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Company Profile

IMPORTANT NOTICE: THE BOARD OF DIRECTORS AND THE SUPERVISORY BOARD OF CHINA PETROLEUM & CHEMICAL CORPORATION ("SINOPEC CORP.") AND ITS DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT 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. MR. LI DESHUI, MR. YAO ZHONGMIN AND MR. FAN YIFEI, DIRECTORS OF SINOPEC CORP., DID NOT ATTEND THE FOURTEENTH MEETING OF THE THIRD SESSION OF THE BOARD FOR REASONS OF OFFICIAL DUTIES. MR. LI DESHUI, DIRECTOR OF SINOPEC CORP., AUTHORISED MR. SHI WANPENG AND MR. YAO ZHONGMIN AND MR. FAN YIFEI, DIRECTORS OF SINOPEC CORP., AUTHORISED MR. WANG TIANPU TO VOTE ON THEIR BEHALF IN RESPECT OF THE RESOLUTIONS PUT FORWARD IN THE MEETING OF THE BOARD. MR. SU SHULIN, CHAIRMAN OF THE BOARD, MR. WANG TIANPU, DIRECTOR AND PRESIDENT, MR. DAI HOULIANG , 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 2007 OF SINOPEC CORP. AND ITS SUBSIDIARIES ("THE COMPANY") PREPARED IN ACCORDANCE WITH THE PRC ACCOUNTING STANDARDS FOR BUSINESS ENTERPRISES ("ASBE"), 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. Su Shulin

AUTHORISED REPRESENTATIVES
Mr. Wang Tianpu, 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
Securities Times

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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 Share: Shanghai Stock Exchange
Stock name: SINOPEC CORP
Stock code: 600028

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

ADR: 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 STANDARDS FOR BUSINESS ENTERPRISES ("ASBE")

Items	At 30 June 2007 RMB millions	At 31 December 2006 as restated* RMB millions	At 31 December 2006 as previously reported* RMB millions	Changes from the end of last year (%)
Total assets	650,547	596,527	594,550	9.1
Shareholders' funds attributable to equity shareholders of the Company	283,451	257,893	254,875	9.9
Net assets per share (RMB/share) (Fully diluted)	3.269	2.975	2.940	9.9
Adjusted net assets per share (RMB/share)	3.210	2.901	2.865	10.7

Items	Six-month periods ended 30 June 2007 RMB millions	2006 as restated* RMB millions	2006 as previously reported* RMB millions	Changes over the same period of the preceding year (%)
Operating profit	53,044	31,641	31,173	67.6
Profit before tax	52,464	31,182	30,815	68.3
Net profit attributable to equity shareholders of the Company	34,925	21,125	20,679	65.3
Net profit before extraordinary gains and losses	34,922	21,222	20,776	64.6
Return on net assets (%)	12.32	9.18	9.05	3.14 percentage points
Return on net assets (%) (before extraordinary items)	12.32	9.23	9.09	3.09 percentage points
Basic earnings per share (RMB/share)	0.403	0.244	0.239	65.3
Diluted earnings per share (RMB/share)	0.403	0.244	0.239	65.3
Net cash flow from operating activities	63,997	24,193	25,166	164.5
Net cash flow from operating activities per share	0.738	0.279	0.290	164.5

* Figures as previously reported are prepared in accordance with the PRC Accounting Rules and Regulations, whereas those as restated are prepared in accordance with ASBE.

Extraordinary items and corresponding amounts:

Items	Six-month period ended 30 June 2007 (Income)/Expense RMB millions
Gain on disposal of investments	(581)
Written back of provisions for impairment losses in previous years	(155)
Employee reduction expenses	150
Non-operating expenses (Excluding impairment losses on assets provided in accordance with ASBE)	749
Of which: Loss on disposal of fixed assets	344
Donations	45
Non-operating income	(168)
Tax effect	2
Total	**(3)**

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

Items	Six-month periods ended 30 June 2007 RMB millions	2006 RMB millions	Changes over the same period of the preceding year (%)
Operating profit	53,346	34,389	55.1
Profit attributable to equity shareholders of the Company	36,190	21,870	65.5
Return on capital employed (%) *	8.27	5.43	2.84 percentage points
Basic earnings per share (RMB/share)	0.417	0.252	65.5
Net cash flow from operating activities	61,636	19,069	223.2

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

Items	At 30 June 2007 RMB millions	At 31 December 2006 RMB millions	Changes from the end of last year (%)
Total assets	662,267	603,077	9.8
Total equity attributable to equity shareholders of the Company	289,614	262,845	10.2
Net assets per share (RMB/share)	3.340	3.032	10.2
Adjusted net assets per share (RMB/share)	3.281	2.958	10.9

3 MAJOR DIFFERENCES BETWEEN AUDITED FINANCIAL STATEMENTS PREPARED UNDER ASBE AND IFRS

(1) Analysis of effects of major differences between the net profit under ASBE and the profit for the period under IFRS

Items	Six-month periods ended 30 June 2007 RMB millions	2006 RMB millions
Net profit under ASBE	**36,357**	**21,290**
Adjustments:		
Oil and gas properties	91	1,259
Reduced amortisation on revaluation of land use rights	15	15
Effects of the above adjustments on taxation and change in tax rate on deferred tax	1,162	(219)
Profit for the period under IFRS	**37,625**	**22,345**

(2) Analysis of effects of major differences between the shareholders' funds under ASBE and total equity under IFRS

Items	At 30 June 2007 RMB millions	At 31 December 2006 RMB millions
Shareholders' funds under ASBE	**307,023**	**279,931**
Adjustments:		
Oil and gas properties	10,907	10,816
Revaluation of land use rights	(1,057)	(1,072)
Effects of the above adjustments on taxation and change in tax rate on deferred tax	(3,761)	(4,886)
Total equity under IFRS	**313,112**	**284,789**

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 or equity structure of Sinopec Corp. during the reporting period.

2 SHAREHOLDINGS OF PRINCIPAL SHAREHOLDERS

As at 30 June 2007, there were a total of 541,732 shareholders of Sinopec Corp., of which 534,415 were holders of A Shares and 7,317 were holders of H Shares. The public float of Sinopec Corp. satisfied the minimum requirements under the Listing Rules of the Hong Kong Stock Exchange.

(1) Top ten shareholders **Unit: 1,000 Shares**

Name of Shareholders	Nature of shareholders	As a percentage of total shares in issue at the end of reporting period (%)	Number of shares held at the end of reporting period	Number of shares with selling restrictions	Number of pledges or lock-ups
China Petrochemical Corporation	State-owned shares	75.84	65,758,044	65,758,044	0
HKSCC (Nominees) Limited	H shares	19.25	16,687,453	0	N/A
Guo Tai Jun An Company Limited	State-owned legal person shares/ A Shares	0.67	579,907	579,907	533,530 (pledges)/ 38,230 (lock-ups)
China Life Insurance Company Limited – Dividend – Individual Dividend – 005L–FH002 (Shanghai)	A Shares	0.07	60,000	0	0
Bosera Selected Equity Investment Fund	A Shares	0.04	39,000	0	0
Lord Abbett Value Advantage Equity Investment Fund	A Shares	0.04	37,447	0	0
Da Cheng Innovative Growth Mixed Securities Investment Fund	A Shares	0.04	36,944	0	0
China International Fund Mgmt Demand Driven Equity Investment Fund	A Shares	0.04	35,238	0	0
National Social Security Fund 108 Portfolio	A Shares	0.04	32,000	0	0
Harvest Strategic Growth Mixed Securities Investment Fund	A Shares	0.03	30,173	0	0

(2) Top ten shareholders of shares without selling restrictions **Unit: 1,000 shares**

Name of Shareholders	Number of shares held	Nature of shares
HKSCC (Nominees) Limited	16,687,453	H shares
China Life Insurance Company Limited – Dividend – Individual Dividend – 005L–FH002 (Shanghai)	60,000	A Shares
Bosera Selected Equity Investment Fund	39,000	A Shares
Lord Abbett Value Advantage Equity Investment Fund	37,447	A Shares
Da Cheng Innovative Growth Mixed Securities Investment Fund	36,944	A Shares
China International Fund Mgmt Demand Driven Equity Investment Fund	35,238	A Shares
National Social Security Fund 108 Portfolio	32,000	A Shares
Harvest Strategic Growth Mixed Securities Investment Fund	30,173	A Shares
China Life Insurance (Group) Company- Traditional- Ordinary Insurance Product	30,000	A Shares
China Southern Fund Mgmt South Stable Growth Securities Investment Fund	30,000	A Shares

Statement on the connection or activities in concert among the aforementioned shareholders

Except that both China Life Insurance Company Limited-Dividend -Individual Dividend-005L-FH002 (Shanghai) and China Life Insurance (Group) Company-Traditional- Ordinary Insurance Product belong to China Life Insurance (Group) Company, we are not aware of any connection or activities in concert among or between the top ten shareholders and top ten shareholders of shares without selling restrictions.

(3) Information disclosed by shareholders of H Shares according to Securities and Futures Ordinance as at 30 June 2007

Name of shareholders	Capacity of interests held	Number of share interests held or regarded as held	Approximate percentage of Sinopec Corp.'s interests (H Share) (%)
JPMorgan Chase & Co.	Beneficial owner	247,003,670 (L)	1.47
	Investment manager	602,593,253 (L)	3.59
	Custodian corporation	672,130,594 (L)	4.01
		672,130,594 (P)	4.01
AllianceBernstein L.P.	Investment manager	997,100,441 (L)	5.94
	Corporate interests	180,024,820 (L)	1.07
UBS AG	Beneficial owner	720,788,993 (L)	4.30
		430,935,305 (S)	2.57
	Person having a security	6,151,300 (L)	0.04
	interest in shares	20,395,462 (S)	0.12
	Corporate interests	333,354,423 (L)	1.99
		58,310,722 (S)	0.35
ABN AMRO Holding N.V.	Beneficial owner	727,001,594 (L)	4.33
		1,029,406,601 (S)	6.13
	Custodian corporation	302,405,007 (L)	1.80
		216,363,007 (P)	1.29
Templeton Asset Management Limited	Investment manager	1,024,961,395 (L)	6.11
Deuthche Bank Aktiengesellschaft	Beneficial owner	606,420,206 (L)	3.61
		967,765,447 (S)	5.77
	Investment manager	95,958,000 (L)	0.57
	Person having a security	230,968,300 (L)	1.38
	interest in shares	50,391,407 (S)	0.30

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

3 CHANGES IN THE CONTROLLING SHAREHOLDERS AND THE EFFECTIVE CONTROLLER

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

Mr. Su Shulin, Chairman

Dear shareholders,

I am grateful to each of you and to each member of the Board of Directors for the confidence you all have placed in me, and for the honor of being elected Chairman of Sinopec's Third Session of Board of Directors.

Since its IPO in 2000, the Company has deepened reforms, accelerated adjustments, strengthened management, pursued innovation, and pressed ahead with effective and sustained development under the leadership of the successive sessions of the Board of Directors. We have made remarkable improvements in corporate scale, competitiveness and profitability. Business structure, quality and economic efficiency continue to improve, and shareholder equity is growing steadily. Sinopec Group, with the Company as its core asset, ranks 17th among *Fortune*'s Global 500 Companies list, reaching a new milestone in its ongoing development.

Despite extreme complexity in the domestic and international markets in the first half of this year, the Company has maintained its development momentum, thanks to the combined efforts of our management and staff. Steady growth has been maintained in oil and natural gas production, crude oil processing volume, oil products sales, and output of major chemical products; economic performance showed considerable growth over the same period last year, meeting plan. The Board of Directors has approved an interim cash dividend of RMB 0.05 per share, an increase of 25% over the previous year.

We owe these achievements to the concern and support from stakeholders, as well as the relentless efforts of each member of the Board of Directors, Board of Supervisors, Management, and all our staff. For this I sincerely extend my most respectful and heartfelt thanks to all those who have supported and contributed to Sinopec's development.

Our business strategy of "resources expansion, markets development, costs reduction, and disciplined investments", the operational policies of "reform, adjustment, management, innovation and development" put forward by the Board of Directors, and the three-year (2006-2008) rolling development plan have proved appropriate, practical, and effective. The Company will continue to adhere to their implementation.

