity	469	—	—	846	1,315
Disposals	(117)	(59)	(156)	(189)	(521)
At 30 June 2005	**48,767**	**155,017**	**64,924**	**279,705**	**548,413**
Accumulated depreciation:					
At 1 January 2005	19,988	77,666	10,493	135,363	243,510
Depreciation charge for the period	808	5,120	1,193	7,986	15,107
Written back on disposal	(42)	(50)	(60)	(148)	(300)
At 30 June 2005	**20,754**	**82,736**	**11,626**	**143,201**	**258,317**
Net book value:					
At 30 June 2005	**28,013**	**72,281**	**53,298**	**136,504**	**290,096**
At 31 December 2004	**27,119**	**74,279**	**49,470**	**125,084**	**275,952**

11 FIXED ASSETS *(Continued)*

The Company – by asset class

	Land and buildings RMB millions	Oil and gas properties RMB millions	Oil depots, storage tanks and service stations RMB millions	Plant, machinery, equipment and others RMB millions	Total RMB millions
Cost/valuation:					
At 1 January 2005	25,187	53,307	56,824	135,802	271,120
Addition for the period	7	1	43	197	248
Transferred from construction in progress	503	2,098	3,066	2,076	7,743
Disposals	(54)	(59)	(136)	(68)	(317)
At 30 June 2005	**25,643**	**55,347**	**59,797**	**138,007**	**278,794**
Accumulated depreciation:					
At 1 January 2005	9,672	24,299	10,116	69,485	113,572
Depreciation charge for the period	478	1,933	1,170	3,958	7,539
Written back on disposal	(23)	(50)	(58)	(63)	(194)
At 30 June 2005	**10,127**	**26,182**	**11,228**	**73,380**	**120,917**
Net book value:					
At 30 June 2005	**15,516**	**29,165**	**48,569**	**64,627**	**157,877**
At 31 December 2004	**15,515**	**29,008**	**46,708**	**66,317**	**157,548**

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

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

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

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

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

At 30 June 2005, the carrying amounts of fixed assets that were pledged by the Group and the Company were RMB 100 million (2004: RMB 123 million) and RMB 10 million (2004: RMB 10 million) respectively.

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

The Group – by segment

	Exploration and production RMB millions	Refining RMB millions	Marketing and Distribution RMB millions	Chemicals RMB millions	Total RMB millions
At 1 January 2005	783	64	1,769	3,200	5,816
Addition for the period	—	—	5	392	397
At 30 June 2005	**783**	**64**	**1,774**	**3,592**	**6,213**

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 period	—	—	5	—	5
At 30 June 2005	**720**	**13**	**1,742**	**1,568**	**4,043**

11 FIXED ASSETS *(Continued)*

The Group – by asset class

	Land and buildings RMB millions	Oil and gas properties RMB millions	Oil depots, storage tanks and service stations RMB millions	Plant, machinery, equipment and others RMB millions	Total RMB millions
At 1 January 2005	331	783	1,249	3,453	5,816
Addition for the period	—	—	5	392	397
At 30 June 2005	**331**	**783**	**1,254**	**3,845**	**6,213**

The Company – by asset class

	Land and buildings RMB millions	Oil and gas properties RMB millions	Oil depots, storage tanks and service stations RMB millions	Plant, machinery, equipment and others RMB millions	Total RMB millions
At 1 January 2005	184	720	1,249	1,885	4,038
Addition for the period	—	—	5	—	5
At 30 June 2005	**184**	**720**	**1,254**	**1,885**	**4,043**

Provision for impairment losses recognised on fixed assets of the chemicals segment of RMB 392 million (2004: RMB 2,140 million) for the six-month period ended 30 June 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 which were based on the selling price less cost to sell for the six-month period ended 30 June 2005. The primary factor resulting in the provision for impairment losses of the chemicals segment was due to higher operating and production costs caused by the increase in the prices of raw materials that are not expected to be recovered through an increase in selling price.

Provision for impairment losses recognised on fixed assets of the marketing and distribution segment of RMB 5 million (2004: RMB 623 million) for the six-month period ended 30 June 2005 primarily relate to certain service stations that were closed during the period. 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.

At 30 June 2005 and 31 December 2004, the Group and the Company had no individually significant fixed assets which were temporarily idle or pending for disposal.

At 30 June 2005 and 31 December 2004, the Group and the Company had no individually significant fully depreciated fixed assets which were still in use.

12 CONSTRUCTION MATERIALS

At 30 June 2005 and 31 December 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.

13 CONSTRUCTION IN PROGRESS

The Group

	Exploration and production RMB millions	Refining RMB millions	Marketing and distribution RMB millions	Chemicals RMB millions	Others RMB millions	Total RMB millions
At 1 January 2005	9,262	8,215	13,451	13,535	1,513	45,976
Addition for the period	11,352	3,493	6,151	2,120	249	23,365
Addition by jointly controlled entities	396	—	—	1,500	—	1,896
Proportionate share of a new jointly controlled entity	—	—	—	5,461	—	5,461
Dry hole costs written off	(1,325)	—	—	—	—	(1,325)
Transferred to fixed assets	(3,386)	(3,120)	(5,753)	(15,390)	(95)	(27,744)
At 30 June 2005	**16,299**	**8,588**	**13,849**	**7,226**	**1,667**	**47,629**

The interest rates per annum at which borrowing costs were capitalised during the six-month period ended 30 June 2005 by the Group ranged from 3.4% to 6.1% (2004: 3.1% to 6.0%).

The Group's proportionate share of the jointly controlled entities' construction in progress at 30 June 2005 in the exploration & production and the chemicals segments were RMB 2,449 million (2004: RMB 2,053 million) and RMB 321 million (2004: RMB 8,171 million), respectively.

13 CONSTRUCTION IN PROGRESS *(Continued)*

At 30 June 2005, major projects of the Group are as follows:

Project name	Budgeted amount RMB millions	At 1 January 2005 RMB millions	Addition for the period RMB millions	Transfer to fixed assets RMB millions	**At 30 June 2005 RMB millions**	Percentage of completion	Source of funding	Accumulated interest capitalised at 30 June 2005 RMB millions
The Group								
South-west Fuel Oil Pipeline Project	3,526	2,448	393	(1,239)	1,602	81%	Bank loans & self-financing	44
Yizheng-Changling Crude Oil Pipeline Project	4,820	893	480	(1)	1,372	28%	Bank loans & self-financing	22
800,000 tonnes Ethylene Improvement/Expansion Project	7,494	509	486	—	995	13%	Bank loans & self-financing	6
Fertilizer Improvement Project	1,063	890	103	—	993	93%	Bank loans & self-financing	16
Chaoyang Square Project	2,800	906	30	—	936	33%	Self-financing	—
Coal in replacement of Oil Technology Improvement Project	1,256	603	165	—	768	61%	Bank loans & self-financing	19

The Company

	Exploration and production RMB millions	Refining RMB millions	Marketing and distribution RMB millions	Chemicals RMB millions	Others RMB millions	Total RMB millions
At 1 January 2005	6,607	6,759	9,941	3,978	1,494	28,779
Addition for the period	7,383	2,292	4,372	1,375	238	15,660
Dry hole costs written off	(990)	—	—	—	—	(990)
Transferred to fixed assets	(2,352)	(1,426)	(3,733)	(142)	(90)	(7,743)
At 30 June 2005	**10,648**	**7,625**	**10,580**	**5,211**	**1,642**	**35,706**

The interest rates per annum at which borrowing costs were capitalised for the six-month period ended 30 June 2005 by the Company ranged from 3.4% to 6.1% (2004: 3.1% to 6.0%).

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 period	11	633	—	442	1,086
Disposals	(2)	—	—	(23)	(25)
At 30 June 2005	**861**	**2,919**	**3,163**	**1,054**	**7,997**
Accumulated Amortisation:					
At 1 January 2005	185	841	468	97	1,591
Amortisation charge for the period	66	138	58	43	305
Written back on disposal	(2)	—	—	(22)	(24)
At 30 June 2005	**249**	**979**	**526**	**118**	**1,872**
Net book value:					
At 30 June 2005	**612**	**1,940**	**2,637**	**936**	**6,125**
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 10 years. At 30 June 2005, the remaining amortisation period of the exploration and production right was 22.5 years.

14 INTANGIBLE ASSETS *(Continued)*

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 period	6	—	—	252	258
Disposals	(1)	—	—	(22)	(23)
At 30 June 2005	**676**	**1,316**	**3,163**	**651**	**5,806**
Accumulated Amortisation:					
At 1 January 2005	120	673	468	49	1,310
Amortisation charge for the period	55	65	58	25	203
Written back on disposal	(1)	—	—	(22)	(23)
At 30 June 2005	**174**	**738**	**526**	**52**	**1,490**
Net book value:					
At 30 June 2005	**502**	**578**	**2,637**	**599**	**4,316**
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 10 years. At 30 June 2005, the remaining amortisation period of the exploration and production right was 22.5 years.

15 LONG-TERM DEFERRED EXPENSES

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

16 DEFERRED TAX ASSETS AND LIABILITIES

The Group

	Deferred tax assets		Deferred tax liabilities		Net balance	
	At 30 June 2005 RMB millions	At 31 December 2004 RMB millions	**At 30 June 2005 RMB millions**	At 31 December 2004 RMB millions	**At 30 June 2005 RMB millions**	At 31 December 2004 RMB millions
Current						
Provisions, primarily for receivables and inventories	2,919	2,524	—	—	2,919	2,524
Non-current						
Fixed assets	1,580	1,566	(3)	(198)	1,577	1,368
Tax value of losses carried forward, net of valuation allowance	200	66	—	—	200	66
Others	19	10	—	—	19	10
Deferred tax assets/ (liabilities)	**4,718**	**4,166**	**(3)**	**(198)**	**4,715**	**3,968**

The Company

	Deferred tax assets		Deferred tax liabilities		Net balance	
	At 30 June 2005 RMB millions	At 31 December 2004 RMB millions	**At 30 June 2005 RMB millions**	At 31 December 2004 RMB millions	**At 30 June 2005 RMB millions**	At 31 December 2004 RMB millions
Current						
Provisions, primarily for receivables and inventories	932	2,245	—	—	932	2,245
Non-current						
Fixed assets	1,431	1,457	(1)	(16)	1,430	1,441
Others	13	6	—	—	13	6
Deferred tax assets/ (liabilities)	**2,376**	**3,708**	**(1)**	**(16)**	**2,375**	**3,692**

17 SHORT-TERM LOANS

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

	The Group		The Company	
	At 30 June 2005 RMB millions	At 31 December 2004 RMB millions	**At 30 June 2005 RMB millions**	At 31 December 2004 RMB millions
Short-term bank loans	32,129	20,009	18,819	10,527
Loans from Sinopec Group Company and fellow subsidiaries	2,290	6,714	1,663	5,727
Total	**34,419**	**26,723**	**20,482**	**16,254**

The Group's and the Company's weighted average interest rates per annum on short-term loans were 4.3% (2004: 3.9%) and 4.4% (2004: 4.0%) respectively at 30 June 2005. The majority of the above loans are unsecured.

At 30 June 2005 and 31 December 2004, the Group and the Company had no significant overdue short-term loans.

18 BILLS PAYABLE

Bills payable primarily represents the 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 are as follows:

	The Group			
	At 30 June 2005		At 31 December 2004	
	RMB millions	**%**	RMB millions	%
Within 3 months	21,601	63.3	12,868	54.1
Between 3 and 6 months	10,113	29.6	9,110	38.3
Over 6 months	2,438	7.1	1,814	7.6
Total	**34,152**	**100.0**	**23,792**	**100.0**

	The Company			
	At 30 June 2005		At 31 December 2004	
	RMB millions	**%**	RMB millions	%
Within 3 months	8,798	50.9	13,462	63.7
Between 3 and 6 months	7,340	42.4	6,183	29.3
Over 6 months	1,158	6.7	1,492	7.0
Total	**17,296**	**100.0**	**21,137**	**100.0**

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

At 30 June 2005 and 31 December 2004, the Group and the Company had no individually significant trade accounts payable aged over three years.

20 RECEIPTS IN ADVANCE

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

At 30 June 2005 and 31 December 2004, the Group and the Company had no individually significant receipts in advance aged over one year.

21 TAXES PAYABLE

	The Group		The Company	
	At 30 June 2005 RMB millions	At 31 December 2004 RMB millions	**At 30 June 2005 RMB millions**	At 31 December 2004 RMB millions
Value added tax	(1,060)	(1,119)	(1,249)	(1,377)
Consumption tax	976	1,443	728	1,146
Income tax	2,882	5,391	33	3,142
Business tax	38	99	22	37
Other taxes	716	927	197	222
Total	**3,552**	**6,741**	**(269)**	**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 income tax rules and regulations of the PRC during the six-month periods ended 30 June 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 30 June 2005 and 31 December 2004, the Group's and the Company's other payables primarily represent payables for resources compensation fee and education surcharge.

23 OTHER CREDITORS

At 30 June 2005 and 31 December 2004, the Group's and the Company's other creditors primarily represent payables for constructions.

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

At 30 June 2005 and 31 December 2004, the Group and the Company had no individually significant other creditors aged over three years.

24 ACCRUED EXPENSES

At 30 June 2005 and 31 December 2004, the Group's and the Company's accrued expenses primarily represent accrued interest expenses, repair and maintenance expenses, research and development expenses and other production expenses.

25 CURRENT PORTION OF LONG-TERM LIABILITIES

The Group's and the Company's current portion of long-term liabilities represent:

	The Group		The Company	
	At 30 June 2005 RMB millions	At 31 December 2004 RMB millions	**At 30 June 2005 RMB millions**	At 31 December 2004 RMB millions
Long-term bank loans				
– Renminbi loans	5,436	8,500	2,524	6,247
– Japanese Yen loans	594	805	594	798
– US Dollar loans	1,162	2,841	647	2,341
– Euro loans	6	28	6	28
– Hong Kong Dollar loans	3	3	—	—
	7,201	**12,177**	**3,771**	**9,414**
Long-term other loans				
– Renminbi loans	14	88	3	61
– US Dollar loans	30	33	28	31
	44	**121**	**31**	**92**
Long-term loans from Sinopec Group Company and fellow subsidiaries				
– Renminbi loans	—	**2,000**	—	**2,000**
Total current portion of long-term liabilities	**7,245**	**14,298**	**3,802**	**11,506**

At 30 June 2005 and 31 December 2004, the Group and the Company had no significant overdue long-term loans.