Looking ahead, the Company faces valuable development opportunities, along with many difficulties and challenges.
To fully execute the development strategies already approved, the Board of Directors will focus on leveraging the Company's following strengths and stepping up business development, in order to face changing markets and intense competition successfully.

- Fully utilizing our unique strengths in oil and gas exploration and development. We enjoy considerable strengths in petroleum geology, high-precision exploration and development as well as engineering technology in the mature oilfields in East China, like Shengli Oil Field. In addition, we benefit from the expertise of Sinopec National Star Petroleum team in regional geology research, reservoir evaluation, preliminary prospecting and discovery. Furthermore, exploration areas are expanding rapidly, many of which in promising geographical areas, and upstream investment continues to grow. The effective combination of all these strengths provides Sinopec with a unique advantage in upstream oil and gas operations. This has produced major achievements such as reserve and production increase in Shengli and Tahe oilfields, the discovery of the huge Puguang gas field, and the overall exploration and capacity building at Daniudi gas field.

- Fully utilizing our strengths in the refining & marketing as well as chemical businesses. Currently, Sinopec is the world's third-largest oil refiner, fourth-largest manufacturer of petrochemical products, and China's largest distributor of petroleum and chemical products. Its refineries and petrochemical plants are located in its principal market, China's eastern and southern regions, where the economy is most vibrant, providing substantial growth potential. Our marketing network covers the principal markets, with a modern logistics system taking shape, and a well recognized business reputation and powerful brand, which gives the Company considerable market clout. Sinopec's major refining technologies, and a portion of its chemical technologies are on the leading edge internationally. It has the technical research, development and engineering capabilities for building refineries of 10 million-tonne capacity and ethylene facilities of 1 million-tonne capacity. The integrated refining and petrochemical complexes have been formed in Yangtze River Delta, Pearl River Delta and Bohai regions. The Company also operates comprehensive supply chains, and enjoys rational production and sales structure. All these have made the Company enjoy great synergies between refining and marketing as well as petrochemical operations. This puts us in a strongly competitive position domestically and even, to some extent, internationally.

- Fully leveraging our advantage of stable and optimal supply on a global basis. Sinopec has established a diversified source of crude import globally, allowing crude oil to be matched with specific refinery facilities. Thanks to its long-standing cooperative relationships with major oil-producing nations and traders, the Company has the ability to benefit from stable supplies of oil from diversified sources around the world. Our company has assembled a team of highly specialized traders with the skills necessary to operate efficiently in the international oil markets.

The Company's controlling shareholder, Sinopec Group, has complementary strengths in engineering services for oil and gas production and petrochemical engineering, as well as its growing overseas presents. The engineering services in particular enable various business units of the Company to receive prompt, high-quality services and strong support for their development.

Furthermore, the Company has definite strengths in the global capital markets and financial services. We have sound capabilities in technology, human resources and management, which strongly support our core businesses.

Full utilization of these strengths is the driving force for the Company's effective and balanced development. It will help Sinopec develop into an internationally competitive energy and chemical corporation. These attributes will lead to even greater returns for our shareholders, our customers, our employees and the society.

The Board of Directors will continue to do what is necessary to establish strong corporate governance. We will fully utilize the knowledge and skills of each member, particularly those of the independent directors and committees. It will strengthen the Board's integral function, promote open and analytical decision making, and build the Board of directors into an even more efficient organization. All these will be of great help to improve corporate governance and protect the interests of the Company and all shareholders.

With the support of all our shareholders, and the combined efforts of the Board of Directors, Board of Supervisors, management and staff, I firmly believe that Sinopec is blessed with a very promising future.

Su Shulin
Chairman of the Board of Directors

August 24, 2007
Beijing

BUSINESS REVIEW

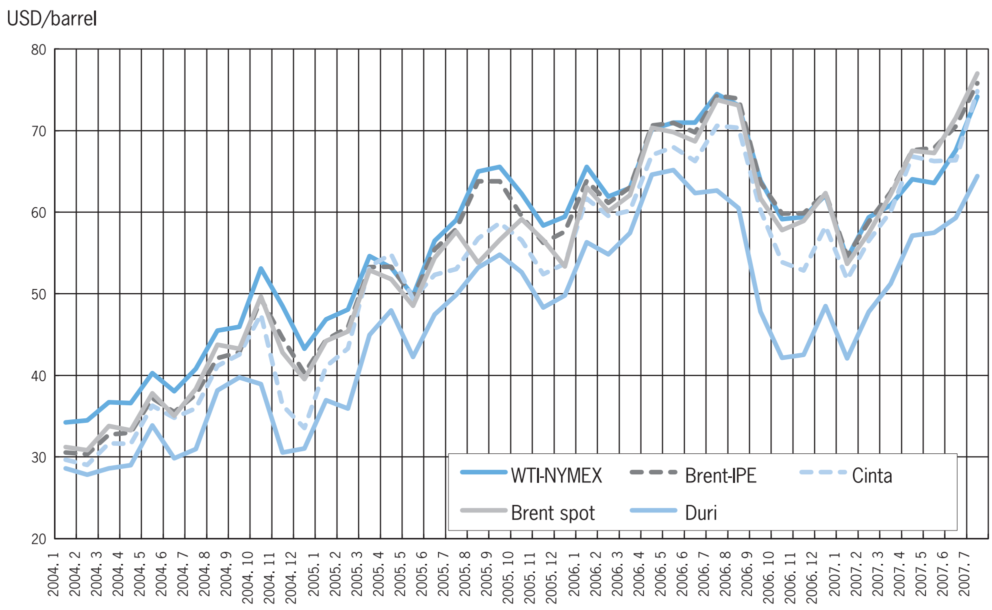
In the first half of 2007, the Chinese economy continued to grow steadily and rapidly, with a GDP growth rate of 11.5%. Demand for petroleum and petrochemical products continued to increase. According to the Company's statistics, apparent domestic consumption of refined oil products (inclusive of gasoline, diesel and kerosene) and ethylene equivalent consumption increased by 4.2% and 8.4% respectively over the same period last year.

During the reporting period, international crude oil prices exhibited an early downward trend and subsequently rose to a high level, while prices of chemical products maintained at relatively high levels. The government continued to exert tight control on domestic prices of refined oil products. The Company adopted market-oriented mechanism which placed economic benefits at its core and adhered to its policy of "reform, adjustment, management, innovation and development", to elaborately organise production and operation, accelerate structural adjustments, strengthen the linkage between production and sales, steadily advance construction of key projects and emphasise energy and water conservation and emissions reduction. As a result, the overall production volume of the Company has been growing steadily, economic return has been significantly enhanced and the Company has achieved its expected targets. According to PRC ASBE, operating income in the first half of this year was RMB 566.8 billion, representing an increase of 15.4% over the same period of last year. Net profit attributable to the equity shareholders of the parent amounted to RMB 34.9 billion, representing an increase of 65.3% over the same period of last year. According to IFRS, turnover and net profit attributable to shareholders of the Company for the first half of the year were RMB 554.3 billion and RMB 36.2 billion respectively, representing an increase of 15.5% and 65.5% over the same period of last year.

1 PRODUCTION AND OPERATIONS

(1) Exploration and Production Segment

In the first half of 2007, international crude oil prices exhibited a slide first but subsequently rose to a high level. The average Brent crude spot price was USD 63.26 per barrel, representing a decrease of 3.70% as compared to the first half of 2006. The average crude price realised by the Company during the first half of 2007 was RMB 2,792 per tonne.



Trend of International Crude Oil Prices

In exploration, the Company achieved new breakthroughs in exploration at the Aiding blocks of Tahe Oilfield in the West China and hidden mountain of Mesozoic Era of Dongpu in Zhongyuan Oilfield, and had several new discoveries in Puguang Gas Field in northeastern Sichuan Province and its peripherals and other areas. At the same time, new progress was made in the deep level exploration of Shengli Oilfield.

In oil and gas development and production, the Company strengthened the development foundation of oil and gas fields, optimised development scheme, accelerated production capacity construction, carried out measures to increase production, enhanced operation management and tapped potential for increased production. In the first half of 2007, the Company achieved a new record in both oil and gas production, with 143.88 million barrels of crude oil and 139.55 billion cubic feet of natural gas produced, representing a year on year increase of 2.12% and 10.58% respectively.

Summary of Operations of Exploration and Production Segment

	Six-month periods ended 30 June **2007**	2006	Changes (%)
Crude oil production (mmbbls)	143.88	140.89	2.12
Natural gas production (bcf)	139.55	126.2	10.58
Newly added proved reserve of crude oil (mmbbls)	147.88	143.89	2.77
Newly added proved reserve of natural gas (bcf)	158.63	175.5	(9.61)

	At 30 June 2007	At 31 December 2006	Changes (%)
Proved reserve of crude oil at the end of the reporting period (mmbbls)	3,299	3,295	0.12
Proved reserve of natural gas at the end of the reporting period (bcf)	2,875.8	2,856.7	0.67

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 2007, the Company timely optimised and adjusted its production operation scheme and continued to run the refining facilities with a high-load in order to guarantee the supply of refined oil products and satisfy the demand for chemical raw materials; enhanced resource purchase structure, tapped potential of pipeline transmission and achieved cost savings in both crude oil purchase and transportation and storage; strengthened structural adjustments to increase the production volume of high value-added products such as high standard gasoline and lubricating oil. The crude oil processing volume reached 76.25 million tonnes in the first half of 2007, which increased by 6.38% over the same period of 2006.

Summary of Operations of Refining Segment

	Six-month periods ended 30 June **2007**	2006	Changes (%)
Refinery throughput (million tonnes)*	76.25	71.68	6.38
Gasoline, diesel and kerosene production (million tonnes)	45.18	42.73	5.73
Of which: Gasoline (million tonnes)	12.16	11.23	8.28
Diesel (million tonnes)	28.92	28.32	2.12
Kerosene including jet fuel (million tonnes)	4.10	3.18	28.93
Light chemical feedstock (million tonnes)	12.09	11.47	5.41
Light products yield (%)	74.49	74.81	(0.32) percentage point
Refinery yield (%)	93.70	93.73	(0.03) percentage point

* Refinery throughput is converted at 1 tonne = 7.35 barrels.

(3) Marketing and Distribution

In the first half of year 2007, the Company proactively coped with market changes, flexibly adopted measures such as external purchasing, adjusted the pace of operation and strived to improve economic returns; actively organised resources, adjusted production structure, ensured key clients and principal markets, fully leveraged new transportation and storage facilities to ensure market supply, thus the total operation volume of refined oil products further increased; reinforced awareness of service to continuously improve service quality and level. The total sales volume of refined oil products in the domestic market in the first half of 2007 reached 57.92 million tonnes, representing an increase of 6.63% over the same period of 2006.

Summary of Operations of Marketing and Distribution Segment

	Six-month periods ended 30 June		Changes
	2007	2006	(%)
Total domestic sales volume of refined oil products (million tonnes)	57.92	54.32	6.63
Of which: Retail volume (million tonnes)	36.01	34.74	3.66
Direct sales volume (million tonnes)	10.15	9.69	4.75
Wholesale volume (million tonnes)	11.76	9.89	18.91
Total No. of service stations	28,898	29,198	(1.03)
of which: No. of company-operated service stations	28,153	27,628	1.90
No. of franchised service stations	745	1,570	(52.55)
Annualized throughput per station (tonne)	2,558	2,515	1.71

(4) Chemicals

In the first half of 2007, the Company strengthened meticulous management and technical development, enhanced internal supply of raw materials, strived to improve the operation rate, utilisation rate and operation reliability of facilities to give play to the their effective production capacity to the utmost extent. The production of ethylene reached 3.27 million tonne, representing an increase of 7.98% over the same period of 2006, while production of major petrochemical products experienced different levels of increase. The Company strengthened the linkage between production and sales. The initial stage of the coordination mechanism combining production, sales and research was established. Production structure, raw material structure and product structure were optimised in an overall manner and the proportion of high performance and high value-added products was further increased. The advantages of centralized sales was brough into play and operation quality was further improved.

Summary of Production of Major Production of Chemical Operation **Unit: thousand tonnes**

	Six-month periods ended 30 June		Changes
	2007	2006	(%)
Ethylene*	3,273	3,031	7.98
Synthetic resins*	4,767	4,184	13.93
Synthetic fibre monomers and polymers	3,938	3,577	10.09
Synthetic fibre	718	770	(6.75)
Synthetic rubbers	360	318	13.21
Urea	813	906	(10.26)

*: 100% production of two ethylene joint ventures, namely BASF-YPC and Shanghai Secco was included.