26 LONG-TERM LOANS

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

	Interest rate and final maturity	The Group At 30 June 2005 RMB millions	The Group At 31 December 2004 RMB millions	The Company At 30 June 2005 RMB millions	The Company At 31 December 2004 RMB millions
Third parties debts					
Long-term bank loans					
Renminbi loans	Interest rates ranging from interest free to 5.8% per annum at 30 June 2005 with maturities through 2013	57,013	52,227	51,484	45,233
Japanese Yen loans	Interest rates ranging from 2.6% to 5.8% per annum at 30 June 2005 with maturities through 2024	4,029	4,562	4,029	4,556
US Dollar loans	Interest rates ranging from interest free to 7.4% per annum at 30 June 2005 with maturities through 2031	6,140	7,729	3,848	5,278
Euro loans	Fixed rate at 6.7% per annum at 30 June 2005 with maturities through 2010	147	165	147	165
Hong Kong Dollar loans	Floating rate at Hong Kong Prime Rate plus 0.3% per annum at 30 June 2005 with maturities through 2006	3	5	—	—
Less: Current portion		7,102	12,177	3,771	9,414
Long-term bank loans		**60,230**	**52,511**	**55,737**	**45,818**
Other long-term loans					
Renminbi loans	Interest rates ranging from interest free to 5.0% per annum at 30 June 2005 with maturities through 2008	156	359	17	200
US Dollar loans	Interest rates ranging from interest free to 4.0% per annum at 30 June 2005 with maturities through 2015	80	110	55	89
Less: Current portion		44	121	31	92
Other long-term loans		**192**	**348**	**41**	**197**
Long-term bank loans of jointly controlled entities					
Renminbi loans	Floating rate at 90% of PBOC's base lending rate per annum at 30 June 2005 with maturities through 2021	5,570	2,415	—	—
US Dollar loans	Floating rate at London Interbank Offer Rate plus 0.4% to 0.7% per annum at 30 June 2005 with maturities through 2021	4,342	2,048	—	—
Less: Current portion		99	—	—	—
Long-term bank loans of jointly controlled entities		**9,813**	**4,463**	**—**	**—**
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 4.8% to 5.2% per annum at 30 June 2005 with maturities through 2009	4,303	3,204	3,755	2,756
Less: Current portion		—	2,000	—	2,000
Long-term loans from Sinopec Group Company and fellow subsidiaries		**39,864**	**36,765**	**39,316**	**36,317**
		110,099	**94,087**	**95,094**	**82,332**

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

	The Group At 30 June 2005 RMB millions	The Group At 31 December 2004 RMB millions	The Company At 30 June 2005 RMB millions	The Company At 31 December 2004 RMB millions
Between one and two years	22,046	15,886	19,315	12,363
Between two and five years	40,764	36,041	36,268	31,279
After five years	47,289	42,160	39,511	38,690
Total long-term loans	**110,099**	**94,087**	**95,094**	**82,332**

At 30 June 2005, the Group and the Company had loans secured by fixed assets from third parties amounting to RMB 35 million (2004: RMB 40 million) and RMB 12 million (2004: RMB 9 million) respectively. At 30 June 2005, the Group had loans secured by long-term investments from third parties amounting to RMB 3,827 million (2004: RMB Nil). All long-term other loans are unsecured.

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

27 DEBENTURES PAYABLE

	Interest rate and final maturity	The Group and the Company **At 30 June 2005 RMB millions**	 At 31 December 2004 RMB millions
Corporate bonds	Fixed rate at 4.61% per annum, redeemable in February 2014	**3,500**	**3,500**

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 PAYABLES

Other long-term payables primarily represent provisions 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 **At 30 June 2005 RMB millions**	 At 31 December 2004 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.

30 CAPITAL RESERVE

The movements in capital reserve are as follows:

	The Group **At 30 June 2005 RMB millions**	 At 31 December 2004 RMB millions	The Company **At 30 June 2005 RMB millions**	 At 31 December 2004 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 30 June/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 set up subsidiaries using non-monetary assets at revalued amount as the Group's capital investment in these subsidiaries. The difference between the revalued amount of these non-monetary assets and their original book value (that is the Group's shared shareholders' funds in these subsidiaries over the initial investment cost) was recorded in capital reserve. Such difference has been eliminated in the Group's consolidated financial statements.

31 SURPLUS RESERVES

Movements in surplus reserves are as follows:

	The Group and the Company			
	Statutory surplus reserve RMB millions	Statutory public welfare fund RMB millions	Discretionary surplus reserve RMB millions	Total 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	1,804	1,804	—	3,608
At 30 June 2005	**11,362**	**11,362**	**7,000**	**29,724**

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 transfers 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 45.

For the six-month period ended 30 June 2005, revenue from sales to top five customers amounted to RMB 26,877 million (2004: RMB 27,255 million) which accounted for 7% (2004: 10%) of income from principal operations of the Group.

33 SALES TAXES AND SURCHARGES

	The Group Six-month periods ended 30 June		The Company Six-month periods ended 30 June	
	2005 RMB millions	2004 RMB millions	**2005 RMB millions**	2004 RMB millions
Consumption tax	5,906	5,671	4,278	3,683
City construction tax	1,332	1,214	652	579
Education surcharge	649	591	325	289
Resources tax	221	221	58	55
Business tax	96	79	73	55
Total	**8,204**	**7,776**	**5,386**	**4,661**

34 FINANCIAL EXPENSES

	The Group Six-month periods ended 30 June		The Company Six-month periods ended 30 June	
	2005 RMB millions	2004 RMB millions	**2005 RMB millions**	2004 RMB millions
Interest expenses incurred	3,399	2,379	2,195	1,447
Less: Capitalised interest expenses	(268)	(102)	(172)	(65)
Net interest expenses	**3,131**	**2,277**	**2,023**	**1,382**
Interest income	(168)	(169)	(57)	(74)
Foreign exchange losses	40	29	17	12
Foreign exchange gains	(151)	(43)	(131)	(33)
Total	**2,852**	**2,094**	**1,852**	**1,287**

35 EXPLORATION EXPENSES

Exploration expenses include geological and geophysical expenses and dry hole costs.

36 INVESTMENT (LOSS)/INCOME

	The Group Six-month periods ended 30 June		The Company Six-month periods ended 30 June	
	2005 RMB millions	2004 RMB millions	**2005 RMB millions**	2004 RMB millions
Investment income accounted for under the cost method	62	30	17	17
Amortisation of equity investment differences	(1,169)	(90)	(1,170)	(88)
Investment income accounted for under the equity method	365	576	22,087	16,711
Total	**(742)**	**516**	**20,934**	**16,640**

37 NON-OPERATING EXPENSES

	The Group Six-month periods ended 30 June		The Company Six-month periods ended 30 June	
	2005 RMB millions	2004 RMB millions	**2005 RMB millions**	2004 RMB millions
Loss on disposal of fixed assets	109	1,405	88	1,230
Impairment losses on fixed assets	397	2,763	5	1,741
Fines, penalties and compensations	111	33	107	31
Donations	128	49	105	35
Employee reduction expenses (Note)	100	412	—	325
Others	264	290	127	190
Total	**1,109**	**4,952**	**432**	**3,552**

Note: During the six-month period ended 30 June 2005, in accordance with the Group's voluntary employee reduction plan, the Group recorded employee reduction expenses of RMB 100 million (2004: RMB 412 million) relating to the reduction of approximately 1,800 employees (2004: 8,000 employees).

38 INCOME TAX

	The Group Six-month periods ended 30 June		The Company Six-month periods ended 30 June	
	2005 RMB millions	2004 RMB millions	**2005 RMB millions**	2004 RMB millions
Provision for PRC income tax	9,438	8,477	6,865	7,262
Deferred taxation	(747)	(1,414)	1,317	(881)
Underprovision for income tax in prior year	477	91	512	151
Total	**9,168**	**7,154**	**8,694**	**6,532**

39 DIVIDENDS

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

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.

(b) Dividends of ordinary shares declared during the period

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.

40 RELATED PARTIES AND RELATED PARTY TRANSACTIONS

(a) Related parties having the ability to exercise control over the Group

The name of the company	:	China Petrochemical Corporation
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 six-month period ended 30 June 2005.

At 30 June 2005, Sinopec Group Company held 67.92% shares of the Company and there is no change on percentage shareholdings during this reporting period.

(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 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

Associates of the Company:
Sinopec Railway Oil Marketing Company Limited
Sinopec Changjiang Fuel Company Limited
China Shipping & Sinopec Suppliers Company Limited

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

	Note	Six-month periods ended 30 June **2005** **RMB millions**	 2004 RMB millions
Sales of goods	(i)	36,976	30,715
Purchases	(ii)	20,134	18,253
Transportation and storage	(iii)	893	979
Exploration and development services	(iv)	7,692	7,101
Production related services	(v)	3,757	3,831
Ancillary and social services	(vi)	912	906
Operating lease charges	(vii)	1,565	1,646
Agency commission income	(viii)	29	31
Intellectual property license fee paid	(ix)	9	5
Interest received	(x)	21	25
Interest paid	(xi)	507	349
Net deposits withdrawn from related parties	(xii)	2,874	1,532
Net loans (paid to)/obtained from related parties	(xiii)	(3,325)	921

The amounts set out in the table above in respect of the six-month periods ended 30 June 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 30 June 2005 and 31 December 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.

40 RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(Continued)*

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

(v) Production related services represent ancillary services rendered in relation to the Group's operations such as equipment repair and general maintenance, insurance premium, technical research, communications, fire fighting, security, product quality testing and analysis, information technology, design and engineering, construction which includes the construction of oilfield ground facilities, refineries and chemical plants, manufacture of replacement parts and machinery, installation, project management and environmental protection.

(vi) Ancillary and social services represent expenditures for social welfare and support services such as educational facilities, media communication services, sanitation, accommodation, canteens, property maintenance and management services.

(vii) Operating lease charges represent the rental paid to Sinopec Group Company for operating leases in respect of land, buildings and service stations.

(viii) Agency commission income represents commission earned for acting as an agent in respect of sales of products 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 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 during the period.

(xiii) The Group obtained/repaid loans from/to Sinopec Group Company and Sinopec Finance Company Limited. The average loan balance for the six-month period ended 30 June 2005, which is calculated based on monthly average balances, was RMB 43,882 million (2004: RMB 42,696 million).

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 six-month period ended 30 June 2005. The terms of these agreements are summarised as follows:

(a) The Company entered into a non-exclusive Agreement for Mutual Provision of Products and Ancillary Services ("Mutual Provision Agreement") with Sinopec Group Company under which Sinopec Group Company has agreed to provide the Group with certain ancillary production services, construction services, information advisory services, supply services and other services and products. While each of Sinopec Group Company and the Company is permitted to terminate the Mutual Provision Agreement upon at least six months' notice, Sinopec Group Company had agreed not to terminate the agreement if the Group is unable to obtain comparable services from a third party. The pricing policy for these services and products provided by Sinopec Group Company to the Group is as follows:

- the government-prescribed price;
- where there is no government-prescribed price, the government-guidance price;
- where there is neither a government-prescribed price nor a government-guidance price, the market price; or
- where none of the above is applicable, the price to be agreed between the parties, which shall be based on a reasonable cost incurred in providing such services plus a profit margin not exceeding 6%.

(b) The Company has entered into a non-exclusive Agreement for Provision of Cultural and Educational, Health Care and Community Services with Sinopec Group Company effective from 1 January 2000 in which Sinopec Group Company has agreed to provide the Group with certain cultural, educational, health care and community services on the same pricing terms and termination conditions as agreed to in the above Mutual Provision Agreement.

(c) The Company has entered into a number of lease agreements with Sinopec Group Company to lease certain land and buildings at a rental of approximately RMB 2,557 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 agency agreements effective from 1 January 2000 with certain entities owned by Sinopec Group Company under which the Group acts as a sole agent in respect of the sale of all the products of these entities. In exchange for the Group's sales agency services, Sinopec Group Company has agreed to pay the Group a commission of between 0.2% and 1.0% of actual sales receipts depending on the products and to reimburse the Group for reasonable costs incurred in the capacity as its sales agent.

(f) The Company has entered into a service station franchise agreement with Sinopec Group Company under which its service stations and retail stores would exclusively sell the refined products supplied by the Group.

40 RELATED PARTIES AND RELATED PARTY TRANSACTIONS *(Continued)*

(d) Balances with related parties

The balances with the Group's related parties at 30 June 2005 and 31 December 2004 are as follows:

	The ultimate holding company		Other related companies	
	At 30 June 2005 RMB millions	At 31 December 2004 RMB millions	**At 30 June 2005 RMB millions**	At 31 December 2004 RMB millions
Cash and cash equivalents	—	—	1,797	4,671
Trade accounts receivable	—	—	3,672	2,438
Advance payments	—	—	1,176	350
Other receivables	2,002	2,502	2,586	3,941
Trade accounts payable	—	—	2,016	1,527
Receipts in advance	—	—	1,488	1,218
Other creditors	5,936	4,851	3,777	4,828
Short-term loans	—	—	2,290	6,714
Long-term loans (including current portion) (Note)	—	—	39,864	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.

41 PRINCIPAL SUBSIDIARIES

The Company's principal subsidiaries are limited companies operating in the PRC and had been consolidated into the Group's financial statements for the six-month period ended 30 June 2005. Except for Sinopec Kantons Holdings Limited, which is incorporated in Bermuda, the subsidiaries below are incorporated in the PRC. The following list contains the particulars of subsidiaries which principally affected the results or assets of the Group:

Name of enterprise	Registered capital/paid-up capital RMB millions	Percentage of equity interest held by the Company %	Principal activities
China Petrochemical International Company Limited	1,400	100.00	Trading of crude oil and petrochemical products
Sinopec Beijing Yanhua Petrochemical Company Limited ("Beijing Yanhua") (i)	3,374	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) Petroleum Marketing Company Limited	455	60.00	Marketing and distribution of refined petroleum products
BP Sinopec (Zhejiang) Petroleum Company Limited	647	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 period, 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.

42 PRINCIPAL JOINTLY CONTROLLED ENTITIES

At 30 June 2005, the Group's principal jointly controlled entities are as follows:

Name of jointly controlled entities	Registered capital/ paid-up capital	Percentage of equity interest held by the Group %	Principal activities
Shanghai Secco Petrochemical Company Limited	Registered capital USD 901,440,964	50.00	Manufacturing and distribution of petrochemical products
BASF-YPC Company Limited	Registered capital RMB 8,793,000,000	40.00	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 Chendao in Bohai Bay	—	43.00	Exploration and production of crude oil and natural gas

43 COMMITMENTS

Operating lease commitments

The Group and the Company lease service stations and other equipment through non-cancellable operating leases. These operating leases do not contain provisions for contingent lease rentals. None of the rental agreements contain escalation provisions that may require higher future rental payments.

At 30 June 2005, the future minimum lease payments of the Group and the Company under operating leases are as follows:

	The Group		The Company	
	At 30 June 2005 RMB millions	At 31 December 2004 RMB millions	**At 30 June 2005 RMB millions**	At 31 December 2004 RMB millions
Within one year	3,504	3,452	3,345	3,272
Between one and two years	3,404	3,343	3,299	3,237
Between two and three years	3,328	3,278	3,256	3,213
Between three and four years	3,295	3,245	3,231	3,188
Between four and five years	3,263	3,225	3,201	3,170
After five years	96,634	97,527	95,098	95,968
Total	**113,428**	**114,070**	**111,430**	**112,048**

Capital commitments

At 30 June 2005, capital commitments are as follows:

	At 30 June 2005 RMB millions	At 31 December 2004 RMB millions
The Group		
Authorised and contracted for	40,475	43,001
Authorised but not contracted for	40,809	60,173
	81,284	**103,174**
Jointly controlled entities		
Authorised and contracted for	2,399	3,157
Authorised but not contracted for	8	2,088
	2,407	**5,245**
The Company		
Authorised and contracted for	33,965	28,143
Authorised but not contracted for	23,803	37,619
	57,768	**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.

43 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 to the Group by the State Council. The Group's production license is renewable upon application by the Group 30 days prior to expiration.

The Group is required to make payments of exploration license fees and production right usage fees to the Ministry of Land and Resources annually which are expensed as incurred. Payments incurred were approximately RMB 25 million for the six-month period ended 30 June 2005 (2004: RMB 101 million).

Estimated future annual payments are as follows:

	The Group		The Company	
	At 30 June 2005 RMB millions	At 31 December 2004 RMB millions	**At 30 June 2005 RMB millions**	At 31 December 2004 RMB millions
Within one year	138	90	102	60
Between one and two years	103	120	67	85
Between two and three years	64	75	50	47
Between three and four years	70	67	61	55
Between four and five years	70	74	62	64
After five years	246	279	112	143
Total	**691**	**705**	**454**	**454**

44 CONTINGENT LIABILITIES

(a) The Company has been advised by its PRC lawyers that, except for liabilities constituting or arising out of or relating to the business assumed by the Company in the Reorganisation, no other liabilities were assumed by the Company, and the Company is not jointly and severally liable for other debts and obligations incurred by Sinopec Group Company prior to the Reorganisation.

(b) At 30 June 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	
	At 30 June 2005 RMB millions	At 31 December 2004 RMB millions	**At 30 June 2005 RMB millions**	At 31 December 2004 RMB millions
Subsidiaries	—	—	2,617	2,656
Associates and jointly controlled entities	109	4,828	12,059	12,059
Total	**109**	**4,828**	**14,676**	**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 30 June 2005 and 31 December 2004, it is not probable that the Company will be required to make payments under the guarantees. Thus no liability has been accrued relating to the Company's obligation under those guarantee arrangements.

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 107 million for the six-month period ended 30 June 2005 (2004: RMB 113 million).

Legal contingencies

The Group is a defendant in certain lawsuits as well as the named party in other proceedings arising in the ordinary course of business. While the outcomes of such contingencies, lawsuits or other proceedings cannot be determined at present, management believes that any resulting liabilities will not have a material adverse effect on the financial position or operating results of the Group.

45 SEGMENTAL INFORMATION

The Group has five operating segments as follows:

(i) Exploration and production – which explores and develops oil fields, produces crude oil and natural gas and sells such products to the refining segment of the Group and external customers.

(ii) Refining – which processes and purifies crude oil, which is sourced from the exploration and production segment of the Group and external suppliers, and manufactures and sells petroleum products to the chemicals and marketing and distribution segments of the Group and external customers.

(iii) Marketing and distribution – which owns and operates oil depots and service stations in the PRC, and distributes and sells refined petroleum products (mainly gasoline and diesel) in the PRC through wholesale and retail sales networks.

(iv) Chemicals – which manufactures and sells petrochemical products, derivative petrochemical products and other chemical products to external customers.

(v) Others – which largely comprise the trading activities of the import and export companies of the Group and research and development undertaken by other subsidiaries.

The segments were determined primarily because the Group manages its exploration and production, refining, marketing and distribution, chemicals, and others businesses separately. The reportable segments are each managed separately because they manufacture and/or distribute distinct products with different production processes and due to their distinct operating and gross margin characteristics. In view of the fact that the Company and its subsidiaries operate mainly in the PRC, no geographical segment information is presented.

The Group evaluates the performance and allocates resources to its operating segments on an operating income basis, without considering the effects of finance costs or investment income. The accounting policies of the Group's segments are the same as those described in the principal accounting policies (see Note 2). Corporate administrative costs and assets are not allocated to the operating segments; instead, operating segments are billed for direct corporate services. Inter-segment transfer pricing is based on cost plus an appropriate margin, as specified by the Group's policy.

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

	Six-month periods ended 30 June	
	2005	2004
	RMB millions	RMB millions
Income from principal operations		
Exploration and production		
External sales	8,651	7,376
Inter-segment sales	35,745	26,316
	44,396	**33,692**
Refining		
External sales	37,083	31,986
Inter-segment sales	172,035	126,904
	209,118	**158,890**
Marketing and distribution		
External sales	206,763	156,539
Inter-segment sales	1,320	1,334
	208,083	**157,873**
Chemicals		
External sales	74,731	50,946
Inter-segment sales	8,335	4,794
	83,066	**55,740**
Others		
External sales	32,020	18,862
Inter-segment sales	21,228	16,246
	53,248	**35,108**
Elimination of inter-segment sales	(238,663)	(175,594)
Income from principal operations	**359,248**	**265,709**
Cost of sales, sales taxes and surcharges		
Exploration and production	17,920	16,165
Refining	208,147	151,772
Marketing and distribution	190,761	138,914
Chemicals	68,283	45,685
Others	52,619	34,769
Elimination of inter-segment cost of sales	(236,345)	(173,431)
Cost of sales, sales taxes and surcharges	**301,385**	**213,874**
Profit from principal operations		
Exploration and production	23,738	15,568
Refining	1,391	6,914
Marketing and distribution	17,322	18,959
Chemicals	14,783	10,055
Others	629	339
Profit from principal operations	**57,863**	**51,835**

46 POST BALANCE SHEET EVENTS

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 RMB 8.11 per US dollar with effect from the time of 19:00 hours on 21 July 2005. The Group does not expect this reform had a material impact on the Group's financial position as at 30 June 2005.

47 ITEMS UNDER NON-OPERATING PROFITS/LOSSES

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

	Six-month periods ended 30 June	
	2005	2004
	RMB millions	RMB millions
Items under non-operating profits/losses for the period:		
Loss on disposal of fixed assets	109	1,405
Employee reduction expenses	100	412
Donations	128	49
Loss on disposal of long-term equity investments	1	2
Other non-operating income and expenses, excluding impairment losses on long-lived assets	242	142
Written back of provisions for impairment losses in previous years	(516)	(80)
Tax effect	(21)	(637)
Total	**43**	**1,293**

48 OTHER SIGNIFICANT EVENTS

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

To the Shareholders of
China Petroleum & Chemical Corporation
(Established in The People's Republic of China with limited liability)

We have audited the interim financial statements on pages 76 to 105 which have been prepared in accordance with International Financial Reporting Standards promulgated by the International Accounting Standards Board.

RESPECTIVE RESPONSIBILITIES OF DIRECTORS AND AUDITORS

The Company's directors are responsible for the preparation of interim financial statements which give a true and fair view. In preparing interim financial statements which give a true and fair view it is fundamental that appropriate accounting policies are selected and applied consistently, that judgements and estimates are made which are prudent and reasonable and that the reasons for any significant departure from applicable accounting standards are stated.

It is our responsibility to form an independent opinion, based on our audit, on those interim financial statements and to report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

BASIS OF OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the interim financial statements. It also includes an assessment of the significant estimates and judgements made by the directors in the preparation of the interim financial statements, and of whether the accounting policies are appropriate to the Group's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance as to whether the interim financial statements are free from material misstatement. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the interim financial statements. We believe that our audit provides a reasonable basis for our opinion.

OPINION

In our opinion, the interim financial statements give a true and fair view of the state of affairs of the Group as at 30 June 2005 and of the Group's profit and cash flows for the six-month period ended 30 June 2005 and have been properly prepared in accordance with International Financial Reporting Standards promulgated by the International Accounting Standards Board.

KPMG
Certified Public Accountants
Hong Kong, China, 26 August 2005

(B) INTERIM FINANCIAL STATEMENTS PREPARED UNDER INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS")

CONSOLIDATED INCOME STATEMENT

for the six-month period ended 30 June 2005
(Amounts in millions, except per share data)

	Note	Six-month periods ended 30 June **2005** **RMB**	2004 RMB
Turnover and other operating revenues			
Turnover	3	359,248	269,601
Other operating revenues	4	9,206	9,844
		368,454	**279,445**
Operating expenses			
Purchased crude oil, products and operating supplies and expenses		(283,036)	(198,158)
Selling, general and administrative expenses	5	(15,510)	(14,859)
Depreciation, depletion and amortisation		(15,155)	(15,399)
Exploration expenses, including dry holes		(3,355)	(2,475)
Personnel expenses	6	(8,536)	(8,716)
Employee reduction expenses	7	(100)	(412)
Taxes other than income tax	8	(8,204)	(7,833)
Other operating expenses, net	9	(876)	(3,031)
Total operating expenses		**(334,772)**	**(250,883)**
Operating profit		**33,682**	**28,562**
Finance costs			
Interest expense	10	(2,845)	(2,272)
Interest income		168	179
Foreign exchange losses		(40)	(29)
Foreign exchange gains		151	43
Net finance costs		**(2,566)**	**(2,079)**
Investment income		62	—
Share of profits less losses from associates		536	455
Profit before taxation		**31,714**	**26,938**
Taxation	11	(9,945)	(8,017)
Profit for the period		**21,769**	**18,921**
Attributable to:			
Equity holders of the parent		19,653	16,746
Minority interests		2,116	2,175
Profit for the period		**21,769**	**18,921**
Basic earnings per share	12	**0.23**	**0.19**
Dividends attributable to the period:			
Interim dividend declared after the balance sheet date	13	3,468	3,468

The notes on pages 81 to 105 form part of these interim financial statements.

CONSOLIDATED BALANCE SHEET

at 30 June 2005
(Amounts in millions)

	Note	**At 30 June 2005 RMB**	At 31 December 2004 RMB
Non-current assets			
Property, plant and equipment	14	298,031	284,123
Construction in progress	15	47,645	46,185
Investments	16	2,434	2,538
Interests in associates	17	7,521	10,222
Deferred tax assets	23	5,091	4,558
Lease prepayments		1,045	750
Long-term prepayments and other assets	19	8,509	5,947
Total non-current assets		**370,276**	**354,323**
Current assets			
Cash and cash equivalents		13,616	16,381
Time deposits with financial institutions		1,706	1,899
Trade accounts receivable	20	15,247	9,756
Bills receivable	20	8,356	7,812
Inventories	21	79,433	64,329
Prepaid expenses and other current assets	22	20,746	20,094
Total current assets		**139,104**	**120,271**
Current liabilities			
Short-term debts	24	39,374	32,307
Loans from Sinopec Group Company and fellow subsidiaries	24	2,290	8,714
Trade accounts payable	25	34,152	23,792
Bills payable	25	26,893	30,797
Accrued expenses and other payables	26	48,493	45,276
Income tax payable		2,882	5,391
Total current liabilities		**154,084**	**146,277**
Net current liabilities		**(14,980)**	**(26,006)**
Total assets less current liabilities		**355,296**	**328,317**
Non-current liabilities			
Long-term debts	24	73,735	60,822
Loans from Sinopec Group Company and fellow subsidiaries	24	39,864	36,765
Deferred tax liabilities	23	6,029	5,636
Other liabilities		892	1,008
Total non-current liabilities		**120,520**	**104,231**
		234,776	**224,086**
Equity			
Share capital	27	86,702	86,702
Reserves		119,055	106,338
Total equity attributable to equity holders of the parent		**205,757**	**193,040**
Minority interests		**29,019**	**31,046**
Total equity		**234,776**	**224,086**

Approved and authorised for issue by the board of directors on 26 August 2005.

Chen Tonghai
Chairman

Wang Tianpu
President

Zhang Jiaren
Director, Senior Vice President and Chief Financial Officer

The notes on pages 81 to 105 form part of these interim financial statements.