2 COST SAVING AND EFFICIENCY IMPROVING

In the first half of 2007, the Company took various measures to reduce costs, such as optimising resource allocation and fully leveraging the modern logistics system to reduce transportation costs, taping the potential of refining and chemical facilities in line with the progress of debottlenecking and upgrading the facilites, increasing the throughput of inferior crude oil in a moderate manner to reduce procurement costs, optimising the operation of facilities to reduce material and energy consumption, improving utilisation of oil and water wells and intensifying treatment of heavy viscous crude oil. In the first half of 2007, the Company effectively saved RMB 1.484 billion in cost. Of the total cost saved, the Exploration and Production Segment, the Refining Segment, the Marketing and Distribution Segment and the Chemicals Segment achieved cost saving of RMB 387 million, RMB 310 million, RMB 389 million and RMB 398 million respectively.

3 ENERGY SAVING AND EMISSION REDUCTION

The Company always takes conservation of resources as an important task for achieving sustainable development and adopts the guideline of "pay attention to both development and conservation, put conservation in the first place". We strengthened management, rolled-out advanced technology and achieved relatively good effect in energy saving and emission reduction. In the first half of 2007, the Company's total energy consumption per unit output value decreased by 3.95% over the same period of 2006 and the comprehensive energy consumption of oil and gas production decreased by 4.72%.
Due to an increase of processing volume of inferior crude oil, the comprehensive energy consumption of oil refining increased by 0.28% over the same period of 2006; fuel and utilities consumption of ethylene facility decreased by 1.02% over the same period of 2006. Industrial fresh water consumption, waste water discharge and COD in discharged waste water decreased by 5%, 7% and 15% respectively.

4 CAPITAL EXPENDITURES

In the first half of 2007, the Company's total capital expenditure was RMB 33.746 billion. Among which, the capital expenditure for Exploration and Production Segment was RMB 18.277 billion. A number of major oil and gas production capacity projects were completed and put into operation, and the project of "Sichuan-to-East China Gas Project" was carried out in an all-around way. The newly built production capacity of crude oil and natural gas was 2.27 million tonnes per year and 719 million cubic meters per year respectively. The capital expenditure for Refining Segment was RMB 6.18 billion. During the period, upgrading of Yanshan Refinery utility system was completed, key projects including Qingdao Refinery Project made smooth progress, and Tianjin-Yanshan crude oil pipeline was successfully completed. The capital expenditure in Chemicals Segment was RMB 3.296 billion. During the period, Tianjin Ethylene Project, Zhenhai Ethylene Project and Fujian Refinery and Ethylene Project made smooth progress. The capital expenditure in Marketing and Distribution Segment was RMB 4.922 billion. During the period, refined oil pipelines such as the refined oil pipeline around Beijing City was completed smoothly, and 307 gas stations were newly added. The capital expenditure for Corporate and Others amounted to RMB 1.071 billion.
A series of energy conservation or emission reduction projects is under continuous advancement.

BUSINESS PROSPECTS

Looking into the second half of 2007, China's economy is expected to continue to grow rapidly, which will provide good external condition for expansion of the Company's total operation volume, but unfavorable factors influencing production, operation and economic returns remain outstanding, in particular the increasing pressure for guarantee of domestic market supply under circumstances where oil prices remain high. It is expected that international oil prices will fluctuate at high level in the second half of 2007, so the Company's Refining and Marketing segments remain to face considerable operational pressure. Due to the effects of high raw materials prices and other factors, prices of chemical products are expected to remain high.

Confronted with the complicated market situation, the Company will adopt active and effective measures to overcome difficulties and properly arrange various production and operation activities to ensure the production on a safe basis:

In Exploration and Production Segment, the Company will continue to focus on exploration of key projects, strengthen production and operation management, and properly manage the basis of stable production of mature oil fields; speed up development of the production capacity in new blocks such as Puguang and Tahe in the West China and strive to increase reserves and production volume. In the second half of 2007, the Company plans to produce 20.74 million tonnes of crude oil and 4.05 billion cubic meters of natural gas.

In Refining Segment, the Company will continue to keep the facilities operating at high load to guarantee the supply of refined oil products; properly organise production optimisation, rationally allocate crude oil processing volume and the proportion of inferior crude oil processing; and increase the production volume of high quality cracking raw materials to meet the demand for chemical production. The Company will also properly manage the sales of lubricating oil, asphalt, LPG, and petroleum coke, etc. In the second half of 2007, the Company plans to process 78.25 million tonnes of crude oil.

In Marketing and Distribution Segment, the Company will closely monitor the market trend, collect resources from various channels while making appropriate resource deployment. The modern logistics system will be brought into full play by optimising resource allocation. Operational management and sales structure will also be strengthened and optimised so as to improve economic returns. In the second half of 2007, the Company will target its total domestic sales volume of refined oil products at 59.08 million tonnes.

In Chemicals Segment, the Company will maintain safe and stable operation of the existing facilities. The product mix will also be optimised, and the linkage between production and sales will be strengthened to increase the production of high-end products of good quality, high technical content and excellent market competitiveness. In addition, the Company will fully leverage the specialised operation of the chemical sales company to improve its overall competitiveness. In the second half of 2007, the Company plans to produce 3.27 million tonnes of ethylene.

In the second half of 2007, the Company will continue to adhere to the operation guidelines featuring "reform, adjustment, management, innovation and development", work hard and aggressively, endeavoring to maintain the sound situation of production and operation, fulfill the annual production and operation targets in an all-around way and continue to realise its good performance.

MANAGEMENT'S DISCUSSION AND ANALYSIS

THE FOLLOWING DISCUSSION AND ANALYSIS SHOULD BE READ IN CONJUNCTION WITH THE COMPANY'S AUDITED INTERIM FINANCIAL STATEMENTS AND THE ACCOMPANYING NOTES. PART OF THE FINANCIAL INFORMATION PRESENTED IN THIS SECTION ARE DERIVED FROM THE COMPANY'S AUDITED INTERIM FINANCIAL STATEMENTS THAT HAVE BEEN PREPARED IN ACCORDANCE WITH IFRS

1 CONSOLIDATED RESULTS OF OPERATIONS

In the first half of 2007, the Company's turnover and other operating revenues were RMB 566.8 billion and the operating profit was RMB 53.3 billion, representing an increase of 15.4% and 55.1% over the same period of 2006 respectively. These results were largely attributable to the fact that by seizing the favorable opportunities of steady growth of the domestic economy, the Company proactively expanded the market, extended oil and gas resources, optimised crude oil processing structure, and increased the production of chemical products and sales of refined oil products.

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

	Six-month periods ended 30 June		
	2007	2006	Changes
	RMB millions	RMB millions	(%)
Turnover and other operating revenues	**566,830**	**491,221**	**15.4**
Of which: Turnover	554,342	480,113	15.5
Other operating revenues	12,488	11,108	12.4
Operating expenses	**(513,484)**	**(456,832)**	**12.4**
Of which: Purchased crude oil, products, and operating supplies and expenses	(443,728)	(398,524)	11.3
Selling, general and administrative expenses	(17,595)	(16,323)	7.8
Depreciation, depletion and amortisation	(19,253)	(16,048)	20.0
Exploration expenses, including dry holes	(5,717)	(3,085)	85.3
Personnel expenses	(10,675)	(9,218)	15.8
Employee reduction expenses	(150)	(48)	212.5
Taxes other than income tax	(14,144)	(13,086)	8.1
Other operating expenses, net	(2,222)	(500)	344.4
Operating profit	**53,346**	**34,389**	**55.1**
Net finance costs	(3,593)	(2,929)	22.7
Investment income and share of profits less losses from associates	2,817	1,385	103.4
Profit before taxation	**52,570**	**32,845**	**60.1**
Taxation	(14,945)	(10,500)	42.3
Profit for the period	**37,625**	**22,345**	**68.4**
Attributable to:			
Equity shareholders of the Company	36,190	21,870	65.5
Minority interests	1,435	475	202.1

(1) Turnover and other operating revenues

In the first half of 2007, the Company's turnover and other operating revenues were RMB 566.8 billion, of which turnover was RMB 554.3 billion, representing an increase of 15.5% over the first half of 2006. These results were largely attributable to the high domestic prices of petroleum and petrochemical products and the Company's effort in expanding sales volume of our petroleum and petrochemical products. In the first half of 2007, the Company's other operating revenues were RMB 12.5 billion, representing an increase of 12.4% over the first half of 2006. This was mainly due to the increase of raw materials sales to China Petrochemical Corporation and to third parties during the period.

The following table lists the Company's external sales volume of major products, their average realised prices and the respective rate of changes between the first half of 2007 and the first half of 2006 for the Company's major products:

	Sales Volume (thousand tons)			Average realised price (RMB/ton, RMB/thousand cubic meters)		
	Six-month periods ended 30 June		Rate of changes	Six-month periods ended 30 June		Rate of changes
	2007	2006	(%)	**2007**	2006	(%)
Crude oil	2,534	2,710	(6.5)	2,899	3,290	(11.9)
Natural gas (million cubic meters)	2,863	2,600	10.1	794	745	6.6
Gasoline	17,073	15,986	6.8	5,283	4,968	6.3
Diesel	37,217	35,109	6.0	4,595	4,259	7.9
Kerosene, including jet fuel	3,467	2,702	28.3	4,663	4,301	8.4
Basic chemical feedstock	5,082	4,460	13.9	6,081	5,219	16.5
Synthetic fiber monomers and polymer	1,990	1,662	19.7	8,837	8,573	3.1
Synthetic resin	3,858	3,210	20.2	10,026	9,471	5.9
Synthetic fiber	768	825	(6.9)	11,562	10,723	7.8
Synthetic rubber	431	382	12.8	13,239	13,911	(4.8)
Chemical fertiliser	785	928	(15.4)	1,685	1,699	(0.8)

Note: the external sales of crude oil and natural gas in above table were self produced

Most of crude oil and a small portion of natural gas produced by the Company were internally used for refining and chemical production and the remaining were sold to the refineries owned by China Petrochemical Corporation ("Sinopec Group Company") and other customers. In the first half of 2007, turnover from crude oil and natural gas that were sold externally by the Exploration and Production Segment amounted to RMB 10.4 billion, representing an decrease of 14.7% compared with the first half of 2006, accounting for 1.8% of the Company's total turnover and other operating revenues. The change was mainly due to decreases in both external sales prices and volume of crude oil over the first half of 2006.

The Company's Refining Segment and Marketing and Distribution Segment sell petroleum products (mainly consisting of gasoline, diesel, jet fuel, kerosene (refined oil products) and other refined petroleum products) to third parties. In the first half of 2007, the external sales revenue of petroleum products by these two segments were RMB 357.2 billion, accounting for 63.0% of the Company's turnover and other operating revenues, representing an increase of 9.6% compared with that in the first half of 2006. The increase was mainly due to the increased prices of refined oil products and our proactive efforts in increasing sales volume, and expanding the markets of other refined petroleum products. The sales revenue of gasoline, diesel and kerosene was RMB 277.4 billion, accounting for 77.7% of the total turnover of petroleum products, representing an increase of 15.3% over the same period in 2006. The turnover of other refined petroleum products was RMB 79.8 billion, representing a decrease of 6.5% compared with the first half of 2006. This was mainly due to the expansion of production scale of the chemical segment and more refined petroleum products were supplied to chemical operations, resulting in a drop in external sales revenue of the refined petroleum products. The turnover of other refined petroleum products accounted for 22.3% of the total turnover of petroleum products.

The Company's external sales revenue of chemical products was RMB 104.6 billion, accounting for 18.5% of its turnover and other operating revenues, representing an increase of 21.4% compared with the first half of 2006. The increase was mainly due to the fact that the Company utilised the new production capacity resulting in higher sales volume.