CONSOLIDATED CASH FLOW STATEMENT

for the six-month period ended 30 June 2005
(Amounts in millions)

	Note	Six-month periods ended 30 June 2005 RMB	2004 RMB
Cash flows from operating activities	(a)	**21,082**	**20,698**
Cash flow from investing activities			
Capital expenditure		(25,368)	(26,511)
Capital expenditure by jointly controlled entities		(1,896)	(3,368)
Purchase of investments and investments in associates		(505)	(820)
Proceeds from disposal of investments and investments in associates		63	31
Proceeds from disposal of property, plant and equipment		201	189
Acquisition of Beijing Yanhua from minority interests		(4,088)	—
Increase in time deposits with financial institutions		(334)	(1,371)
Maturity of time deposits with financial institutions		527	800
Net cash used in investing activities		**(31,400)**	**(31,050)**
Cash flow from financing activities			
Proceeds from bank and other loans		292,505	164,301
Proceeds from bank and other loans of jointly controlled entities		2,603	1,621
Proceeds from issuance of corporate bonds, net of issuing expenses		—	3,472
Repayments of bank and other loans		(281,804)	(155,704)
Distributions to minority interests		(514)	(141)
Contributions from minority interests		86	92
Dividend paid		(2,195)	(2,313)
Cash and cash equivalent paid to Sinopec Group Company in connection with the Acquisitions of Ethylene Assets and Refining Assets		—	(1,828)
Cash and cash equivalent paid to Sinopec Group Company in connection with the Acquisition of Petrochemical and Catalyst Assets		(3,128)	—
Net cash from financing activities		**7,553**	**9,500**
Net decrease in cash and cash equivalents		**(2,765)**	**(852)**
Effect of foreign exchange rate		**—**	**(1)**
Cash and cash equivalents at beginning of period		**16,381**	**16,263**
Cash and cash equivalents at end of period		**13,616**	**15,410**

The notes on pages 81 to 105 form part of these interim financial statements.

(Amounts in millions)

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

	Six-month periods ended 30 June	
	2005	2004
	RMB	RMB
Profit before taxation	31,714	26,938
Adjustments for:		
Depreciation, depletion and amortisation	15,155	15,399
Dry hole costs	1,325	764
Share of profits less losses from associates	(536)	(455)
Investment income	(62)	—
Interest income	(168)	(179)
Interest expense	2,845	2,272
Unrealised foreign exchange gains	(150)	(32)
Loss on disposal of property, plant and equipment, net	20	404
Impairment losses on long-lived assets	397	2,324
Increase in trade accounts receivable	(5,488)	(4,529)
Increase in bills receivable	(544)	(2,328)
Increase in inventories	(14,957)	(14,604)
(Increase)/decrease in prepaid expenses and other current assets	(522)	303
(Increase)/decrease in lease prepayments	(295)	16
Increase in long-term prepayments and other assets	(1,451)	(758)
Increase in trade accounts payable	9,984	3,703
(Decrease)/increase in bills payable	(3,904)	4,408
Increase/(decrease) in accrued expenses and other payables	3,050	(1,977)
Decrease in other liabilities	(117)	(358)
Cash generated from operations	**36,296**	**31,311**
Interest received	168	180
Interest paid	(3,320)	(2,664)
Investment and dividend income received	362	222
Income tax paid	(12,424)	(8,351)
Cash flows from operating activities	**21,082**	**20,698**

The notes on pages 81 to 105 form part of these interim financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the six-month period ended 30 June 2005
(Amounts in millions, except per share data)

	Share capital RMB	Capital reserve RMB	Share premium RMB	Revaluation reserve RMB	Statutory surplus reserve RMB	Statutory public welfare fund RMB	Discretionary surplus reserve RMB	Other reserves RMB	Retained earnings RMB	Equity attributable to equity holders of the parent RMB	Minority interests RMB	Total equity RMB
Balance at 1 January 2004, as previously reported	86,702	(18,960)	18,072	30,341	6,330	6,330	7,000	252	31,832	167,899	25,866	193,765
Adjusted for acquisition of the Acquired Group	–	–	–	–	–	–	–	3,616	–	3,616	185	3,801
Balance at 1 January 2004, as adjusted	86,702	(18,960)	18,072	30,341	6,330	6,330	7,000	3,868	31,832	171,515	26,051	197,566
Final dividend for 2003 (Note 13)	–	–	–	–	–	–	–	–	(5,202)	(5,202)	–	(5,202)
Profit for the period	–	–	–	–	–	–	–	–	16,746	16,746	2,175	18,921
Appropriation (Note (a) and (b))	–	–	–	–	1,504	1,504	–	–	(3,008)	–	–	–
Revaluation surplus realised	–	–	–	(627)	–	–	–	–	627	–	–	–
Impairment losses on revalued assets	–	–	–	(439)	–	–	–	–	–	(439)	–	(439)
Realisation of deferred tax on land use rights	–	–	–	–	–	–	–	(2)	2	–	–	–
Transfer from retained earnings to other reserves	–	–	–	–	–	–	–	595	(595)	–	–	–
Net assets contributed from Sinopec Group Company	–	–	–	–	–	–	–	198	–	198	–	198
Distributions to minority interests, net	–	–	–	–	–	–	–	–	–	–	(631)	(631)
Balance at 30 June 2004	**86,702**	**(18,960)**	**18,072**	**29,275**	**7,834**	**7,834**	**7,000**	**4,659**	**40,402**	**182,818**	**27,595**	**210,413**
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
Final dividend for 2004 (Note 13)	–	–	–	–	–	–	–	–	(6,936)	(6,936)	–	(6,936)
Profit for the period	–	–	–	–	–	–	–	–	19,653	19,653	2,116	21,769
Appropriation (Note (a) and (b))	–	–	–	–	1,804	1,804	–	–	(3,608)	–	–	–
Revaluation surplus realised	–	–	–	(60)	–	–	–	–	60	–	–	–
Realisation of deferred tax on land use rights	–	–	–	–	–	–	–	(2)	2	–	–	–
Acquisition of minority interests in Beijing Yanhua (Note 32 (i))	–	–	–	–	–	–	–	–	–	–	(2,931)	(2,931)
Distributions to minority interests, net	–	–	–	–	–	–	–	–	–	–	(1,212)	(1,212)
Balance at 30 June 2005	**86,702**	**(19,217)**	**18,072**	**27,938**	**11,362**	**11,362**	**7,000**	**245**	**62,293**	**205,757**	**29,019**	**234,776**

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 six-month period ended 30 June 2005, the Company transferred RMB 1,804 million (2004: RMB 1,504 million), being 10% of the current period'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 current period's net profit determined in accordance with the PRC Accounting Rules and Regulations, to this fund.

(c) The usage of the discretionary surplus reserve is similar to that of statutory surplus reserve.

(d) According to the Company's Articles of Association, the amount of retained profits available for distribution to equity holders of the parent 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 30 June 2005, the amount of retained profits available for distribution was RMB 11,881 million, being the amount determined in accordance with IFRS. Interim dividend of RMB 3,468 million (2004: RMB 3,468 million) declared after the balance sheet date has not been recognised as a liability at the balance sheet date.

(e) 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.

(f) The application of the share premium account is governed by Sections 178 and 179 of the PRC Company Law.

The notes on pages 81 to 105 form part of these interim financial statements.

1 PRINCIPAL ACTIVITIES, ORGANISATION AND BASIS OF PRESENTATION

Principal activities

China Petroleum & Chemical Corporation (the "Company'') is an energy and chemical company that, through its subsidiaries (hereinafter collectively referred to as the "Group''), engages in fully integrated oil and gas and chemical operations in the People's Republic of China (the "PRC''). Oil and gas operations consist of exploring for, developing and producing crude oil and natural gas; transporting crude oil, natural gas and products by pipelines; refining crude oil into finished petroleum products; and marketing crude oil, natural gas and refined petroleum products. Chemical operations include the manufacture and marketing of a wide range of chemicals for industrial uses.

Organisation

The Company was established in the PRC on 25 February 2000 as a joint stock limited company as part of the reorganisation (the "Reorganisation") of China Petrochemical Corporation (''Sinopec Group Company''), the ultimate holding company of the Group and a ministry-level enterprise under the direct supervision of the State Council of the PRC. Prior to the incorporation of the Company, the oil and gas and chemical operations of the Group were carried on by oil administration bureaux, petrochemical and refining production enterprises and sales and marketing companies of Sinopec Group Company.

As part of the Reorganisation, certain of Sinopec Group Company's core oil and gas and chemical operations and businesses together with the related assets and liabilities that were to be transferred to the Company were segregated such that the operations and businesses were separately managed beginning 31 December 1999. On 25 February 2000, in consideration for Sinopec Group Company transferring such oil and gas and chemical operations and businesses and the related assets and liabilities to the Company, the Company issued 68.8 billion domestic state-owned ordinary shares with a par value of RMB 1.00 each to Sinopec Group Company. The shares issued to Sinopec Group Company on 25 February 2000 represented the entire registered and issued share capital of the Company at that date. The oil and gas and chemical operations and businesses transferred to the Company related to (i) the exploration, development and production of crude oil and natural gas, (ii) the refining, transportation, storage and marketing of crude oil and petroleum products, and (iii) the production and sale of chemicals (collectively the "Predecessor Operations").

Basis of presentation

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

Pursuant to the resolution passed at the Directors' meeting on 28 October 2003, the Group acquired the equity interest of Sinopec Group Maoming Petrochemical Company ("Sinopec Maoming") from Sinopec Group Company, for a consideration of RMB 3.3 billion which was paid in 2004 (hereinafter referred to as the "Acquisition of Ethylene Assets").

Pursuant to the resolution passed at the Directors' meeting on 29 December 2003, the Group acquired the equity interest of Xi'an Petrochemical Main Factory ("Xi'an Petrochemical") and Tahe Oilfield Petrochemical Factory ("Tahe Petrochemical") from Sinopec Group Company, for considerations of RMB 221 million and RMB 135 million, respectively which were paid in 2004 (hereinafter referred to as the "Acquisition of Refining Assets").

Pursuant to the resolutions passed at the Extraordinary General Meeting held on 21 December 2004, the Group acquired the equity interest of Sinopec Group Tianjin Petrochemical Company ("Tianjin Petrochemical"), Sinopec Group Luoyang Petrochemical General Plant ("Luoyang Petrochemical"), Zhongyuan Petrochemical Company Limited ("Zhongyuan Petrochemical"), Sinopec Group Guangzhou Petrochemical General Plant ("Guangzhou Petrochemical") and certain catalyst plants ("Catalyst Plants") from Sinopec Group Company for a total consideration of RMB 3,128 million which was paid in 2005 (hereinafter referred to as the "Acquisition of Petrochemical and Catalyst Assets").

As the Group, Sinopec National Star, Sinopec Maoming, Xi'an Petrochemical, Tahe Petrochemical, Tianjin Petrochemical, Luoyang Petrochemical, Zhongyuan Petrochemical, Guangzhou Petrochemical and Catalyst Plants are under the common control of Sinopec Group Company, the Acquisition of Sinopec National Star, the Acquisition of Ethylene Assets, the Acquisition of Refining Assets and the Acquisition of Petrochemical and Catalyst Assets are considered as "combination of entities under common control" which are accounted in a manner similar to a pooling-of-interests ("as-if pooling-of-interests accounting"). Accordingly, the assets and liabilities acquired from Sinopec National Star, Sinopec Maoming, Xi'an Petrochemical, Tahe Petrochemical, Tianjin Petrochemical, Luoyang Petrochemical, Zhongyuan Petrochemical, Guangzhou Petrochemical and Catalyst Plants have been accounted for at historical cost and the financial statements of the Group for periods prior to the combination have been restated to include the results of operations of Sinopec National Star, Sinopec Maoming, Xi'an Petrochemical, Tahe Petrochemical, Tianjin Petrochemical, Luoyang Petrochemical, Zhongyuan Petrochemical, Guangzhou Petrochemical and Catalyst Plants on a combined basis. In connection with these acquisitions, certain assets, primarily property, plant and equipment and construction in progress, were retained by Sinopec Group Company. The assets retained by Sinopec Group Company were reflected as a distribution in the equity attributable to equity holders of the parent. The considerations for these acquisitions were treated as equity transactions.

The results of operations previously reported by the Group for the six-month period ended 30 June 2004 have been restated to include the results of Tianjin Petrochemical, Luoyang Petrochemical, Zhougyuan Petrochemical, Guangzhou Petrochemical and Catalyst Plants (collectively the "Acquired Group") as set out below.

	The Group without the Acquired Group RMB millions	The Acquired Group RMB millions	Combined RMB millions
Results of operation:			
Operating revenue	275,442	4,003	279,445
Profit attributable to equity holders of the parent	16,151	595	16,746
Basic earnings per share (RMB)	0.19	—	0.19

Financial Statements (International)

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

For the six-month period ended 30 June 2004 presented, all significant transactions between the Group and the Acquired Group have been eliminated.

The accompanying interim 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 interim financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The accompanying interim financial statements are prepared on the historical cost basis as modified by the revaluation of certain property, plant and equipment (Note 14). The accounting policies described in Note 2 have been consistently applied by the Group, except those disclosed in Note 36.

The preparation of the interim financial statements in accordance with IFRS requires management to make judgement, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the interim financial statements and the reported amounts of revenues and expenses during the period. 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 could differ from those 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.

Judgement made by management in the application of IFRSs that have significant effect on the interim financial statements and estimates with a significant risk of material adjustment in the next financial year are disclosed in Note 34.

2 PRINCIPAL ACCOUNTING POLICIES

(a) Basis of consolidation

The consolidated interim financial statements include the interim financial statements of the Company and its subsidiaries. Subsidiaries are those entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

The results of subsidiaries are included in the consolidated income statement from the date that control effectively commences until the date that control effectively ceases, and the profit attributable to minority interests is separately presented in the face of the income statement as an allocation of the profit or loss for the period between the minority interests and equity holders of the parent. All significant inter-company balances and transactions and any unrealised gains arising from inter-company transactions are eliminated on consolidation.

The particulars of the Group's principal subsidiaries are set out in Note 32.

(b) Translation of foreign currencies

The functional and presentation currency of the Group is Renminbi. Foreign currency transactions during the period are translated into Renminbi at the applicable rates of exchange quoted by the People's Bank of China (''PBOC rates'') prevailing on the transaction dates. Foreign currency monetary assets and liabilities are translated into Renminbi at the PBOC rates at the balance sheet date.

Exchange differences, other than those capitalised as construction in progress, are recognised as income or expense in the income statement.

(c) Cash and cash equivalents

Cash equivalents consist of time deposits with financial institutions with an initial term of less than three months when purchased. Cash equivalents are stated at cost, which approximates fair value.

(d) Trade accounts receivable

Trade accounts receivable are stated at cost less allowance for doubtful accounts. An allowance for doubtful accounts is provided based upon the evaluation of the recoverability of these accounts at the balance sheet date.

(e) Inventories

Inventories, other than spare parts and consumables, are stated at the lower of cost and net realisable value. Cost includes the cost of purchase computed using the weighted average method and, in the case of work in progress and finished goods, direct labour and an appropriate proportion of production overheads. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

Spare parts and consumables are stated at cost less any provision for obsolescence.

2 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(f) Property, plant and equipment

An item of property, plant and equipment is initially recorded at cost, less accumulated depreciation and impairment losses. The cost of an asset comprises its purchase price, any directly attributable costs of bringing the asset to working condition and location for its intended use and the initial estimate, where relevant, of the costs of dismantling and removing the item and restoring the site on which it is located. Subsequent to the revaluation (Note 14), 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 expenditure 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 period in which it is incurred.

Gains or losses arising from the retirement or disposal of property, plant and equipment, other than oil and gas properties, are determined as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised as income or expense in the income statement on the date of retirement or disposal. On disposal of a revalued asset, the related revaluation surplus is transferred from the revaluation reserve to retained earnings.

Depreciation is provided to write off the cost/revalued amount of each part of an item 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 and others	4 to 18 years
Service stations	25 years

The residual value, if not insignificant, is 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 PRC's land bureau. Land use rights are carried at cost and amortised on a straight-line basis over the respective periods of the rights.

(i) Construction in progress

Construction in progress represents buildings, oil and gas properties, various plant and equipment under construction and pending installation, and is stated at cost less impairment losses. The cost of an item comprises direct costs of construction and the initial estimate, where relevant, of the costs of dismantling and removing the item and restoring the site on which it is located as well as interest charges, and foreign exchange differences on related borrowed funds to the extent that they are regarded as an adjustment to interest charges, during the periods of construction.

Construction in progress is transferred to property, plant and equipment when the asset is substantially ready for its intended use.

No depreciation is provided in respect of construction in progress.

(j) Investments

Investments in unlisted equity securities are stated at cost less provision for impairment losses. A provision is made where, in the opinion of management, the carrying amount of the investments exceeds its recoverable amount.

(k) Interests in associates

An associate is a company, not being a subsidiary, in which the Group exercises significant influence over its management. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control over those policies.

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

2 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(l) Jointly controlled entities

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

Investments in jointly controlled entities are accounted for on a proportionate consolidation basis. Under this method, the Group combines its proportionate share of the jointly controlled entity's turnover and expenses with each major turnover and 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.

(m) Provisions

A provision is recognised in the balance sheet when the Group has a legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation.

(n) Revenue recognition

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

Interest income is recognised on a time apportioned basis that takes into account the effective yield on the asset.

(o) Borrowing costs

Borrowing costs are expensed in the income statement in the period in which they are incurred, except to the extent that they are capitalised as being attributable to the construction of an asset which necessarily takes a period of time to get ready for its intended use.

(p) Repairs and maintenance expenditure

Repairs and maintenance expenditure, including cost of major overhaul, is expensed as incurred.

(q) Environmental expenditures

Environmental expenditures that relate to current ongoing operations or to conditions caused by past operations are expensed as incurred.

Liabilities related to future remediation costs are recorded when environmental assessments and/or cleanups are probable and the costs can be reasonably estimated. As facts concerning environmental contingencies become known to the Group, the Group reassesses its position both with respect to accrued liabilities and other potential exposures.

(r) Research and development costs

Research and development costs are recognised as expenses in the period in which they are incurred.

(s) Operating leases

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

(t) Retirement benefits

The contributions payable under the Group's retirement plans are 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 30.

(u) Impairment loss

The carrying amounts of long-lived assets are reviewed periodically in order to assess whether the recoverable amounts have declined below the carrying amounts. These assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. When such a decline has occurred, the carrying amount is reduced to the recoverable amount. The recoverable amount is the greater of the 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. The amount of the reduction is recognised as an expense in the income statement unless the asset is carried at revalued amount for which an impairment loss is recognised directly against any related revaluation reserve to the extent that the impairment loss does not exceed the amount held in the revaluation reserve for that same asset.

The Group assesses at each balance sheet date whether there is any indication that an impairment loss recognised for an asset in prior years may no longer exist. An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. A subsequent increase in the recoverable amount of an asset, when the circumstances and events that led to the write-down or write-off cease to exist, is recognised as 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.

2 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(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.

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

	Six-month periods ended 30 June	
	2005	2004
	RMB millions	RMB millions
Sale of materials, service and others	9,117	9,642
Rental income	89	202
	9,206	**9,844**

5 SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

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

	Six-month periods ended 30 June	
	2005	2004
	RMB millions	RMB millions
Research and development costs	736	1,031
Operating lease charges	2,101	1,973

6 PERSONNEL EXPENSES

	Six-month periods ended 30 June	
	2005	2004
	RMB millions	RMB millions
Wages and salaries	6,339	6,414
Staff welfare	794	840
Contributions to retirement schemes	930	992
Social security contributions	473	470
	8,536	**8,716**

7 EMPLOYEE REDUCTION EXPENSES

In accordance with the Group's voluntary employee reduction plan, the Group recorded employee reduction expenses of RMB 100 million (2004: RMB 412 million) during the six-month period ended 30 June 2005 in respect of the voluntary termination of approximately 1,800 (2004: 8,000) employees.

8 TAXES OTHER THAN INCOME TAX

	Six-month periods ended 30 June	
	2005	2004
	RMB millions	RMB millions
Consumption tax	5,906	5,690
City construction tax	1,332	1,241
Education surcharge	649	600
Resources tax	221	221
Business tax	96	81
	8,204	**7,833**

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.

9 OTHER OPERATING EXPENSES, NET

	Six-month periods ended 30 June	
	2005	2004
	RMB millions	RMB millions
Fines, penalties and compensations	108	31
Donations	128	49
Loss on disposal of property, plant and equipment, net	20	404
Impairment losses on long-lived assets (Note)	397	2,324
Others	223	223
	876	**3,031**

Note:

Impairment losses recognised on long-lived assets of the chemicals segment of RMB 392 million for the six-month period ended 30 June 2005 relate to a chemical production facility that is held for use. The carrying value of this facility was written down to its recoverable value which was based on the fair value less costs to sell. Fair value was determined based on the appraised value of this chemical production facility. An amount of RMB 392 million was charged to the income statement. The primary factor resulting in the impairment losses on long-lived assets of the chemicals segment was due to higher operating and production costs caused by the increase in the prices of raw materials that are not expected to be recovered through an increase in selling price.

Impairment losses recognised on long-lived assets of the chemicals segment of RMB 2,140 million for the six-month period ended 30 June 2004 relate to certain chemical production facilities that are held for use. The carrying values of these facilities were written down to their recoverable values which were based on the asset held for use model using the present value of estimated future cash flows. An amount of RMB 1,701 million was charged to the income statement with the remaining amount of RMB 439 million recognised directly against the related revaluation reserve in respect of those assets that were carried at revalued amount. The primary factor resulting in the impairment losses on long-lived assets of the chemicals segment was due to higher operating and production costs caused by the increase in the prices of raw materials that are not expected to be recovered through an increase in selling price.

Impairment losses recognised on long-lived assets of the marketing and distribution segment of RMB 5 million (2004: RMB 623 million) for the six-month period ended 30 June 2005 primarily relate to certain service stations that were closed during the period. 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.

10 INTEREST EXPENSE

	Six-month periods ended 30 June	
	2005	2004
	RMB millions	RMB millions
Interest expense incurred	3,399	2,665
Less: Interest expense capitalised*	(554)	(393)
Interest expense	**2,845**	**2,272**
* Interest rates per annum at which borrowing costs were capitalised for construction in progress	**3.4% to 6.1%**	**3.1% to 6.0%**

11 TAXATION

Taxation in the consolidated income statement represents:

	Six-month periods ended 30 June 2005 RMB millions	2004 RMB millions
Provision for PRC income tax		
– the Group	9,915	8,463
– associates	170	152
Deferred taxation	(140)	(598)
	9,945	**8,017**

A reconciliation of the expected tax with the actual tax expense is as follows:

	Six-month periods ended 30 June 2005 RMB millions	2004 RMB millions
Profit before taxation	31,714	26,938
Expected PRC income tax expense at a statutory tax rate of 33%	10,466	8,890
Non-deductible expenses	234	123
Non-taxable income	(222)	(155)
Differential tax rate on subsidiaries' income (Note)	(870)	(1,193)
Tax losses not recognised for deferred tax	15	360
Under-provision in prior years	477	91
Tax credit for domestic equipment purchases	(155)	(99)
	9,945	**8,017**

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%.

12 BASIC EARNINGS PER SHARE

The calculation of basic earnings per share for the six-month period ended 30 June 2005 is based on the profit attributable to equity holders of the parent of RMB 19,653 million (2004: RMB 16,746 million) and the weighted average number of shares of 86,702,439,000 (2004: 86,702,439,000) during the period.

The amount of diluted earnings per share is not presented as there were no dilutive potential ordinary shares in existence during the periods presented.

13 DIVIDENDS

Dividends attributable to the period represent:

	Six-month periods ended 30 June 2005 RMB millions	2004 RMB millions
Interim dividends declared after the balance sheet date of RMB 0.04 per share (2004: RMB 0.04 per share)	**3,468**	**3,468**

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 the interim dividends 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). Interim dividend of RMB 3,468 million (2004: RMB 3,468 million) declared after the balance sheet date has not been recognised as a liability at the balance sheet date.

Dividends attributable to the previous financial year, approved and paid during the period represent:

	Six-month periods ended 30 June 2005 RMB millions	2004 RMB millions
Final dividends in respect of the previous financial year, approved and paid during the period 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.

14 PROPERTY, PLANT AND EQUIPMENT

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	442	203	803	160	19	1,627
Transferred from construction in progress	3,706	4,010	3,443	752	123	12,034
Disposals	(641)	(1,669)	(1,282)	(1,970)	(8)	(5,570)
Balance at 30 June 2004	**181,469**	**107,781**	**57,446**	**159,231**	**3,922**	**509,849**
Balance at 1 January 2005	192,076	116,910	65,345	163,222	4,092	541,645
Additions	8	85	77	96	147	413
Transferred from construction in progress	3,386	3,173	5,918	15,420	95	27,992
Proportionate share of a new jointly controlled entity	—	—	—	1,028	—	1,028
Disposals	(97)	(84)	(220)	(102)	(18)	(521)
Balance at 30 June 2005	**195,373**	**120,084**	**71,120**	**179,664**	**4,316**	**570,557**
Accumulated depreciation:						
Balance at 1 January 2004	84,604	50,901	10,014	84,285	1,223	231,027
Depreciation charge for the period	5,357	3,687	1,276	4,616	143	15,079
Impairment losses for the period	—	—	623	2,140	—	2,763
Written back on disposals	(502)	(1,362)	(728)	(1,204)	(5)	(3,801)
Balance at 30 June 2004	**89,459**	**53,226**	**11,185**	**89,837**	**1,361**	**245,068**
Balance at 1 January 2005	94,028	56,580	13,465	92,042	1,407	257,522
Depreciation charge for the period	5,233	3,296	1,372	4,872	134	14,907
Impairment losses for the period	—	—	5	392	—	397
Written back on disposals	(87)	(58)	(95)	(54)	(6)	(300)
Balance at 30 June 2005	**99,174**	**59,818**	**14,747**	**97,252**	**1,535**	**272,526**
Net book value:						
At 1 January 2004	93,358	54,336	44,468	76,004	2,565	270,731
At 30 June 2004	**92,010**	**54,555**	**46,261**	**69,394**	**2,561**	**264,781**
At 1 January 2005	98,048	60,330	51,880	71,180	2,685	284,123
At 30 June 2005	**96,199**	**60,266**	**56,373**	**82,412**	**2,781**	**298,031**

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	103	1	623	900	1,627
Transferred from construction in progress	174	3,667	5,390	2,803	12,034
Disposals	(899)	(239)	(985)	(3,447)	(5,570)
Balance at 30 June 2004	**44,106**	**162,063**	**51,365**	**252,315**	**509,849**
Balance at 1 January 2005	44,854	173,564	60,533	262,694	541,645
Additions	43	1	63	306	413
Transferred from construction in progress	1,222	3,130	5,219	18,421	27,992
Proportionate share of a new jointly controlled entity	182	—	—	846	1,028
Disposals	(117)	(59)	(156)	(189)	(521)
Balance at 30 June 2005	**46,184**	**176,636**	**65,659**	**282,078**	**570,557**
Accumulated depreciation:					
Balance at 1 January 2004	18,975	77,582	8,785	125,685	231,027
Depreciation charge for the period	862	4,575	1,061	8,581	15,079
Impairment losses for the period	325	—	623	1,815	2,763
Written back on disposals	(434)	(205)	(491)	(2,671)	(3,801)
Balance at 30 June 2004	**19,728**	**81,952**	**9,978**	**133,410**	**245,068**
Balance at 1 January 2005	20,308	85,143	11,781	140,290	257,522
Depreciation charge for the period	761	4,902	1,209	8,035	14,907
Impairment losses for the period	—	—	5	392	397
Written back on disposals	(42)	(50)	(60)	(148)	(300)
Balance at 30 June 2005	**21,027**	**89,995**	**12,935**	**148,569**	**272,526**
Net book value:					
At 1 January 2004	25,753	81,052	37,552	126,374	270,731
At 30 June 2004	**24,378**	**80,111**	**41,387**	**118,905**	**264,781**
At 1 January 2005	24,546	88,421	48,752	122,404	284,123
At 30 June 2005	**25,157**	**86,641**	**52,724**	**133,509**	**298,031**

14 PROPERTY, PLANT AND EQUIPMENT *(Continued)*

The Group's proportionate share of the jointly controlled entities' net book value of property, plant and equipment at 30 June 2005 in the exploration and production and the chemicals segments were RMB 392 million (2004: RMB 412 million) and RMB 15,584 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 Ministry of Finance. The value of property, plant and equipment of Sinopec National Star pursuant to the valuation, based on a depreciated replacement cost basis, was determined at RMB 4,373 million, resulting in a surplus on revaluation of RMB 1,136 million, net of amounts allocated to minority interest.