(2) Operating expenses

In the first half of 2007, the Company's operating expenses were RMB 513.5 billion, representing an increase of 12.4% over the first half of 2006. The operating expenses mainly consisted of the following:

Purchased crude oil, products and operating supplies and expenses were RMB 443.7 billion, representing an increase of 11.3% over the first half of 2006, accounting for 86.4% of the total operating expenses, of which: Purchased crude oil expenses were RMB 202.2 billion, representing a decrease of 2.6% over the first half of 2006. This was mainly due to the fact that the average cost for crude oil processed that was purchased externally in the first half of 2007 was RMB 3,446 per tonne (equivalent to USD 60.8 per barrel), representing a decrease of 7.0% compared with the first half of 2006 and the throughput of the Company's crude oil purchased externally was 58.68 million tonnes (excluding amounts processed for third parties), representing an increase of 4.7% compared with the same period in 2006. In the first half of 2007, the Company's other purchase expenses were RMB 241.5 billion, representing an increase of 26.6% over the first half of 2006. This was mainly due to the increased costs of purchased refined oil products and chemical feedstock externally.

Selling, general and administrative expenses totaled RMB 17.6 billion in the first half of 2007, representing an increase of 7.8% over the first half of 2006. This was mainly due to the increased operating leases charges, repair and maintenance expenses, and labour cost.

Depreciation, depletion and amortisation were RMB 19.3 billion, representing an increase of 20.0% compared with the first half of 2006. The increase was mainly due to the additions of fixed assets.

Exploration expenses were RMB 5.7 billion, representing an increase of 85.3% compared with the first half of 2006. This was mainly due to the increase in exploration and prospective research of marine facies-based area in northeast and west of Sichuan Province.

Personnel expenses were RMB 10.7 billion, representing an increase of 15.8% compared with the first half of 2006.

Employee reduction expenses were approximately RMB 150 million in the first half of 2007.

Taxes other than income tax were RMB 14.1 billion, representing an increase of 8.1% over the first half of 2006. The increase was mainly attributable to the increase in consumption tax due to the increased sales volume of gasoline and diesel, and the national policy of expanding tax scope of consumption tax and to the increase in city construction tax and education surcharge.

Other operating expenses (net) were RMB 2.2 billion, representing an increase of 1.7 billion compared with the first half of 2006. This was mainly due to the increase in impairment losses on long-lived assets and assets disposal.

(3) Operating profit

In the first half of 2007, the Company's operating profit was RMB 53.3 billion, representing an increase of 55.1% over the first half of 2006.

(4) Net finance costs

In the first half of 2007, the Company's net finance costs were RMB 3.6 billion, representing an increase of 22.7% compared with the first half of 2006, which was mainly due to the increase of interest expenses and the loss from changes in fair value of embedded derivative component of convertible bonds issued by the Company.

(5) Profit before tax

In the first half of 2007, the Company's profit before tax was RMB 52.6 billion, representing an increase of 60.1% over the first half of 2006.

(6) Taxation

In the first half of 2007, the Company's income tax was RMB 14.9 billion, representing an increase of 42.3% over the first half of 2006.

(7) Profit attributable to minority interests

In the first half of 2007, the Company's profit attributable to minority interests were RMB 1.4 billion, representing an increase of 202.1% compared with the first half of 2006. This was mainly as a result of the increase in profits of some non-wholly owned subsidiaries such as Sionpec Shanghai Petrochemical Co.,Ltd. and Sinopec Fujian Petrochemical Co.,Ltd.

(8) Profit attributable to equity shareholders of the Company

In the first half of 2007, the Company's profit attributable to equity shareholders of the Company was RMB 36.2 billion, representing an increase of 65.5% over the first half of 2006.

2 DISCUSSION ON RESULTS OF SEGMENT OPERATION

The Company divides its operations into four business segments, namely Exploration and Production Segment, Refining Segment, Marketing and Distribution Segment and Chemicals Segment, and Corporate and Others. Unless otherwise specified, the inter-segment transactions have not been eliminated from financial data discussed in this section. 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 30 June		As a percentage of consolidated operating revenue before elimination of inter-segment sales Six-month periods ended 30 June		As a percentage of consolidated operating revenue after elimination of inter-segment sales Six-month periods ended 30 June	
	2007 RMB millions	2006 RMB millions	**2007 (%)**	2006 (%)	**2007 (%)**	2006 (%)
Exploration and Production Segment						
External Sales*	16,100	16,905	1.6	2.1	2.8	3.4
Inter-segment sales	46,624	53,362	4.7	6.6		
Operating revenue	**62,724**	**70,267**	**6.3**	**8.7**		
Refining Segment						
External Sales*	52,688	55,152	5.4	6.9	9.3	11.2
Inter-segment sales	245,230	216,161	24.8	26.8		
Operating revenue	**297,918**	**271,313**	**30.2**	**33.7**		
Marketing and Distribution Segment						
External sales*	307,307	273,435	31.2	33.9	54.2	55.7
Inter-segment sales	1,240	1,962	0.1	0.2		
Operating revenue	**308,547**	**275,397**	**31.3**	**34.1**		
Chemicals Segment						
External sales*	108,390	89,698	11.0	11.1	19.1	18.3
Inter-segment sales	7,330	5,225	0.7	0.7		
Operating revenue	**115,720**	**94,923**	**11.7**	**11.8**		
Corporate and Others						
External sales*	82,345	56,031	8.3	6.9	14.6	11.4
Inter-segment sales	120,003	38,335	12.2	4.8		
Operating revenue	**202,348**	**94,366**	**20.5**	**11.7**		
Operating revenue before elimination of inter-segment sales	**987,257**	**806,266**	**100.0**	**100.0**		
Elimination of inter-segment sales	**(420,427)**	**(315,045)**				
Consolidated operating revenue	**566,830**	**491,221**			**100.0**	**100.0**

*: Including other operating revenues.

The following table sets forth the operating revenues, operating expenses and operating profit/(loss) by each segment before elimination of the inter-segment transactions for the periods indicated, and the rate of changes from the first half of 2006 to 2007.

	Six-month periods ended 30 June 2007 RMB millions	2006 RMB millions	Rate of changes (%)
Exploration and Production Segment			
Operating revenues	62,724	70,267	(10.7)
Operating expenses	39,974	35,734	11.9
Operating profit	**22,750**	**34,533**	**(34.1)**
Refining Segment			
Operating revenues	297,918	271,313	9.8
Operating expenses	292,426	287,939	1.6
Operating profit/(loss)	**5,492**	**(16,626)**	**N/A**
Marketing and Distribution Segment			
Operating revenues	308,547	275,397	12.0
Operating expenses	291,752	264,636	10.2
Operating profit	**16,795**	**10,761**	**56.1**
Chemicals Segment			
Operating revenues	115,720	94,923	21.9
Operating expenses	107,178	88,747	20.8
Operating profit	**8,542**	**6,176**	**38.3**
Corporate and others			
Operating revenues	202,348	94,366	114.4
Operating expenses	202,581	94,821	113.6
Operating loss	**(233)**	**(455)**	**N/A**

(1) Exploration and Production Segment

Most of the crude oil and a small portion of the natural gas produced by the Exploration and Production Segment were used for the Company's refining and chemicals operations. Most of the natural gas and a small portion of crude oil produced by the Company were sold externally.

In the first half of 2007, the operating revenues of this segment were RMB 62.7 billion, representing a decrease of 10.7% over the first half of 2006, which was mainly due to the decrease in the selling price of crude oil compared with the first half of 2006.

In the first half of 2007, this segment sold 19.18 million tonnes of crude oil and 3.067 billion cubic meters of natural gas, representing an increase of 2.4% and 12.9% respectively compared with those in the first half of 2006. The average realised price of crude oil was RMB 2,792 per tonne (equivalent to USD 50.95 per barrel). The average realised price of natural gas was RMB 800 per thousand cubic meters, representing an increase of 6.9% over the first half of 2006.

In the first half of 2007, the operating expenses of this segment were RMB 40 billion, representing an increase of 11.9% over the first half of 2006. The increase was mainly due to the following reasons:

- The increase of RMB 2.6 billion in exploration and development activities.
- The increase of RMB 1.8 billion in depreciation, depletion and amortisation mainly resulted from the continuous investment in oil and gas assets.

In the first half of 2007, in response to the rise of international crude oil prices, the Company seized this opportunity to increase production of crude oil. It resulted an increase in lifting cost of crude oil and natural gas by 12.9% from RMB 487 per tonne (equivalent to USD 8.55 per barrel) to RMB 550 per tonne (equivalent to USD 10.03 per barrel) compared with the first half of 2006.

In the first half of 2007, this segment's operating profit was RMB 22.8 billion, representing a decrease of 34.1% over the first half of 2006.

(2) Refining Segment

In the first half of 2007, this segment's operating revenues were RMB 297.9 billion, representing an increase of 9.8% over the first half of 2006, of which: sales revenues were RMB 295.4 billion, other revenues were RMB 2.5 billion. This was mainly due to the increase in the selling prices and sales volumes of various refined petroleum products.

The following table sets forth the sales volumes, average realised prices and the rate of changes of the Company's major refined petroleum products of the segment from the first half of 2006 and the first half of 2007.

	Sales Volume (thousand tonnes)			Average realised price (RMB/tonne)		
	Six-month periods ended 30 June		Rate of changes	Six-month periods ended 30 June		Rate of changes
	2007	2006	(%)	**2007**	2006	(%)
Gasoline	10,857	10,651	1.9	4,534	4,282	5.9
Diesel	28,652	28,140	1.8	3,932	3,782	4.0
Chemical feedstock	13,260	13,035	1.7	4,757	4,405	8.0
Other refined petroleum products	19,535	17,174	13.7	3,604	3,466	4.0

In the first half of 2007, the sales revenues of gasoline by the segment were RMB 49.2 billion, representing an increase of 8.0% over the first half of 2006, accounting for 16.5% of this segment's operating revenues.

In the first half of 2007, the sales revenues of diesel by the segment were RMB 112.7 billion, representing an increase of 5.9% over the first half of 2006, accounting for 37.8% of this segment's operating revenues.

In the first half of 2007, the sales revenues of chemical feedstock by the segment were RMB 63.1 billion, representing an increase of 9.9% over the first half of 2006, accounting for 21.2% of this segment's operating revenues. The extent of increase in the sales revenues of chemical feedstock was higher than that in the sales revenues of gasoline and diesel, which was mainly due to comparatively large price increase in chemical feedstock such as naphtha.

In the first half of 2007, the sales revenues of refined petroleum products other than gasoline, diesel and chemical feedstock were RMB 70.4 billion, representing an increase of 18.3% over the first half of 2006, accounting for 23.6% of this segment's operating revenues.

In the first half of 2007, this segment's operating expenses were RMB 292.4 billion, representing an increase of 1.6% over the first half of 2006.

In the first half of 2007, the average processing cost of crude oil was RMB 3,338 per tonne (approximately USD 58.84 per barrel), representing a decrease of 8.6% over the first half of 2006. Refining throughput was 73.55 million tonnes (excluding amounts processed for third parties), representing an increase of 4.7% over the first half of 2006. In the first half of 2007, the total processing costs of crude oil were RMB 245.5 billion, representing a decrease of 4.3%, accounting for 84.0% of the segment's operating expenses, down by 5.2 percentage points over the first half of 2006.

In the first half of 2007, the total processing cost of refining feedstock that purchased externally was 14.1 billion, representing an increase of 41.2%. The processing volume of refining feedstock was 3.86 million tonnes, representing an increase of 34.9%.

In the first half of 2007, the company's refining margin was RMB 260 per tonne (equivalent to USD 4.58 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) because of average price increase in refining product and the decrease in the processing cost of crude oil, representing an increase of RMB 353 per tonne (equivalent to USD 6.15 per tonne) compared with negative refining margin of RMB 93 per tonne (equivalent to negative USD 1.57 per barrel) in the first half of 2006.

In the first half of 2007, the unit refining cash operating cost (defined as operating expenses less the purchase cost 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 RMB 140 per tonne (equivalent to USD 2.46 per barrel), increased by RMB22 per tonne (equivalent to USD 0.46 per barrel), representing an increase of 18.6% compared with the first half of 2006.This was mainly due to the fact that the increased processing volume of substandard crude oil resulted in the increase in equipment repair and catalyst, and also due to the increase in some fuel that was purchased as substitute of self-consumpted fuel and the increase in variable cost for the improvement of product mix.

In the first half of 2007, operating profit of this segment was RMB 5.5 billion, representing an increase of RMB 22.1 billion in operating profit over the first half of 2006.

(3) Marketing and Distribution Segment

The business of Marketing and Distribution Segment includes purchasing refined oil products from the Refining Segment and third parties, 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 product sales.