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

15 CONSTRUCTION IN PROGRESS

	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	10,394	3,914	7,808	3,029	96	25,241
Additions by jointly controlled entities	702	—	—	2,666	—	3,368
Dry hole costs written off	(764)	—	—	—	—	(764)
Transferred to property, plant and equipment	(3,706)	(4,010)	(3,443)	(752)	(123)	(12,034)
Balance at 30 June 2004	**12,161**	**8,374**	**12,306**	**11,900**	**424**	**45,165**
Balance at 1 January 2005	9,262	8,459	13,781	13,170	1,513	46,185
Additions	11,352	3,366	6,307	2,146	249	23,420
Additions by jointly controlled entities	396	—	—	1,500	—	1,896
Proportionate share of a new jointly controlled entity	—	—	—	5,461	—	5,461
Dry hole costs written off	(1,325)	—	—	—	—	(1,325)
Transferred to property, plant and equipment	(3,386)	(3,173)	(5,918)	(15,420)	(95)	(27,992)
Balance at 30 June 2005	**16,299**	**8,652**	**14,170**	**6,857**	**1,667**	**47,645**

The Group's proportionate share of the jointly controlled entities' construction in progress at 30 June 2005 in the exploration and production and the chemicals segments were RMB 2,449 million (2004: RMB 2,053 million) and RMB 321 million (2004: RMB 8,171 million), respectively.

16 INVESTMENTS

	At 30 June 2005 RMB millions	At 31 December 2004 RMB millions
Unlisted investments, at cost	2,804	2,891
Less: Provision for impairment losses	(370)	(353)
	2,434	**2,538**

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.

17 INTERESTS IN ASSOCIATES

	At 30 June 2005 RMB millions	At 31 December 2004 RMB millions
Share of net assets	**7,521**	**10,222**

The Group's investments in associates are with companies primarily engaged in the oil and gas and chemical operations in the PRC. These investments are individually and in the aggregate not material to the Group's financial condition or results of operations for all periods presented. The principal investments in associates, all of which are incorporated in the PRC, are as follows:

Name of company	Form of business structure	Particulars of issued and paid up capital	Percentage of equity held by the Company %	Percentage of equity held by the Company's subsidiaries %	Principal activities
Shengli Oil Field Dynamic Company Limited ("Dynamic")*	Incorporated	364,027,608 ordinary shares of RMB 1.00 each	26.33	—	Exploration of crude oil and distribution of petrochemical products
Sinopec Shandong Taishan Petroleum Company Limited ("Taishan")*	Incorporated	480,793,320 ordinary shares of RMB 1.00 each	38.68	—	Trading of petroleum products and decoration of service gas stations
Sinopec Finance Company Limited	Incorporated	Registered capital RMB 2,500,000,000	32.00	8.22	Provision of non-banking financial services
Shanghai Petroleum National Gas Corporation	Incorporated	Registered capital RMB 900,000,000	30.00	—	Exploration and production of crude oil and natural gas
Shanghai Chemical Industry Park Development Company Limited	Incorporated	Registered capital RMB 2,372,439,000	—	38.26	Planning, development and operation of the Chemical Industry Park in Shanghai, the PRC
China Shipping & Sinopec Suppliers Company Limited	Incorporated	Registered capital RMB 876,660,000	—	50.00	Transportation of petroleum products

* Shares of Dynamic and Taishan are listed on the Shenzhen Stock Exchange. Shares held by the Company are domestic state-owned A shares which are not admitted for trading in any stock exchange in the PRC. The market value of the Company's investments in Dynamic and Taishan based on the quoted market price are RMB 471 million (2004: RMB 479 million) and RMB 524 million (2004: RMB 1,516 million) respectively at 30 June 2005.

18 INTERESTS IN JOINTLY CONTROLLED ENTITIES

The Group's 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 Chengda in Bohai Bay	Unincorporated	—	—	43.00	Exploration and production of crude oil and natural gas

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

	Six-month periods ended 30 June	
	2005 RMB millions	2004 RMB millions
Results of operations:		
Operating revenue	2,421	138
Expenses	2,745	166
Net losses	(324)	(28)

	At 30 June 2005 RMB millions	At 31 December 2004 RMB millions
Financial conditions:		
Current assets	2,280	520
Non-current assets	19,642	10,913
Current liabilities	2,956	1,699
Non-current liabilities	10,192	4,463
Net assets	8,774	5,271

19 LONG-TERM PREPAYMENTS AND OTHER ASSETS

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

20 TRADE ACCOUNTS AND BILLS RECEIVABLES

	At 30 June 2005 RMB millions	At 31 December 2004 RMB millions
Amounts due from third parties	15,127	10,989
Amounts due from Sinopec Group Company and fellow subsidiaries	2,705	2,349
Amounts due from associates	563	89
Amounts due from jointly controlled entities	404	—
	18,799	**13,427**
Less: Allowance for doubtful accounts	(3,552)	(3,671)
	15,247	**9,756**
Bills receivable	8,356	7,812
	23,603	**17,568**

The ageing analysis of trade accounts and bills receivables (net of allowance for doubtful accounts) is as follows:

	At 30 June 2005 RMB millions	At 31 December 2004 RMB millions
Within one year	23,119	16,968
Between one and two years	226	225
Between two and three years	135	166
Over three years	123	209
	23,603	**17,568**

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.

21 INVENTORIES

	At 30 June 2005 RMB millions	At 31 December 2004 RMB millions
Crude oil and other raw materials	45,094	32,562
Work in progress	11,598	8,341
Finished goods	19,248	20,804
Spare parts and consumables	4,429	3,528
	80,369	**65,235**
Less: Allowance for diminution in value of inventories	(936)	(906)
	79,433	**64,329**

At 30 June 2005, the carrying amount of the Group's inventories carried at fair value less costs to sell amounted to RMB 2,229 million (2004: RMB 1,624 million).

The cost of inventories recognised as an expense in the consolidated income statement amounted to RMB 293,438 million for the six-month period ended 30 June 2005 (2004: RMB 213,257 million).

22 PREPAID EXPENSES AND OTHER CURRENT ASSETS

	At 30 June 2005 RMB millions	At 31 December 2004 RMB millions
Advances to third parties	1,633	1,600
Amounts due from Sinopec Group Company and fellow subsidiaries	5,192	5,585
Other receivables	1,908	2,161
Purchase deposits	3,388	2,547
Prepayments in connection with construction work and equipment purchases	4,838	4,727
Prepaid value-added tax and customs duty	3,228	3,166
Amounts due from associates	559	308
	20,746	**20,094**

23 DEFERRED TAX ASSETS AND LIABILITIES

Deferred tax assets and deferred tax liabilities are attributable to the items detailed in the table below:

	Assets		Liabilities		Net balance	
	At 30 June 2005 RMB millions	At 31 December 2004 RMB millions	**At 30 June 2005 RMB millions**	At 31 December 2004 RMB millions	**At 30 June 2005 RMB millions**	At 31 December 2004 RMB millions
Current						
Provisions, primarily for receivables and inventories	2,923	2,528	—	—	2,923	2,528
Non-current						
Property, plant and equipment	1,580	1,566	(1,569)	(1,704)	11	(138)
Accelerated depreciation	—	—	(4,078)	(3,932)	(4,078)	(3,932)
Tax value of losses carried forward, net of valuation allowances	200	66	—	—	200	66
Lease prepayments	362	366	—	—	362	366
Others	26	32	(382)	—	(356)	32
Deferred tax assets/(liabilities)	**5,091**	**4,558**	**(6,029)**	**(5,636)**	**(938)**	**(1,078)**

A valuation allowance on deferred tax assets is recorded if it is more likely than not that some portion or all of the deferred tax assets will not be realised through the recovery of taxes previously paid and/or future taxable income. The allowance is subject to ongoing adjustments based on changes in circumstances that affect the Group's assessment of the realisability of the deferred tax assets. The Group has reviewed its deferred tax assets at the balance sheet date. Based on this review, valuation allowances of RMB 15 million (2004: RMB 360 million) were provided for the six-month period ended 30 June 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 more likely than not that the operations will have future taxable profits over the periods which the deferred tax assets are deductible or utilised and whether the tax losses result from identifiable causes which are unlikely to recur. Based on this assessment, a valuation allowance was provided to reduce the deferred tax asset to the amount that is more likely than not to be realised.

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

Short-term debts represent:

	At 30 June 2005 RMB millions	At 31 December 2004 RMB millions
Third parties' debts		
Short-term bank loans	**32,129**	**20,009**
Current portion of long-term bank loans	7,201	12,177
Current portion of long-term other loans	44	121
	7,245	**12,298**
	39,374	**32,307**
Loans from Sinopec Group Company and fellow subsidiaries		
Short-term loans	2,290	6,714
Current portion of long-term loans	—	2,000
	2,290	**8,714**
	41,664	**41,021**

The Group's weighted average interest rate on short-term loans was 4.3% at 30 June 2005 (2004: 3.9%).

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24 SHORT-TERM AND LONG-TERM DEBTS AND LOANS FROM SINOPEC GROUP COMPANY AND FELLOW SUBSIDIARIES *(Continued)*

Long-term debts comprise:

	Interest rate and final maturity	At 30 June 2005 RMB millions	At 31 December 2004 RMB millions
Third parties' debts			
Long-term bank loans			
Renminbi denominated	Interest rates ranging from interest free to 5.8% per annum at 30 June 2005 with maturities through 2013	57,013	52,227
Japanese Yen denominated	Interest rates ranging from 2.6% to 5.8% per annum at 30 June 2005 with maturities through 2024	4,029	4,562
US Dollar denominated	Interest rates ranging from interest free to 7.4% per annum at 30 June 2005 with maturities through 2031	6,140	7,729
Euro denominated	Fixed interest rate at 6.7% per annum at 30 June 2005 with maturities through 2010	147	165
Hong Kong Dollar denominated	Floating rate at Hong Kong Prime Rate plus 0.3% per annum at 30 June 2005 with maturities through 2006	3	5
		67,332	**64,688**
Long-term other loans			
Renminbi denominated	Interest rates ranging from interest free to 5.0% per annum at 30 June 2005 with maturities through 2008	156	359
US Dollar denominated	Interest rates ranging from interest free to 4.0% per annum at 30 June 2005 with maturities through 2015	80	110
		236	**469**
Corporate bonds			
Renminbi denominated	Fixed interest rate at 4.61% per annum at 30 June 2005 with maturity in February 2014 (a)	**3,500**	**3,500**
		71,068	**68,657**
Long-term bank loans of jointly controlled entities			
Renminbi denominated	Floating rate at 90% of PBOC's base lending rate per annum at 30 June 2005 with maturities through 2021	5,570	2,415
US Dollar denominated	Floating rate at London Interbank Offer Rate plus 0.4% to 0.7% per annum at 30 June 2005 with maturities through 2021	4,342	2,048
		9,912	**4,463**
Total third parties' long-term debts		**80,980**	**73,120**
Less: Current portion		(7,245)	(12,298)
		73,735	**60,822**
Long-term loans from Sinopec Group Company and fellow subsidiaries			
Renminbi denominated	Interest free with maturity in 2020	35,561	35,561
Renminbi denominated	Interest rates ranging from 4.8% to 5.2% per annum at 30 June 2005 with maturities through 2009	4,303	3,204
		39,864	**38,765**
Less: Current portion		—	(2,000)
		39,864	**36,765**
		113,599	**97,587**

(a) 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 30 June 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 100 million at 30 June 2005 (2004: RMB 123 million).

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

	At 30 June 2005 RMB millions	At 31 December 2004 RMB millions
Within one year	7,245	14,298
Between one and two years	22,046	15,886
Between two and five years	40,764	36,041
After five years	50,789	45,660
	120,844	**111,885**

25 TRADE ACCOUNTS AND BILLS PAYABLES

	At 30 June 2005 RMB millions	At 31 December 2004 RMB millions
Amounts due to third parties	32,136	22,265
Amounts due to Sinopec Group Company and fellow subsidiaries	1,868	1,527
Amounts due to associates	148	—
	34,152	**23,792**
Bills payable	26,893	30,797
	61,045	**54,589**

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

The ageing analysis of trade accounts and bills payables is as follows:

	At 30 June 2005 RMB millions	At 31 December 2004 RMB millions
Due within 1 month or on demand	27,555	25,444
Due after 1 month but within 6 months	33,346	28,877
Due after 6 months	144	268
	61,045	**54,589**

26 ACCRUED EXPENSES AND OTHER PAYABLES

	At 30 June 2005 RMB millions	At 31 December 2004 RMB millions
Amounts due to Sinopec Group Company and fellow subsidiaries	11,201	10,897
Accrued expenditures	20,966	17,213
Taxes other than income tax	3,008	3,717
Receipts in advance	7,701	7,387
Advances from third parties	847	1,009
Others	4,770	5,053
	48,493	**45,276**

27 SHARE CAPITAL

	At 30 June 2005 RMB millions	At 31 December 2004 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.

28 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 30 June 2005 and 31 December 2004, the future minimum lease payments under operating leases are as follows:

	At 30 June 2005 RMB millions	At 31 December 2004 RMB millions
Within one year	3,504	3,452
Between one and two years	3,404	3,343
Between two and three years	3,328	3,278
Between three and four years	3,295	3,245
Between four and five years	3,263	3,225
Thereafter	96,634	97,527
	113,428	**114,070**

Capital commitments

At 30 June 2005 and 31 December 2004, capital commitments are as follows:

	At 30 June 2005 RMB millions	At 31 December 2004 RMB millions
The Group		
Authorised and contracted for	40,475	43,001
Authorised but not contracted for	40,809	60,173
	81,284	**103,174**
Jointly controlled entities		
Authorised and contracted for	2,399	3,157
Authorised but not contracted for	8	2,088
	2,407	**5,245**

These capital commitments relate to oil and gas exploration and development, refining and petrochemical production capacity expansion projects, the construction of service stations and oil depots, and capital contributions to the Group's investments and interests in associates.

Exploration and production licenses

Exploration licenses for exploration activities are registered with the Ministry of Land and Resources. The maximum term of the Group's exploration licenses is 7 years, and may be renewed twice within 30 days prior to expiration of the original term with each renewal being for a two-year term. The Group is obligated to make progressive annual minimum exploration investment relating to the exploration blocks in respect of which the license is issued. The Ministry of Land and Resources also issues production licenses to the Group on the basis of the reserve reports approved by relevant authorities. The maximum term of a full production license is 30 years unless a special dispensation was given by the State Council. The maximum term of production licenses issued to the Group is 55 years as a special dispensation was given to the Group by the State Council. The Group's production license is renewable upon application by the Group 30 days prior to expiration.