In the first half of 2007, the operating revenues of this segment were RMB 308.5 billion, up by 12.0% over the first half of 2006. This was mainly due to the increases in sales volume and prices of refined oil products.

In the first half of 2007, the operating revenues from sales of gasoline and diesel were RMB 262.2 billion, accounting for 85.0% of the operating revenues of this segment. Thereinto, the retail revenues from sales of gasoline and diesel were RMB 167.9 billion, accounting for 64.0% of total revenues from sales of gasoline and diesel; the direct sales revenues were RMB 45 billion, accounting for 17.2% of total revenues from sales of gasoline and diesel; the wholesale revenues were RMB 49.3 billion, accounting for 18.8% of total revenues from sales of gasoline and diesel.

The following table sets forth the sales volumes, average realised prices, and respective rate of changes of the four product categories in the first half of 2006 and 2007, including detailed information of different sales channels for gasoline and diesel:

		Sales Volume (thousand tonnes)			Average realised price (RMB/tonne)		
		Six-month periods ended 30 June		Rate of changes	Six-month periods ended 30 June		Rate of changes
		2007	2006	(%)	**2007**	2006	(%)
Gasoline		**17,082**	**16,045**	**6.5**	**5,284**	**4,967**	**6.4**
Of which:	Retail	12,748	11,543	10.4	5,442	5,078	7.2
	Direct sales	1,301	1,576	(17.4)	4,815	4,745	1.5
	Wholesale	3,033	2,926	3.7	4,817	4,650	3.6
Diesel		**37,420**	**35,454**	**5.5**	**4,594**	**4,256**	**7.9**
Of which:	Retail	20,842	20,778	0.3	4,726	4,310	9.7
	Direct sales	8,536	7,528	13.4	4,539	4,397	3.2
	Wholesale	8,042	7,148	12.5	4,311	3,952	9.1
Kerosene		**3,452**	**2,684**	**28.6**	**4,663**	**4,300**	**8.4**
Fuel oil		**6,495**	**7,308**	**(11.1)**	**2,842**	**2,989**	**(4.9)**

In the first half of 2007, the operating expenses of the segment were RMB 291.7 billion, representing an increase of 10.2% compared with that in the first half of 2006, mainly due to increase of procurement costs, of which purchasing costs of gasoline and diesel were RMB 230.5 billion, representing an increase of 10.4% over that in the first half of 2006, and accounted for 79.0% of the segment's operating expenses. In the first half of 2007, average purchase prices of gasoline and diesel increased by 4.4% and 4.7% respectively, compared with that in the first half of 2006, to RMB 4,584 per tonne and RMB 4,069 per tonne respectively. The purchasing volume of gasoline and diesel increased by 6.5% and 5.5% respectively, compared with that in the first half of 2006, to 17.08 million tonnes and 37.42 million tonnes respectively.

In the first half of 2007, the segment's cash operating cost per tonne of refined oil 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 171.8 per tonne, representing an increase of 14.7% compared with that in the first half of 2006. This was mainly due to the increase in operating cost resulted from the expansion of operating scale and the increase in the cost of image improvement of gas stations compared with that in the first half of 2006.

In the first half of 2007, the Marketing and Distribution Segment's operating profit was RMB 16.8 billion, representing an increase of 56.1% compared with the first half of 2006. This was mainly due to the increase in sales volume of refined oil products and the fact that the extent of increase in purchasing cost was lower than that in sales price.

(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 petrochemical and inorganic chemical products.

In the first half of 2007, operating revenues of the Chemicals Segment were RMB 115.7 billion, representing an increase of 21.9% over the first half of 2006, which was primarily due to the increase in sales volume and prices of major chemical products.

The sales revenue mainly generated from the Company's six categories of chemical products (i.e. basic organic chemicals, synthetic fiber monomers and polymers,synthetic resin, synthetic fiber, synthetic rubber,and chemical fertilizer) totaled approximately RMB 109.4 billion, representing an increase of 24.9% over the first half of 2006, and accounted for 94.6% of the operating revenues of this segment.

The following table sets forth 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 2005 and 2006.

	Sales Volume (thousand tonnes)			Average realised price (RMB/tonne)		
	Six-month periods ended 30 June		Rate of changes	Six-month periods ended 30 June		Rate of changes
	2007	2006	(%)	**2007**	2006	(%)
Basic organic chemicals	6,270	5,138	22.0	5,848	5,150	13.6
Synthetic fiber monomers and polymers	1,997	1,673	19.4	8,832	8,566	3.1
Synthetic resin	3,910	3,324	17.6	9,981	9,289	7.4
Synthetic fiber	768	825	(6.9)	11,562	10,726	7.8
Synthetic rubber	443	397	11.6	13,223	13,848	(4.5)
Chemical fertilizer	787	928	(15.2)	1,710	1,706	0.2

In the first half of 2007, operating expenses of the Chemicals Segment were RMB 107.2 billion, representing an increase of 20.8% over the first half of 2006. This was primarily due to increase in the price of feedstock as well as increased expenses for various ancillary materials associated with the significant increase in production of chemical products. Of which:

- The purchasing costs for raw materials, operating supplies and other related expenses increased by approximately RMB 17.4 billion compared with the first half of 2006 was mainly due to the increase in the consumption of raw materials and ancillary materials and rise in their unit prices. Of which, the consumption of chemical feedstock increased by 1.58 million tonnes, and the unit cost of raw materials increased by RMB 597 per tonne to RMB 5,082 per tonne in the first half of 2007 when compared with the same period of 2006.

In the first half of 2007, operating profit of the Chemicals Segment was RMB 8.5 billion, representing an increase of 38.3% over the first half of 2006.

(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 2007, the operating revenues generated from Corporate and Others was RMB 202.3 billion, representing an increase of 114.4% over the first half of 2006. The increase was largely as a result of increased revenues generated by its trading companies through increased trading volume in importing and exporting of crude oil and refined oil products and other business transactions.

In the first half of 2007, the operating expenses were RMB 202.5 billion, representing an increase of 113.6% over the first half of 2006. This was mainly due to the increase in the purchasing costs associated with the increase in the trading company's operating revenues.

In the first half of 2007, the operating losses were RMB 0.2 billion, representing a decrease in losses by RMB 0.2 billion compared with that in the first half of 2006.

3 ASSETS, LIABILITIES, EQUITY AND CASH FLOWS

(1) Assets, liabilities and equity **Units: RMB millions**

	At 30 June 2007	At 31 December 2006	Changes in amount
Total assets	662,267	603,077	59,190
Current assets	177,174	142,430	34,744
Non-current assets	485,093	460,647	24,446
Total liabilities	349,155	318,288	30,867
Current liabilities	227,640	210,517	17,123
Non-current liabilities	121,515	107,771	13,744
Total equity attributable to the equity shareholders of the Company	289,614	262,845	26,769
Share capital	86,702	86,702	—
Reserves	202,912	176,143	26,769
Minority interests	23,498	21,944	1,554
Total equity	313,112	284,789	28,323

At 30 June 2007, the Company's total assets were RMB 662.3 billion, representing an increase of RMB 59.2 billion compared with that at the end of 2006, of which:

- Current assets increased by RMB 34.7 billion from those at the end of 2006 to RMB 177.2 billion. The change was mainly due to the increased inventories by RMB 12.1 billion resulted from the expansion of operation scale during the first half of 2007. With significant increase in the income from principal activities, accounts receivable and bills receivable increased by RMB 11.5 billion. Cash and cash equivalents and time deposit with financial institutions increased by RMB 5.7 billion due to increasing settlement volume. Prepaid expenses and other current assets increased by RMB 5.5 billion.
  This was mainly due to the increase in prepayments in connection with construction work and equipment purchases.

- Non-current assets increased by RMB 24.4 billion from those at the end of 2006 to RMB 485.1 billion. The change was primarily attributable to additions of property, plant and equipment and construction in progress of RMB 19.2 billion which were in line with the annual investment plan, and the increase in lease prepayments and deferred tax assets by RMB 5 billion.

At 30 June 2007, the Company's total liabilities were RMB 349.2 billion, representing an increase of RMB 30.9 billion compared with that at the end of 2006, of which:

- Current liabilities increased by RMB 17.1 billion from those at the end of 2006 to RMB 227.6 billion. Such increases were mainly caused by an increase in crude oil price in the international market and purchase volume and the increase in accounts payable by RMB 17.6 billion. The accrued expenses and other payables increased by RMB 6.2 billion. The short-term debts decreased by RMB 5.8 billion.

- Non-current liabilities increased by RMB 13.7 billion from those at the end of 2006 to RMB 121.5 billion. This was mainly due to the fact that the company issued convertible bonds of HKD 11.7 billion and corporate bonds of RMB 5 billion respectively.

At 30 June 2007, the Company's total equity attributable to equity shareholders of the Company was RMB 289.6 billion, representing an increase of RMB 26.8 billion compared with that at the end of 2006, which was due to increase of reserves.

(2) Cash Flow

In the first half of 2007, cash and cash equivalents increased by RMB 3 billion from RMB 6.7 billion as at 31 December 2006 to RMB 9.7 billion as at 30 June 2007.

The following table sets forth the major items on the consolidated cash flow statements for the first half of 2007 and the first half of 2006.

Units: RMB millions

Major items of cash flows	Six-month periods ended 30 June 2007	2006	Changes in amount
Net cash generated from operating activities	61,636	19,069	42,567
Net cash used in investing activities	(46,316)	(56,181)	9,865
Net cash (used in)/generated from financing activities	(12,306)	32,532	(44,838)
Net increase/(decrease) in cash and cash equivalents	3,014	(4,580)	7,594

Net cash generated from operating activities was RMB 61.6 billion.

Mainly due to: In the first half of 2007, profit before taxation was RMB 52.6 billion, after adjusting the non-cash expenses and non-operating activities items by RMB 24.2 billion, mainly including depreciation, depletion and amortisation of RMB 19.3 billion, interest expenses of RMB 3.8 billion, and the dry holes costs of RMB 2.2 billion.

Operating profit before changes in working capital was RMB 76.8 billion. After deducting cash outflow caused by increase in inventory, such as crude oil, of RMB 11.4 billion, and cash inflow from changes in operating receivables, payables and other assets of RMB 14.6 billion, cash generated from operating activities was RMB 80.0 billion. Upon deduction of cash outflows due to payment of income tax of RMB 16.7 billion and payment of interest of RMB 1.7 billion, the net cash generated from operating activities was RMB 61.6 billion.

Net cash used in investing activities was RMB 46.3 billion, which was mainly used for:

- The Company's capital expenditure of RMB 35.6 billion;
- Exploratory wells expenditure of RMB 4.3 billion.
- Purchase of investments, investments in associates and subsidiaries of RMB 4.7 billion
- The increase in time deposit with financial institutions of RMB 2.7 billion

Net cash used in financing activities was RMB 12.3 billion, which was mainly used for distribution of dividend.

(3) Contingent Liability

At 30 June 2007, the amount of guarantees provided by the Company in respect of banking facilities granted to associates and jointly controlled entities amounted to approximately RMB 11.752 billion.

4 CAPITAL EXPENDITURES

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

5 ANALYSIS OF FINANCIAL STATEMENTS PREPARED UNDER ASBE

The major differences between the Company's financial statements prepared under ASBE and IFRS are set out in Section (C) of the financial statements of the Company on page 126 of this report.

(1) Operating income and operating profits of each segment under ASBE

	Six-month periods ended 30 June	
	2007	2006
	RMB millions	RMB millions
Operating income		
Exploration and Production Segment	62,724	70,217
Refining Segment	297,918	271,313
Marketing and Distribution Segment	308,547	275,397
Chemicals Segment	115,720	94,923
Corporate and Others	202,348	94,366
Elimination of inter-segment sales	(420,427)	(315,045)
Consolidated operating income	**566,830**	**491,171**
Operating profit		
Exploration and Production Segment	22,740	33,028
Refining Segment	5,541	(16,575)
Marketing and Distribution Segment	17,143	10,923
Chemicals Segment	8,629	6,208
Corporate and Others	(233)	(443)
Financial expenses, investment profit and fair value loss	(776)	(1,500)
Consolidated operating profit	**53,044**	**31,641**
Net profit attributable to equity shareholders of the Company	**34,925**	**21,125**

Operating profit: In the first half of 2007, the realised operating profits by the Company was RMB 53.0 billion, representing an increase of 67.6%. This increase was mainly due to all efforts the company made, following the pace of the steady growth of the domestic economy, in expanding the market proactively, expanding production volume of crude oil and natural gas, optimising crude oil processing structure, increasing production of chemicals and increasing sales volume of refined oil products.