The Group is required to make payments of exploration license fees and production right usage fees to the Ministry of Land and Resources annually which are expensed as incurred. Payments incurred were approximately RMB 25 million for the six-month period ended 30 June 2005 (2004: RMB 101 million).

Estimated future annual payments are as follows:

	At 30 June 2005 RMB millions	At 31 December 2004 RMB millions
Within one year	138	90
Between one and two years	103	120
Between two and three years	64	75
Between three and four years	70	67
Between four and five years	70	74
Thereafter	246	279
	691	**705**

28 COMMITMENTS AND CONTINGENT LIABILITIES *(Continued)*

Contingent liabilities

(a) The Company has been advised by its PRC lawyers that, except for liabilities constituting or arising out of or relating to the business assumed by the Company in the Reorganisation, no other liabilities were assumed by the Company, and the Company is not jointly and severally liable for other debts and obligations incurred by Sinopec Group Company prior to the Reorganisation.

(b) At 30 June 2005 and 31 December 2004, guarantees given to banks in respect of banking facilities granted to the parties below were as follows:

	At 30 June 2005 RMB millions	At 31 December 2004 RMB millions
Associates	**109**	**4,828**

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 30 June 2005 and 31 December 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.

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 107 million for the six-month period ended 30 June 2005 (2004: RMB 113 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.

29 RELATED PARTY TRANSACTIONS

Companies are considered to be related if one company has the ability, directly or indirectly, to control or jointly control the other company or exercise significant influence over the other company in making financial and operating decisions. Companies are also considered to be related if they are subject to common control or common significant influence.

(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 wholly 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	Six-month periods ended 30 June 2005 RMB millions	2004 RMB millions
Sales of goods	(i)	36,976	27,104
Purchases	(ii)	20,134	16,956
Transportation and storage	(iii)	893	981
Exploration and development services	(iv)	7,692	7,101
Production related services	(v)	3,757	3,776
Ancillary and social services	(vi)	912	889
Operating lease charges	(vii)	1,565	1,612
Agency commission income	(viii)	29	31
Intellectual property license fee paid	(ix)	9	5
Interest received	(x)	21	25
Interest paid	(xi)	507	349
Net deposits withdrawn from related parties	(xii)	2,874	1,537
Net loans (repaid to) / obtained from related parties	(xiii)	(3,325)	429

29 RELATED PARTY TRANSACTIONS *(Continued)*

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

The amounts set out in the table above in respect of the six-month periods ended 30 June 2005 and 2004 represent the relevant costs to the Group as determined by the corresponding contracts with the related parties.

At 30 June 2005 and 31 December 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 28.

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.

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.

(v) Production related services represent ancillary services rendered in relation to the Group's operations such as equipment repair and general maintenance, insurance premium, technical research, communications, fire fighting, security, product quality testing and analysis, information technology, design and engineering, construction which includes the construction of oilfield ground facilities, refineries and chemical plants, manufacture of replacement parts and machinery, installation, project management and environmental protection.

(vi) Ancillary and social services represent expenditures for social welfare and support services such as educational facilities, media communication services, sanitation, accommodation, canteens, property maintenance and management services.

(vii) Operating lease charges represent the rental paid to Sinopec Group Company for operating leases in respect of land, buildings and service stations.

(viii) Agency commission income represents commission earned for acting as an agent in respect of sales of products of and purchase of 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 30 June 2005 was RMB 1,797 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 placed with / withdrawn from Sinopec Finance Company Limited.

(xiii) The Group obtained / repaid loans from / to 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, 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.

29 RELATED PARTY TRANSACTIONS *(Continued)*

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

(d) The Company has entered into agreements with Sinopec Group Company effective from 1 January 2000 under which the Group has been granted the right to use certain trademarks, patents, technology and computer software developed by Sinopec Group Company. The Group will reimburse Sinopec Group Company for fees required to maintain the validity of these licenses.

(e) The Company has entered into agency agreements effective from 1 January 2000 with certain entities owned by Sinopec Group Company under which the Group acts as a sole agent in respect of the sale of all the products of these entities. In exchange for the Group's sales agency services, Sinopec Group Company has agreed to pay the Group a commission of between 0.2% and 1.0% of actual sales receipts depending on the products and to reimburse the Group for reasonable costs incurred in the capacity as its sales agent.

(f) The Company has entered into a service stations franchise agreement with Sinopec Group Company effective from 1 January 2000 under which its service stations and retail stores would exclusively sell the refined products supplied by the Group.

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

	At 30 June 2005 RMB millions	At 31 December 2004 RMB millions
Trade accounts receivable	3,672	2,438
Prepaid expenses and other current assets	5,751	5,893
Total amounts due from Sinopec Group Company and fellow subsidiaries, associates and jointly controlled entities	**9,423**	**8,331**
Trade accounts payable	2,016	1,527
Accrued expenses and other payables	11,201	10,897
Short-term loans from Sinopec Group Company and fellow subsidiaries	2,290	8,714
Long-term loans from Sinopec Group Company and fellow subsidiaries	39,864	36,765
Total amounts due to Sinopec Group Company and fellow subsidiaries and associates	**55,371**	**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 24.

As at and for the six-month period ended 30 June 2005, no material allowance for doubtful accounts was recorded in respect of amounts due from Sinopec Group Company and fellow subsidiaries, associates and jointly controlled entities.

(b) Transactions with key management personnel

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:

	Six-month periods ended 30 June	
	2005 RMB'000	2004 RMB'000
Short-term employee benefits	2,247	1,708
Retirement scheme contributions	103	102

Key management personnel also participate in the Group's plan of share appreciation rights (Note 30).

(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 30. As at 30 June 2005, there was no material outstanding contribution to post-employment benefit plans.

(d) Transactions with other state-controlled entities in the PRC

The Group operates in an economic regime currently predominated by state-controlled 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-controlled entities") in the ordinary course of business. These transactions 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 and are carried out at terms similar to those that would be entered into with non-state-controlled entities. Although the majority of the Group's activities are with the PRC government authorities and affiliates and other state-controlled enterprises, the Group believes that it has provided meaningful disclosure of related party transactions in Note 29 (a).

30 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 six-month period ended 30 June 2005 were RMB 930 million (2004: RMB 992 million).

The Company implemented a plan of share appreciation rights 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 2003, the Company granted 258.6 million share appreciation right units to eligible employees accordingly.

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 six-month period ended 30 June 2005, compensation expense recognised was RMB 4 million (2004: RMB 144 million).

31 SEGMENTAL REPORTING

The Group has five operating segments as follows:

(i) Exploration and production, which explores and develops oil fields, produces crude oil and natural gas and sells such products to the refining segment of the Group and external customers.

(ii) Refining, which processes and purifies crude oil, which is sourced from the exploration and production segment of the Group and external suppliers, and manufactures and sells petroleum products to the chemicals and marketing and distribution segments of the Group and external customers.

(iii) Marketing and distribution, which owns and operates oil depots and service stations in the PRC, and distributes and sells refined petroleum products (mainly gasoline and diesel) in the PRC through wholesale and retail sales networks.

(iv) Chemicals, which manufactures and sells petrochemical products, derivative petrochemical products and other chemical products mainly to external customers.

(v) Corporate and others, which largely comprise the trading activities of the import and export companies of the Group and research and development undertaken by other subsidiaries.

The segments were determined primarily because the Group manages its exploration and production, refining, marketing and distribution, chemicals, and corporate and others businesses separately. The reportable segments are each managed separately because they manufacture and/or distribute distinct products with different production processes and due to their distinct operating and gross margin characteristics. In view of the fact that the Company and its subsidiaries operate mainly in the PRC, no geographical segment information is presented.

The Group evaluates the performance and allocates resources to its operating segments on an operating income basis, without considering the effects of finance costs or investment income. The accounting policies of the Group's segments are the same as those described in the principal accounting policies (see Note 2). Corporate administrative costs and assets are not allocated to the operating segments; instead, operating segments are billed for direct corporate services. Inter-segment transfer pricing is based on cost plus an appropriate margin, as specified by the Group's policy.

31 SEGMENTAL REPORTING *(Continued)*

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

	Six-month periods ended 30 June 2005 RMB millions	2004 RMB millions
Turnover		
Exploration and production		
External sales	8,651	7,376
Inter-segment sales	35,745	26,316
	44,396	**33,692**
Refining		
External sales	37,083	28,545
Inter-segment sales	172,035	130,319
	209,118	**158,864**
Marketing and distribution		
External sales	206,763	156,539
Inter-segment sales	1,320	1,334
	208,083	**157,873**
Chemicals		
External sales	74,731	57,692
Inter-segment sales	8,335	4,794
	83,066	**62,486**
Corporate and others		
External sales	32,020	19,449
Inter-segment sales	21,228	16,552
	53,248	36,001
Elimination of inter-segment sales	(238,663)	(179,315)
Turnover	**359,248**	**269,601**
Other operating revenues		
Exploration and production	3,627	3,544
Refining	1,851	2,370
Marketing and distribution	533	362
Chemicals	2,950	2,742
Corporate and others	245	826
Other operating revenues	**9,206**	**9,844**
Turnover and other operating revenues	**368,454**	**279,445**

	Six-month periods ended 30 June 2005 RMB millions	2004 RMB millions
Result		
Operating profit		
By segment		
– Exploration and production	17,795	10,520
– Refining	(1,296)	4,287
– Marketing and distribution	6,643	8,569
– Chemicals	10,815	6,005
– Corporate and others	(275)	(819)
Total operating profit	**33,682**	**28,562**
Share of profits less losses from associates		
– Exploration and production	238	223
– Refining	8	29
– Marketing and distribution	168	177
– Chemicals	15	(33)
– Corporate and others	107	59
Aggregate share of profits less losses from associates	**536**	**455**
Finance costs		
Interest expense	(2,845)	(2,272)
Interest income	168	179
Foreign exchange losses	(40)	(29)
Foreign exchange gains	151	43
Net finance costs	**(2,566)**	**(2,079)**
Investment income	62	—
Profit from ordinary activities before taxation	**31,714**	**26,938**
Taxation	(9,945)	(8,017)
Profit for the period	**21,769**	**18,921**

31 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.

Interests in and earnings from associates are included in the segments in which the associates operate. Information on associates is included in Note 17. Additions to long-lived assets by operating segment are included in Notes 14 and 15.

	At 30 June 2005 RMB millions	At 31 December 2004 RMB millions
Assets		
Segment assets		
– Exploration and production	117,896	110,509
– Refining	113,684	111,878
– Marketing and distribution	102,819	93,722
– Chemicals	109,271	105,032
– Corporate and others	30,677	17,574
Total segment assets	**474,347**	**438,715**
Interests in associates		
– Exploration and production	1,299	1,396
– Refining	345	314
– Marketing and distribution	2,856	2,410
– Chemicals	1,141	4,315
– Corporate and others	1,879	1,787
Aggregate interests in associates	**7,520**	**10,222**
Unallocated assets	**27,513**	**25,657**
Total assets	**509,380**	**474,594**
Liabilities		
Segment liabilities		
– Exploration and production	16,763	16,241
– Refining	30,763	28,130
– Marketing and distribution	22,539	23,419
– Chemicals	12,838	16,528
– Corporate and others	26,636	15,547
Total segment liabilities	**109,539**	**99,865**
Unallocated liabilities	**165,065**	**150,643**
Total liabilities	**274,604**	**250,508**

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

	Six-month periods ended 30 June	
	2005 RMB millions	2004 RMB millions
Capital expenditure		
Exploration and production	10,077	10,072
Refining	3,451	4,117
Marketing and distribution	6,384	8,611
Chemicals	2,242	3,189
Corporate and others	396	115
	22,550	**26,104**
Capital expenditure of jointly controlled entities		
Exploration and production	354	702
Chemicals	1,500	2,666
	1,854	**3,368**
Depreciation, depletion and amortisation		
Exploration and production	5,247	5,372
Refining	3,320	3,695
Marketing and distribution	1,382	1,358
Chemicals	5,026	4,820
Corporate and others	180	154
	15,155	**15,399**
Impairment losses on long-lived assets recognised in income statement		
Marketing and distribution	5	623
Chemicals	392	1,701
	397	**2,324**
Impairment losses on revalued long-lived assets recognised in equity attributable to equity holders of the parent		
Chemicals	—	**439**

32 PRINCIPAL SUBSIDIARIES

At 30 June 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 Company %	Percentage of equity held by Subsidiary %	Principal activities
China Petrochemical International Company Limited	RMB 1,400	Limited company	100.00	—	Trading of crude oil and petrochemical products
Sinopec Beijing Yanhua Petrochemical Company Limited ("Beijing Yanhua") (i)	RMB 3,374	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 455	Limited company	60.00	—	Marketing and distribution of refined petroleum products
BP Sinopec (Zhejiang) Petroleum Company Limited	RMB 647	Limited company	60.00	—	Marketing and distribution of refined petroleum products
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 period, 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, liabilities and contingent liabilities acquired was recorded as goodwill, 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.

33 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 30 June 2005 and 31 December 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 allowance for doubtful accounts and actual losses have been within management's expectations. No single customer accounted for greater than 10% of total revenues.

No other financial assets carry a significant exposure to credit risk.

Currency risk

Substantially all of the revenue-generating operations of the Group are transacted in Renminbi, which is not fully convertible into foreign currencies. On 1 January 1994, the PRC government abolished the dual rate system and introduced a single rate of exchange as quoted by the People's Bank of China. However, the unification of the exchange rate does not imply convertibility of Renminbi into United States dollars or other foreign currencies. All foreign exchange transactions continue to take place either through the People's Bank of China or other banks authorised to buy and sell foreign currencies at the exchange rates quoted by the People's Bank of China. Approval of foreign currency payments by the People's Bank of China or other institutions requires submitting a payment application form together with suppliers' invoices, shipping documents and signed contracts. On 21 July 2005, the PRC government reformed the exchange rate regime. The details of this reform and impact on the Group's financial position as at 30 June 2005 are disclosed in Note 37.

Interest rate risk

The interest rates and terms of repayment of short-term and long-term debts of the Group are disclosed in Note 24.

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 30 June 2005 and 31 December 2004:

	At 30 June 2005 RMB millions	At 31 December 2004 RMB millions
Carrying amount	80,980	73,120
Fair value	81,285	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 in unlisted equity securities have no quoted market prices in the PRC. Accordingly, a reasonable estimate of fair value could not be made without incurring excessive costs.

The fair values of all other financial instruments approximate their carrying amounts due to the nature or short-term maturity of these instruments.

34 ACCOUNTING ESTIMATES AND JUDGEMENTS

The Group's financial condition and results of operations are sensitive to accounting methods, assumptions and estimates that underlie the preparation of the interim 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 interim 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 interim 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.

Impairments

If circumstances indicate that the net book value of a long-lived asset may not be recoverable, this 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 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.

Provision for doubtful debts

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

35 RECENTLY ISSUED ACCOUNTING STANDARDS

IFRS 6, "Exploration for and Evaluation of Mineral Resources"

In December 2004, the IASB issued IFRS 6, "Exploration for and Evaluation of Mineral Resources". The statement addresses the accounting for the costs incurred in exploration for and evaluation of mineral resources. Under IFRS 6, for each type of exploration and evaluation ("E&E") expenditure, an entity is permitted to adopt a policy either of immediate expense or of capitalisation as an E&E asset. An entity is also allowed to continue its existing policy, subject to certain limitations. Those limitations include requiring that an entity should segregate E&E assets into tangible and intangible items based on the nature of the assets, and an entity should apply IAS 36, "Impairment of assets" in measuring the impairment of E&E assets when there are indications that the carrying amount of an E&E asset may exceed its recoverable amount. IFRS 6 is effective for fiscal years beginning on or after 1 January 2006. Currently, the Group does not expect the application of this statement will have a material impact on its consolidated financial statements.

36 CHANGES IN PRINCIPAL ACCOUNTING POLICIES

The IASB has issued a number of new and revised IFRS and IAS ("new IFRS") which are effective for accounting periods beginning on or after 1 January 2005. The Group has adopted these new IFRS in the interim financial statement for the six-month period ended 30 June 2005. The relevant changes in and impact on the Group's principal accounting policies as a result of the adoption of these new IFRS are set out below.

(a) IAS 16

IAS 16, "Property, Plant and Equipment", replaces IAS 16 (revised 1998) and related Interpretations. 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 derecognize 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 adoption of IAS 16 did not have a material impact on the Group's interim financial statements.

(b) IAS 21

IAS 21, "The Effects of Changes in Foreign Exchange Rates", replaces IAS 21 (revised 1993) and related Interpretations. IAS 21 defines two notions, functional currency and presentation currency, to replace the notion, reporting currency, in IAS 21 (revised 1993). The adoption of IAS 21 did not have a material impact on the Group's interim financial statements.

(c) IAS 27

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 period were also separately presented in the consolidated statement of income as deduction before arriving at the profit attributable to shareholders.

IAS 27, "Consolidated and Separate Financial Statements", replaces IAS 27 (revised 2000) and related Interpretations. IAS 27 requires minority interests at the balance sheet date to be presented in the consolidated balance sheet within equity, separately from the equity attributable to the equity holders of the parent, and minority interests in the results of the Group for the period to be 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 parent. 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. Except for the changes in presentation, the adoption of IAS 27 did not have a material impact on the Group's interim financial statements.

37 POST BALANCE SHEET EVENT

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 RMB 8.11 per US dollar with effect from the time of 19:00 hours on 21 July 2005. The Group does not expect this reform had a material impact on the Group's financial position as at 30 June 2005.

38 ULTIMATE HOLDING COMPANY

The directors consider the ultimate holding company of the Group at 30 June 2005 to be Sinopec Group Company, a state-owned enterprise established in the PRC.

(C) DIFFERENCES BETWEEN FINANCIAL STATEMENTS PREPARED UNDER THE PRC ACCOUNTING RULES AND REGULATIONS AND IFRS

Other than the differences in the classifications of certain financial statements captions and the accounting for the items described below, there are no material differences between the Group's financial statements prepared under the PRC Accounting Rules and Regulations and IFRS. The 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) 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.

(ii) 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.

(iii) Depreciation of oil and gas properties

Under the PRC Accounting Rules and Regulations, oil and gas properties are depreciated on a straight-line basis. Under IFRS, oil and gas properties are depreciated on the unit of production method.

(iv) 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.

(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.

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 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.

(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) Impairment losses on long-lived assets

Under the PRC Accounting Rules and Regulations and IFRS, impairment charges are recognised when the carrying value of long-lived assets exceeds the higher of their net selling price and the value in use which incorporates discounting the asset's estimated future cash flows. Due to the difference in the depreciation method of oil and gas properties discussed in (iii) above, the provision for impairment losses and reversal of impairment loss under the PRC Accounting Rules and Regulations are measured differently from the amounts recorded under IFRS.

(xii) 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 parent, 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 parent.

Effects of major differences between the net profit under the PRC Accounting Rules and Regulations and the profit for the period under IFRS are analysed as follows:

	Note	Six-month periods ended 30 June **2005** **RMB millions**	 2004 RMB millions
Net profit under the PRC Accounting Rules and Regulations		18,044	15,039
Adjustments:			
Equity investment differences	(i)	1,169	—
Pre-operating expenditures	(ii)	442	(95)
Depreciation of oil and gas properties	(iii)	417	370
Capitalisation of general borrowing costs, net of depreciation effect	(iv)	216	247
Unrecognised losses of subsidiaries	(v)	113	(236)
Acquisition of Sinopec National Star	(vi)	58	58
Acquisitions of Tianjin Petrochemical, Luoyang Petrochemical, Zhongyuan Petrochemical and Catalyst Plants	(vi)	—	899
Reduced amortisation on revaluation of land use rights	(vii)	9	9
Reduced depreciation on government grants	(viii)	1	—
Impairment losses on revalued assets	(ix)	—	439
Disposal of oil and gas properties, net of depreciation effect	(x)	(209)	879
Effects of the above adjustments on taxation		(607)	(863)
Minority interests	(xii)	2,116	2,175
Profit for the period under IFRS*		**21,769**	**18,921**

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	**At 30 June 2005 RMB millions**	At 31 December 2004 RMB millions
Shareholders' funds under the PRC Accounting Rules and Regulations		197,571	186,350
Adjustments:			
Equity investment differences	(i)	1,169	—
Pre-operating expenditures	(ii)	(15)	(457)
Depreciation of oil and gas properties	(iii)	12,012	11,595
Capitalisation of general borrowing costs	(iv)	1,821	1,605
Acquisition of Sinopec National Star	(vi)	(2,637)	(2,695)
Revaluation of land use rights	(vii)	(968)	(977)
Government grants	(viii)	(591)	(592)
Disposal of oil and gas properties	(x)	3,161	3,370
Impairment losses on long-lived assets	(xi)	(113)	(113)
Effects of the above adjustments on taxation		(5,653)	(5,046)
Minority interests	(xii)	29,019	31,046
Total equity under IFRS*		**234,776**	**224,086**

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

The Group's accounting policies conform with IFRS which differ in certain significant respects from accounting principles generally accepted in the United States of America ("US GAAP"). Information relating to the nature and effect of such differences are set out below. The US GAAP reconciliation presented below is included as supplemental information, is not required as part of the basic financial statements and does not include differences related to classification, display or disclosures. Such information has not been subject to independent audit or review.

(a) Foreign exchange gains and losses

In accordance with IFRS, foreign exchange differences on funds borrowed for construction are capitalised as property, plant and equipment to the extent that they are regarded as an adjustment to interest costs during the construction period. Under US GAAP, all foreign exchange gains and losses on foreign currency debts are included in current earnings. Accordingly, the US GAAP adjustments represent the amortisation effect of such originating adjustments described above.

(b) Capitalisation of property, plant and equipment

In the periods 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 periods presented herein, there were no adjustments related to the capitalisation of interest and pre-production results. Accordingly, the US GAAP adjustments represent the amortisation effect of such originating adjustments described above.

(c) Revaluation of property, plant and equipment

As required by the relevant PRC regulations with respect to the Reorganisation, the property, plant and equipment of the Group were revalued at 30 September 1999. In addition, the property, plant and equipment of Sinopec National Star, Sinopec Maoming, Refining Assets, and Petrochemical and Catalyst Assets were revalued at 31 December 2000, 30 June 2003, 31 October 2003 and 30 June 2004, respectively, in connection with the Acquisitions. Under IFRS, such revaluations result in an increase in 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.

(d) Exchange of assets

During 2002, the Company and Sinopec Group Company entered into an asset swap transaction. Under IFRS, the cost of property, plant and equipment acquired in an exchange for a dissimilar item of property, plant and equipment is measured at fair value. Under US GAAP, as the exchange of assets was between entities under common control, the assets received from Sinopec Group Company are measured at historical cost. The difference between the historical cost of the net assets transferred and the net assets received is accounted for as an equity transaction. Accordingly, the US GAAP adjustments represent the amortisation effect of such originating adjustments described above.

(e) Impairment of long-lived assets

Under IFRS, impairment charges are recognised when a long-lived asset's carrying amount exceeds the higher of an asset's net selling price and value in use, which incorporates discounting the asset's estimated future cash flows.

Under US GAAP, determination of the recoverability of a long-lived asset is based on an estimate of undiscounted future cash flows resulting from the use of the asset and its eventual disposition. If the sum of the expected future cash flows is less than the carrying amount of the asset, an impairment loss is recognised. Measurement of an impairment loss for a long-lived asset is based on the fair value of the asset.

In addition, under IFRS, a subsequent increase in the recoverable amount of an asset is reversed to the consolidated income statement to the extent that an impairment loss on the same asset was previously recognised as an expense when the circumstances and events that led to the write-down or write-off cease to exist. The reversal is reduced by the amount that would have been recognised as depreciation had the write-off not occurred. Under US GAAP, an impairment loss establishes a new cost basis for the impaired asset and the new cost basis should not be adjusted subsequently other than for further impairment losses.

The US GAAP adjustment represents the effect of reversing the recovery of previous impairment charges recorded under IFRS.

(f) Capitalised interest on investment in associates

Under IFRS, investment accounted for by the equity method is not considered a qualifying asset for which interest is capitalised. Under US GAAP, an investment accounted for by the equity method while the investee has activities in progress necessary to commence its planned principal operations, provided that the investee's activities include the use of funds to acquire qualifying assets for its operations, is a qualifying asset for which interest is initially capitalised and subsequent amortised when the operation of the qualifying assets begin.

(g) Goodwill amortisation

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, or more frequently if events or changes in circumstances indicate that it might be impaired.

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.

The effect on profit attributable to equity holders of the parent of significant differences between IFRS and US GAAP is as follows:

	Reference in note above	Six-month periods ended 30 June		
		2005	**2005**	2004
		US$ millions	**RMB millions**	RMB millions
Profit attributable to equity holders of the parent under IFRS		2,375	19,653	16,746
US GAAP adjustments:				
Foreign exchange gains and losses	(a)	3	27	29
Capitalisation of property, plant and equipment	(b)	—	—	6
Depreciation on revalued property, plant and equipment	(c)	214	1,771	1,909
Disposal of property, plant and equipment	(c)	7	60	627
Exchange of assets	(d)	1	12	12
Reversal of impairment of long-lived assets, net of depreciation effect	(e)	5	43	21
Capitalised interest on investments in associates, net of amortisation effect	(f)	(2)	(20)	108
Goodwill amortisation for the period	(g)	—	—	4
Deferred tax effect of US GAAP adjustments		(72)	(597)	(892)
Profit attributable to equity holders of the parent under US GAAP		**2,531**	**20,949**	**18,570**
Basic and diluted earnings per share under US GAAP		**US$0.03**	**RMB0.24**	**RMB0.21**
Basic and diluted earnings per ADS under US GAAP*		**US$2.92**	**RMB24.16**	**RMB21.42**

* 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 holders of the parent of significant differences between IFRS and US GAAP is as follows:

	Reference in note above	**At 30 June**		At 31 December
		2005	**2005**	2004
		US$ millions	**RMB millions**	RMB millions
Total equity attributable to equity holders of the parent under IFRS		24,860	205,757	193,040
US GAAP adjustments:				
Foreign exchange gains and losses	(a)	(32)	(268)	(295)
Revaluation of property, plant and equipment	(c)	(598)	(4,952)	(6,783)
Deferred tax adjustments on revaluation	(c)	184	1,524	2,101
Exchange of assets	(d)	(63)	(520)	(532)
Reversal of impairment of long-lived assets	(e)	(59)	(489)	(532)
Capitalised interest on investments in associates	(f)	61	506	526
Goodwill	(g)	3	24	24
Deferred tax effect of US GAAP adjustments		34	281	301
Total equity attributable to equity holders of the parent under US GAAP		**24,390**	**201,863**	**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 8.2765 being the noon buying rate in New York City on 30 June 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.

DOCUMENTS FOR INSPECTION

The following documents will be available for inspection during normal business hours at the legal address of Sinopec Corp. from Friday, 26 August 2005 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:

1 The original interim report for the first half of 2005 signed by the Chairman of Sinopec Corp.;

2 The original audited financial statements and audited consolidated financial statements of Sinopec Corp. prepared in accordance with IFRS and the PRC Accounting Rules and Regulations for the six-month period ended 30 June 2005 signed by Mr. Chen Tonghai (Chairman of Sinopec Corp.), Mr. Wang Tianpu (President of Sinopec Corp.), Mr. Zhang Jiaren (Director, Senior Vice President and Chief Financial Officer of Sinopec Corp.) and Mr. Liu Yun (Head of the Accounting Department of Sinopec Corp.);

3 The original auditors' reports on the above financial statements signed by the auditors; and

4 All original documents and announcements published by Sinopec Corp. in the newspapers specified by the China Securities Regulatory Commission during the reporting period.

By Order of the Board
Chen Tonghai
Chairman

Beijing, PRC, 26 August 2005

This annual report is published in both English and Chinese languages. The Chinese version shall prevail.