Net profit: In the first half of 2007, the net profit attributable to equity shareholders of the company was RMB 34.9 billion, representing an increase of 65.3% over the first half of 2006.

(2) The information of each segment's principal operations under ASBE

sectors	Operating income RMB millions	Operating cost RMB millions	Gross profit margin (%) Note	Change of operation income compared with the last year (%)	Change of operation cost compared with the last year (%)	Change of gross profit margin (%)
Exploration and production	62,724	27,482	49.08	(10.67)	13.47	(9.51)
Refining	297,918	276,002	4.48	9.81	(0.34)	9.32
Chemicals	115,720	101,318	12.01	21.91	21.41	0.12
Marketing and distribution	308,547	279,483	9.24	12.04	9.36	2.17
Corporate and Others	202,348	200,541	0.87	114.43	116.14	(0.79)
Elimination of inter-segment sales	(420,427)	(419,721)	N/A	N/A	N/A	N/A
Total	**566,830**	**465,105**	**15.45**	**15.40**	**11.11**	**3.30**

NOTE: Gross profit margin=(operating income-operating cost, taxes and surcharge)/operating income

The total amount of connected transactions of products sold and the services provided by the Company to Sinopec Group Company was RMB 37.993 billion in this reporting period.

(3) Asset, long-term liabilities and shareholder's equity under ASBE

	At 30 June 2007 RMB millions	At 31 December 2006 RMB millions	Changes RMB millions
Total assets	650,547	596,527	54,020
Long-term liabilities	117,371	109,675	7,696
Shareholder's equity attributable to equity shareholders of the Company	283,451	257,893	25,558

Analysis of changes:

Total assets: As at 30 June 2007, the Company's total assets were RMB 650.5 billion, representing an increase of RMB 54 billion compared with that at the end of 2006. The change was mainly because of an increase of production scale and price, current assets increased by RMB 36.7 billion which was caused by the increase of RMB 12.1 billion in inventory of crude oil, refined oil products and other inventory, the increase of RMB 10.8 billion in accounts receivable, the increase of RMB 5.7 billion in cash at bank and in hand and the increase of RMB 5.4 billion in advance payments for procurement. The increase of other non-current assets like construction in progress according to the annual investment plan in this year was RMB 17.3 billion.

Long-term liabilities: As at 30 June 2007, the Company's long-term liabilities were RMB 117.4 billion, representing an increase of RMB 7.7 billion compared with that at the end of 2006. This was mainly due to the issuances of convertible bonds and corporate bonds by the Company.

Shareholders' equity attributable to equity shareholders of the Company: As at 30 June 2007, the shareholders' equity of the Company were RMB 283.5 billion, representing an increase of RMB 25.6 billion compared with that at the end of 2006. The change was mainly as a result of net profit of RMB 34.9 billion in the first half of 2007; and final dividend of RMB 9.5 billion for the year ended 31 December 2006 declared and paid in the first half of 2007.

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 pages 127 to 128 of this report.

1 CORPORATE GOVERNANCE

During the reporting period, Sinopec Corp. further strengthened its corporate governance practices in accordance with domestic and overseas regulations and the circumstances of the Company. As required by the China Securities Regulatory Commission, the Company performed comprehensive self-examination and formulated reform and rectification measures concentrating on the areas that needed improvement. The Company strictly implemented its internal control system. In accordance with the regulatory rules, the Company has evaluated the internal control system implementation in 2006 and concluded the internal control system of the Company is effective. On 13 April 2007, the Form 20-F which included the Internal Control Evaluation Report prepared by the management of the Company and its auditors for the first time was submitted to the United States Securities and Exchange Commission. The Company's auditors expressed an opinion that the Company maintained, in all material respects, effective internal control over financial reporting as at 31 December 2006. As an integrated energy and petrochemical company as well as a member of the United Nations Global Compact, the Company advocated sustainable development, earnestly fulfilled the Company's corporate social responsibilities and issued the Sinopec Corp.'s Sustainable Development Report 2006.

Furthermore, the Company has recently formulated the Management Rules for Holding and Trading of Sinopec Corp.'s Shares by It's Directors, Supervisors and Senior Management and further revised and improved the Rules of Information Disclosure. Training was provided to the newly appointed director when he was inducted into his office.

2 COMPLIANCE WITH CODE ON CORPORATE GOVERNANCE PRACTICES

During the reporting period, Sinopec Corp. complied with all the requirements of the Code on Corporate Governance Practices set out in Appendix 14 to the Listing Rules of The Stock Exchange of Hong Kong Limited.

3 CHANGES TO DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

On 22 June 2007, Mr. Chen Tonghai, former Chairman of Sinopec Corp., resigned as a director and the Chairman of the Board of Directors for personal reasons. On 24 June 2007, the eleventh meeting of the Third Session of the Board of Directors nominated Mr. Su Shulin as a candidate for a director of the Third Session of the Board of Directors. At the Second Extraordinary General Meeting of Shareholders for 2007 held on 10 August 2007, Mr. Su Shulin was elected as a director of the Third Session of the Board of Directors. On the same day, Mr. Su Shulin was elected as the Chairman at the thirteenth meeting of the Third Session of the Board of Directors. Please refer to the Directors, Supervisors and Senior Management section for the list of the members of the Third Session of the Board of Directors, the Third Session of the Supervisory Board and the Senior Management respectively.

4 DIVIDEND DISTRIBUTION FOR THE YEAR ENDED 31 DECEMBER 2006 AND INTERIM DIVIDEND DISTRIBUTION PLAN FOR THE SIX-MONTH PERIOD ENDED 30 JUNE 2007

(1) Dividend distribution for the year ended 31 December 2006

As approved at the 2006 Annual General Meeting of Sinopec Corp., a final cash dividend of RMB 0.11 (inclusive of tax) per share for 2006 was distributed, which amounted to a total cash dividend of RMB 9.537 billion. On 29 June 2007, Sinopec Corp. distributed the final dividend for 2006 to shareholders whose names appeared on the register of members of Sinopec Corp. on 15 June 2007.

For the year of 2006, total cash dividend of RMB 0.15 (inclusive of tax) per share was distributed and the total cash dividend amounted to RMB 13.005 billion.

(2) Interim dividend distribution plan for the six-month period ended 30 June 2007

According to the Articles of Association of Sinopec Corp., the interim dividend distribution plan for the six-month period ended 30 June 2007 was approved at the fourteenth meeting of the Third Session of the Board of Directors. An interim cash dividend of RMB 0.05 (inclusive of tax) per share will be distributed based on the total number of shares of 86,702.439 million as at 30 June 2007. The total cash dividend amounts to RMB 4.335 billion.

The interim dividend will be distributed on or before Friday, 28 September 2007 to the shareholders whose names appear on the register of members of Sinopec Corp. on Tuesday, 18 September 2007.

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 Centre, 183 Queen's Road East, Wanchai, Hong Kong, for registration of transfer, by no later than 4:00pm on Tuesday, 11 September 2007. The register of members of the H shares of Sinopec Corp. will be closed from Wednesday, 12 September 2007, to Tuesday, 18 September 2007 (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 average of the basic exchange rate of Hong Kong dollar to Renminbi published by the People's Bank of China during the week prior to the date of declaration of dividends, being Friday, 24 August 2007.

5 ISSUANCE OF CORPORATE BONDS AND ASSOCIATED INTEREST PAYMENT

(1) On 24 February 2004, Sinopec Corp. issued 10-year term domestic corporate bonds which amounted to RMB 3.5 billion with an AAA credit rating and a fixed coupon rate of 4.61%. On 28 September 2004, such bonds were listed on the Shanghai Stock Exchange. By 26 February 2007, Sinopec Corp. has paid the full amount of coupon interest for the third interest payment year.

(2) The First Extraordinary General Meeting of Shareholders for 2007 approved the issuance of domestic corporate bonds which amounted up to RMB 10 billion to qualified domestic institutional investors and/or Chinese citizens holding legally effective identification certificates (excluding buyers prohibited by PRC laws and regulations). The proceeds from the issuance will be used to fund the 1 million tonne per annum (tpa) ethylene project and supporting facilities of Sinopec Tianjin Company, the 1 million tpa ethylene project of Sinopec Zhenhai Refining & Chemical Company, 0.8 million tpa ethylene expansion project of Sinopec Guangzhou Company, and 0.6 million tpa PX and aromatics project of Sinopec Jinling Company. For further details, please refer to Sinopec Corp.'s announcements published in China Securities Journal, Shanghai Securities News, and Securities Times in Mainland China, and South China Morning Post and Economic Times (Hong Kong) in Hong Kong on 7 December 2006.

On 10 May 2007, Sinopec Corp. issued 10-year term domestic corporate bonds which amounted to RMB 5 billion with an AAA credit rating, AAA issuer long-term credit rating and a fixed coupon rate of 4.2%.

6 ISSUANCE OF HKD 11.7 BILLION ZERO COUPON CONVERTIBLE BONDS IN OVERSEAS MARKET

On 24 April 2007, Sinopec Corp. issued HKD 11.7 billion zero coupon convertible bonds with a term of 7 years. The bonds are convertible into H shares of Sinopec Corp. at a price of HK$10.76 per share, representing a conversion premium of 50%. The net proceeds from the bond issuance were used to repay the foreign currency loans borrowed from domestic banks as "bridging loan" incurred in connection with the privatisation of the former Beijing Yanhua Petrochemical Co., Ltd. and the former Sinopec Zhenhai Refining & Chemical Co., Ltd., both of which were previously listed on the Hong Kong Stock Exchange before the privatisation by Sinopec Corp.

7 MERGER BY ABSORPTION OF FOUR SUBSIDIARIES FORMERLY LISTED ON A-SHARE MARKET

In 2006, Sinopec Corp. completed the tender offers for the acquisition of four subsidiaries formerly listed on A-share market, namely, Sinopec Qilu Petrochemical Co., Ltd. ("Sinopec Qilu"), Sinopec Yangzi Petrochemical Co., Ltd. ("Sinopec Yangzi"), Sinopec Zhongyuan Oil & Gas Hi-tech Co., Ltd. ("Zhongyuan Oil & Gas"), and Sinopec Shengli Oil Field Dynamic (Group) Co., Ltd. ("Sinopec Dynamic").

On 9 February 2007, Zibo Jiexu Chemical Ltd., Sinopec Yangzi Petrochemical Ltd, Henan Province Zhongpu Oil & Gas Technology Ltd., and Shengli Oil Field Haosheng Petrochemical Ltd, (collectively called "Shell Companies"), all of which are wholly-owned subsidiaries of Sinopec Corp., respectively entered into Agreements of Mergers by Absorption (the "Agreements") with Sinopec Qilu, Sinopec Yangzi, Zhongyuan Oil & Gas, and Sinopec Dynamic (collectively called "Delisted Subsidiaries"). According to the Agreements, the Delisted Subsidiaries should be merged with the corresponding Shell Companies, which should pay the appropriate amount of cash as merger consideration to the shareholders of the Delisted Subsidiaries other than Sinopec Corp., and increase capital as merger consideration to Sinopec Corp. The shareholders of the Shell Companies and the Delisted Subsidiaries respectively approved the mergers and the Agreements on 28 February 2007. The shareholders of all Delisted Subsidiaries except Sinopec Corp. received the appropriate amount of cash consideration on 20 March 2007.

8 MAJOR PROJECTS

(1) Sichuan-to-East China Gas Project

The Sichuan-to-East China Gas Project was officially approved by the State Council on 9 April 2007. In addition, the project was listed as one of major projects during China's 11th Five-Year Plan period. The project consists of two parts, namely, the exploration, development, and gas processing project of Puguang Gas Field and the long-distance natural gas pipeline from Puguang Gas Field to Shanghai. The estimated total investment for the project is RMB 63.2 billion. The Internal Rate of Return of the project is more than 14% based on the estimation using current prices. According to the current exploration and development arrangement, it is expected that gas supply will commence by the end of 2008.

(2) Qingdao refinery project

On 22 July 2004, the National Development and Reform Commission approved the Feasibility Study Report on Qingdao Refinery Project. The project has refining capacity of 10 million tpa. The construction of the project commenced in June 2005 and it is currently progressing smoothly. Commissioning is expected to take place in 2008.

(3) Tianjin one million tpa ethylene project

Tianjin ethylene project with investment of about RMB 26 billion mainly consists of a 1 million tpa ethylene project and 12.5 million tpa refinery expansion and thermal power supporting facilities. The construction of the project commenced in June 2006 and is currently progressing smoothly. Mechanical completion is expected to take place at the end of 2009.

(4) Zhenhai one million tpa ethylene project

Zhenhai ethylene project with investment of about RMB 21.9 billion mainly consists of a 1 million tpa ethylene project and downstream supporting facilities and auxiliary utilities. The construction of the project commenced in November 2006 and is currently progressing smoothly. Mechanical completion is expected to take place in the first half of 2010.

(5) Fujian refinery & ethylene project and refined oil products marketing project

On 25 February 2007, Sinopec Corp., Fujian Province, Exxon Mobil and

Saudi Aramco entered into a joint venture contract for the Fujian refinery & ethylene project. At the same time, Sinopec Corp., Exxon Mobil and Saudi Aramco also entered into a joint venture contract for the Fujian refined oil products marketing project. According to the Fujian refinery & ethylene joint venture plan, the capacity of the existing oil refinery in Quanzhou of Fujian will be expanded from 4 million tpa to 12 million tpa, and a 0.8 million tpa ethylene project and downstream facilities will be constructed. In addition, the project also includes the construction of crude oil wharves with handling capacity of 0.3 million tonnes and its auxiliary utilities. The project will be constructed with 50%, 25% and 25% of equity investments by Fujian Refinery & Chemicals Co., Ltd. (a company incorporated with 50% and 50% equity investments by Sinopec Corp. and Fujian Province respectively), Exxon Mobil and Saudi Aramco respectively. The project is planned to be completed by the beginning of 2009. With 55%, 22.5% and 22.5% of equity investments by Sinopec Corp., Exxon Mobil and Saudi Aramco respectively, the Fujian refined oil product marketing joint venture is planned to manage and operate approximately 750 service stations and a number of oil depots. On 15 March and 19 March 2007, the Ministry of Commerce approved the above joint venture contracts and the establishment of the two joint ventures, Fujian Refining and Petrochemical Ltd. and Sinopec SenMei (Fujian) Petroleum Ltd. respectively.

9 THE COMPANY WAS NOT INVOLVED IN ANY MATERIAL LITIGATION OR ARBITRATION DURING THE REPORTING PERIOD

10 CONNECTED TRANSACTIONS

Upon listing in 2000, Sinopec Corp. and Sinopec Group Company entered into a number of agreements in respect of continuing connected transactions, including the agreements for mutual supplies, community services, leasing of land use rights, property leasing, the intellectual property license, the agent service for product sales and the SPI Fund Document. Sinopec Corp. and Sinopec Group Company entered into a Supplementary Agreement of Connected Transactions on 31 March 2006 which is applicable to the continuing connected transactions of the Company from 1 January 2007. The proposal of continuing connected transactions for the three-year period from 2007 to 2009 was approved at the 2005 Annual General Meeting of Shareholders held on 24 May 2006.

During the reporting period, the aggregate amount of connected transactions actually occurred was RMB 132.546 billion, of which incoming trade accounted for RMB 61.3 billion and outgoing trade accounted for RMB 71.246 billion (including product sales and services amounting to RMB 71.191 billion). The products and services provided by Sinopec Group Company (procurement, storage, transportation, exploration and production services and production-related services) to the Company amounted to RMB 51.2 billion, representing 9.97% of the Company's operating expenses. The auxiliary and community services provided by Sinopec Group Company to the Company amounted to RMB 0.801 billion, representing 0.16% of the Company's operating expenses. In the first half of 2007, the product sales from the Company to Sinopec Group Company amounted to RMB 37.993 billion, representing 6.70% of the Company's operating revenue. The Company paid land leasing fees amounting to RMB 1.617 billion to Sinopec Group Company. Please refer to Note 31 to the report's financial statements prepared under IFRS for particulars of the connected transactions actually occurred during this reporting period. The aforementioned connected transactions which occurred during this reporting period have been implemented in accordance with the announced relevant agreements.

The pricing policy for the connected transactions is as follows:

(a) Government-prescribed prices and government-guided prices are adopted for products or projects if such prices are available;

(b) Where there is no government-prescribed price or government-guided price for products or projects, the market price (inclusive of bidding price) will apply;

(c) Where none of the above is applicable, the price will be decided based on the cost incurred plus a reasonable profit. Reasonable cost refers to the average cost of companies located in adjacent districts which use the same types of raw materials to produce their products. Reasonable profit margin refers to profit margin of no less than 6% under the conditions of the current government-prescribed interest rate.

11 SIGNIFICANT ASSET TRANSACTIONS

On 19 April 2007, Sinopec Corp. entered into an agreement with China Resources Enterprise, Ltd. ("China Resources Enterprise") and China Resources (Holdings) Co., Ltd ("China Resources Holdings") to acquire all 20 oil and gas stations and the petroleum product business (including gasoline, diesel, jet fuel, and fuel oil) owned by China Resources Enterprise located in Hong Kong and the Tsing Yi and Chai Wan oil depots of China Resources Holdings located in Hong Kong. Consideration of the acquisition was HKD 5.06 billion. With this acquisition, Sinopec Corp. will put its integrated resource advantage, geographical advantage and brand advantage to full use in order to guarantee the stable supply of oil products to Hong Kong and to provide prime quality products and services of Sinopec Corp. to Hong Kong consumers.

12 SIGNIFICANT TRUSTEESHIP, CONTRACTING AND LEASE

During this reporting period, Sinopec Corp. did not omit the disclosure of significant trusteeship, contracting or lease of any other company's assets, nor placed its assets to or under any other company's trusteeship, contracting or lease which were subject to disclosure.

13 DURING THIS REPORTING PERIOD, SINOPEC CORP. DID NOT ENTRUST ANY THIRD PARTY TO CARRY OUT CASH ASSETS MANAGEMENT ON ITS BEHALF

14 MATERIAL GUARANTEE CONTRACTS AND STATUS OF IMPLEMENTATION

External guarantees provided by the Company (not including guarantees provided for its controlled subsidiaries)

Obligor	Date of Occurrence (Date of Execution)	Guaranteed Amount RMB millions	Type of Guarantee	Term	Whether Completed	Whether for connected party (note1)
Shanghai Secco Petrochemical Co., Ltd.	9 February 2002	2,696	Joint and several liability	9 February 2002 - 20 December 2021	No	Yes
Shanghai Secco Petrochemical Co., Ltd.	9 February 2002	4,062	Joint and several liability	9 February 2002 - 20 December 2013	No	Yes
BASF-YPC Co., Ltd.	12 August 2004	4,445	Equity pledge	12 August 2004 - 31 December 2017	No	Yes
Yueyang Sinopec Shell Coal Gasification Co., Ltd.	10 December 2003	377	Joint and several liability	10 December 2003 - 10 December 2017	No	Yes
Fujian Zhangzhao Expressway Service Company Limited	21 January 2003	10	Joint and several liability	21 January 2003 - 31 October 2007	No	Yes
Shanghai Gaoqiao-SK Solvent Co., Ltd.	22 September 2006	20	Joint and several liability	22 September 2006 - 22 September 2011	No	Yes
Shanghai Gaoqiao-SK Solvent Co., Ltd.	24 November 2006	35	Joint and several liability	24 November 2006 - 24 November 2011	No	Yes
Shanghai Gaoqiao-SK Solvent Co., Ltd.	30 March 2007	11	Joint and several liability	30 March 2007 - 30 March 2012	No	Yes
Shanghai Gaoqiao-SK Solvent Co., Ltd.	16 April 2007	9	Joint and several liability	16 April 2007 - 16 April 2012	No	Yes
Balance of Guarantee by Yangzi Petrochemical for its associates and joint ventures		66			No	Yes
Balance of Guarantee by Shanghai Petrochemical for its associates and joint ventures		12			No	Yes
Total amount of guarantees provided during the reporting period (Note 2)						RMB 49 million
Total amount of guarantees outstanding at the end of the reporting period (Note 2)						RMB 11,743 million

Guarantees provided by Sinopec Corp. for its controlled subsidiaries

Total amount of guarantees provided for its controlled subsidiaries during the reporting period	None
Total amount of guarantees for its controlled subsidiaries outstanding at the end of the reporting period	RMB 2,617 million

Total amount of guarantees provided by Sinopec Corp. (including those provided for its controlled subsidiaries)

Total amount of guarantees (Note 3)	RMB 14,360 million
Total amount of guarantees as a percentage of Sinopec Corp.'s net assets	5.1%

Amount of guarantees provided for shareholders, effective controlling parties and connected parties	None
Amount of debt guarantees provided directly or indirectly for companies with liabilities to assets ratio of over 70%	RMB 177 million
Total amount of guarantees in excess of 50% of net assets	None
Sum of the above three guaranteed items (Note 4)	**RMB 177 million**

Note 1: As defined in the Listing Rules of the Shanghai Stock Exchange.

Note 2: Total amount of guarantees provided during the reporting period and total amount of guarantees outstanding at the end of the reporting period include the guarantees provided by the controlled subsidiaries to external parties. The amount of guarantees assumed by Sinopec Corp. is the aggregate of total amount of the external guarantees provided by each controlled subsidiary multiplied by Sinopec Corp.'s respective shareholding in the controlled subsidiary.

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

Note 4: "Sum of the above three guaranteed amounts" is the aggregate of "amount of guarantees provided for shareholders, effective controlling parties and connected parties", "amount of debt guarantees provided directly or indirectly for companies with liabilities to asset ratio of over 70%" and "total amount of guarantees in excess of 50% of net assets". Any guarantee qualifying under all three of the above conditions shall be counted once only.

Material Guarantees under Performance

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

At the twenty-second meeting of the First Session of the Board of Directors, the Board approved the proposal for Sinopec Corp.'s provision of an equity pledge for the BASF-YPC project loan on the condition that BASF should provide an equity pledge on the same terms.

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

At the thirteenth meeting of the Second Session of the Board of Directors, the Board approved the provision of a credit line guarantee presently equivalent to RMB 2.285 billion to China International United Petroleum & Chemicals Co., Ltd.

15 NON-OPERATING FUNDS PROVIDED BETWEEN CONNECTED PARTIES

Unit: RMB million

		Fund to Connected Parties		Fund from Connected Parties	
Connected Parties	Relation with Company	Net Fund	Balance	Net Fund	Balance
Sinopec Group Company	Controlling shareholder and its controlled entity	(182)	1,369	(2,469)	8,103
Other Connected Parties	Associates and jointly controlled entities	(58)	248	197	518
Total		**(240)**	**1,617**	**(2,272)**	**8,621**

Of the total non-operating funds, net fund provided by the Company to Sinopec Group Company during the reporting period was decreased by RMB182 million. The balance at the end of the reporting period was RMB 1.369 billion.

16 PERFORMANCE OF THE COMMITMENTS BY SINOPEC GROUP COMPANY.

As at the end of the reporting period, the major commitments given by China Petrochemical Corporation were as follows:

i Complying with the connected transaction agreements;

ii Solving the issues regarding legality of the land use rights certificates and property ownership rights certificates within a specified period of time;

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

iv Granting licenses for intellectual property rights;

v Refraining from involvement in competition within the industry; and

vi Withdrawing from the business competition and conflict of interests with Sinopec Corp.

Details of the above commitments were included in the prospectus for the issuance of A shares published by Sinopec Corp. in China Securities Journal, Shanghai Securities News, and Securities Times in Mainland China on 22 June 2001.

During the reporting period, Sinopec Corp. was not aware of any breach of the above major commitments by China Petrochemical Corporation.

17 OTHER SIGNIFICANT EVENTS AND ANALYSIS AND DESCRIPTION OF THE IMPACT AND RESOLUTION PROPOSAL

(1) The shares of other listed companies held by the Company and status of investments in shares and securities

No.	Stock code	Abbreviation	Number of shares held	Shareholding Ratio	Initial Investment Cost	Accounting Item
1	384	China Gas Holdings	210 million	10.61%	HKD 128 million	Long-term equity investment
Other securities investment at end of the period			—	—	—	—
Total			—	—	—	—

(2) Stocks of unlisted finance enterprises and companies to be listed held by the Company

Not applicable

18 AUDITORS

At the 2006 Annual General Meeting of Shareholders of the Company held on 29 May 2007, KPMG Huazhen and KPMG were reappointed as the domestic and overseas auditors of the Company for the year of 2007 respectively. In addition, the Board of Directors was authorised to determine the remuneration for the auditors. The estimated audit fee accrued for the first half of 2007 was RMB 30 million. The financial statements for the first half of 2007 have been audited by KPMG Huazhen and KPMG. The signing certified public accountants of KPMG Huazhen are Zhang Jingjing and Zhang Yansheng.

19 COMPLIANCE WITH MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS OF LISTED ISSUERS

Sinopec Corp. adopts and applies the Model Code for Securities Transactions by Directors of Listed Issuers, set out in Appendix 10 to the Listing Rules as stipulated by the Hong Kong Stock Exchange, to regulate the securities transactions of directors of the Company. Each director confirms that he has complied with the requirements set out under the Model Code for Securities Transactions by Directors of Listed Issuers during the reporting period.

20 REPURCHASE, SALE AND REDEMPTION OF SHARES

Apart from the disclosures in Item 7 above, Sinopec Corp. or any of its subsidiaries have not repurchased, sold or redeemed any listed securities of Sinopec Corp. or its subsidiaries during the reporting period.

21 INTERESTS OF DIRECTORS, SUPERVISORS AND OTHER MEMBERS OF SENIOR MANAGEMENT IN COMPANY'S SHARE CAPITAL

As at 30 June 2007, none of the directors, supervisors or senior management of Sinopec Corp. had any interest in the shares of Sinopec Corp.

During the reporting period, none of Sinopec Corp.'s 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).

22 PENALTY TO THE LISTED COMPANY, AND ITS DIRECTORS, SUPERVISORS AND OTHER MEMBERS OF THE SENIOR MANAGEMENT, SHAREHOLDERS, ACTUAL CONTROLLERS, AND STATUS OF CORRECTION

During the reporting period, neither Sinopec Corp, nor its directors, supervisors and other members of the senior management, shareholders, actual controllers were subject to examinination by China Securities Regulatory Commission, or received any administrative penalties or public criticism from China Securities Regulatory Commission, Hong Kong Securities and Futures Commission, U.S. Securities and Exchange Commission, or publicised accusations from the Shanghai Securities Exchange, the Hong Kong Stock Exchange, the New York Stock Exchange and the London Stock Exchange.

23 INFORMATION DISCLOSURE REFERENCE

Events	Name of Publishing Press	Publishing Date
Announcement of the Resolutions Passed at the First Extraordinary General Meeting for the Year 2007	China Securities Journal, Shanghai Securities News, Securities Times, Economic Times (Hong Kong), South China Morning Post	23 January 2007
Announcement of Interest Payment of Bonds Issued In 2004	China Securities Journal, Shanghai Securities News, Securities Times	14 February 2007
Results for The Year of 2006	China Securities Journal, Shanghai Securities News, Securities Times, Economic Times (Hong Kong), South China Morning Post	9 April 2007 10 April 2007
Announcement of the Resolutions Passed at Ninth Meeting of Third Session of the Board of Directors	China Securities Journal, Shanghai Securities News, Securities Times	9 April 2007
Resolutions Passed at Fourth Meeting of Third Session of the Supervisor Board	China Securities Journal, Shanghai Securities News, Securities Times	9 April 2007
Notice of Annual General Meeting for the Year 2006	China Securities Journal, Shanghai Securities News, Securities Times Economic Times (Hong Kong), South China Morning Post	9 April 2007 10 April 2007
Announcement of Profit Increase Expectation for First Quarter of 2007	China Securities Journal, Shanghai Securities News, Securities Times, Economic Times (Hong Kong), South China Morning Post	9 April 2007
First Quarter Results Announcement for 2007	China Securities Journal, Shanghai Securities News, Securities Times, Economic Times (Hong Kong), And South China Morning Post	16 April 2007
Announcement of the Resolutions of tenth Meeting of Third Session of the Board of Directors	China Securities Journal, Shanghai Securities News, Securities Times	16 April 2007
Proposed Issue and Listing of Zero Coupon Convertible Bonds Due 2014 Convertible into H Shares of Sinopec Corp. and Resumption of Trading	China Securities Journal, Shanghai Securities News, Securities Times, Economic Times (Hong Kong), South China Morning Post	18 April 2007
Supplemental Notice of Annual General Meeting for the Year 2006	China Securities Journal, Shanghai Securities News, Securities Times, Economic Times (Hong Kong), South China Morning Post	9 May 2007
Announcement of Resolutions Passed at the 2006 Annual General Meeting	China Securities Journal, Shanghai Securities News, Securities Times, Economic Times (Hong Kong), South China Morning Post	30 May 2007
Announcement on Unusual Share Price Movements (A Share)	China Securities Journal, Shanghai Securities News, Securities Times	4 June 2007
Announcement of A Share final Dividend Distribution	China Securities Journal, Shanghai Securities News, Securities Times	12 June 2007
Announcement on Resignation of Mr. Chen Tonghai as Director and Chairman of the Board	China Securities Journal, Shanghai Securities News, Securities Times, Economic Times (Hong Kong), South China Morning Post	25 June 2007
Announcement of the Resolutions Passed at the Eleventh Meeting of Third Session of The Board of Directors	China Securities Journal, Shanghai Securities News, Securities Times, Economic Times (Hong Kong), South China Morning Post	25 June 2007
Notice of Second Extraordinary General Meeting for the Year 2007	China Securities Journal, Shanghai Securities News, Securities Times, Economic Times (Hong Kong), South China Morning Post	25 June 2007
Report on Self-Inspection on Corporate Governance and Correction Plans of Sinopec Corp.	China Securities Journal, Shanghai Securities News, Securities Times	29 June 2007
Announcement of Resolutions Passed at the Second Extraordinary General Meeting for the Year 2007	China Securities Journal, Shanghai Securities News, Securities Times	13 August 2007
Announcement of Resolutions of Thirteenth Meeting of Third Session of the Board of Directors	China Securities Journal, Shanghai Securities News, Securities Times	13 August 2007

DIRECTORS, SUPERVISORS AND SENIOR MANAGEMENT

Members of the Third Session of the Board of Directors, Third Session of the Supervisory Board, and senior management are as the follows:

DIRECTORS

Name	Gender	Age	Position in Sinopec Corp.
Su Shulin	Male	45	Chairman
Zhou Yuan	Male	59	Vice Chairman
Wang Tianpu	Male	44	Director, President
Zhang Jianhua	Male	42	Director, Senior Vice President
Wang Zhigang	Male	50	Director, Senior Vice President
Dai Houliang	Male	43	Director, Senior Vice President, CFO
Liu Zhongli	Male	72	Independent Non-executive Director
Shi Wanpeng	Male	70	Independent Non-executive Director
Li Deshui	Male	63	Independent Non-executive Director
Yao Zhongmin	Male	55	Director
Fan Yifei	Male	43	Director

SUPERVISORS

Name	Gender	Age	Position in Sinopec Corp.
Wang Zuoran	Male	56	Chairman of Supervisory Board
Zhang Youcai	Male	65	Vice Chairman of Supervisory Board, Independent Supervisor
Kang Xianzhang	Male	59	Supervisor
Zou Huiping	Male	46	Supervisor
Li Yonggui	Male	67	Independent Supervisor
Su Wensheng	Male	50	Employee Representative Supervisor
Zhang Jitian	Male	59	Employee Representative Supervisor
Cui Guoqi	Male	54	Employee Representative Supervisor
Li Zhonghua	Male	56	Employee Representative Supervisor

OTHER MEMBERS OF SENIOR MANAGEMENT

Name	Gender	Age	Position in Sinopec Corp.
Cai Xiyou	Male	45	Senior Vice President
Zhang Kehua	Male	53	Vice President
Zhang Haichao	Male	50	Vice President
Jiao Fangzheng	Male	44	Vice President
Chen Ge	Male	45	Secretary to the Board of Directors

KPMG Huazhen

To the Shareholders of
China Petroleum & Chemical Corporation:

We have audited the accompanying financial statements of China Petroleum & Chemical Corporation (the "Company"), which comprise the consolidated balance sheet and balance sheet as at 30 June 2007, and the consolidated income statement and income statement, consolidated statement of changes in equity and statement of changes in equity, consolidated cash flow statement and cash flow statement for the six-month period ended 30 June 2007, and notes to the financial statements.

1. MANAGEMENT'S RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The Company's management is responsible for the preparation of these financial statements in accordance with the Accounting Standards for Business Enterprises (2006) issued by the Ministry of Finance of the People's Republic of China. This responsibility includes: (1) designing, implementing and maintaining internal control relevant to the preparation of financial statements that are free from material misstatement, whether due to fraud or error; (2) selecting and applying appropriate accounting policies; and (3) making accounting estimates that are reasonable.

2. AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with China's Auditing Standards for the Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

3. OPINION

In our opinion, the financial statements comply with the requirements of the Accounting Standards for Business Enterprises (2006) 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 as 30 June 2007, and the consolidated results of operations, results of operations, consolidated cash flows and cash flows for the six-month period ended 30 June 2007.

KPMG Huazhen

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

Zhang Jingjing
Zhang Yansheng

Beijing, The People's Republic of China

24 August 2007

(A) FINANCIAL STATEMENTS PREPARED UNDER THE PRC ACCOUNTING STANDARDS FOR BUSINESS ENTERPRISES

CONSOLIDATED BALANCE SHEET

at 30 June 2007

	Note	At 30 June 2007 RMB millions	At 31 December 2006 RMB millions
Assets			
Current assets			
Cash at bank and in hand	6	12,989	7,314
Bills receivable	7	9,067	8,375
Trade accounts receivable	8	26,711	15,910
Other receivables	9	11,300	9,500
Advance payments	10	10,681	5,245
Inventories	11	104,198	92,098
Other current assets		769	596
Total current assets		**175,715**	**139,038**
Non-current assets			
Long-term equity investments	12	24,408	23,218
Fixed assets	13	336,750	343,340
Construction in progress	14	71,755	52,724
Intangible assets	15	12,182	9,132
Goodwill	16	15,407	14,525
Long-term deferred expenses	17	4,226	4,752
Deferred tax assets	18	8,107	8,267
Other non-current assets		1,997	1,531
Total non-current assets		**474,832**	**457,489**
Total assets		**650,547**	**596,527**
Liabilities and shareholders' funds			
Current liabilities			
Short-term loans	20	31,440	31,197
Bills payable	21	20,372	21,685
Trade accounts payable	22	69,947	52,331
Receipts in advance	23	17,296	19,435
Staff costs payable		6,267	4,895
Taxes payable	24	16,620	14,274
Other creditors	25	41,797	35,349
Short-term debentures payable	28	2,000	11,885
Current portion of non-current loans	26	20,414	15,870
Total current liabilities		**226,153**	**206,921**
Non-current liabilities			
Long-term loans	27	87,215	97,137
Debentures payable	28	20,667	3,500
Provision	29	5,648	5,310
Deferred tax liabilities	18	2,285	2,582
Other non-current liabilities		1,556	1,146
Total non-current liabilities		**117,371**	**109,675**
Total liabilities		**343,524**	**316,596**
Shareholders' funds			
Share capital	30	86,702	86,702
Capital reserve	31	37,216	37,046
Surplus reserves	32	61,777	59,329
Retained profits (Including cash dividend declared after the balance sheet date of RMB 4,335 million (2006: Proposed cash dividend of RMB 9,537 million))		97,756	74,816
Shareholders' funds attributable to equity shareholders of the Company		**283,451**	**257,893**
Minority interests		**23,572**	**22,038**
Total shareholders' funds		**307,023**	**279,931**
Total liabilities and shareholders' funds		**650,547**	**596,527**

These financial statements have been approved by the board of directors on 24 August 2007.

Su Shulin
Chairman
(Authorised representative)

Wang Tianpu
Director, President

Dai Houliang
Director, Senior Vice President and Chief Financial Officer

Liu Yun
Head of Corporate Finance Department

The notes on pages 43 to 85 form part of these financial statements.

	Note	At 30 June 2007 RMB millions	At 31 December 2006 RMB millions
Assets			
Current assets			
Cash at bank and in hand	6	5,148	2,983
Bills receivable	7	2,951	2,760
Trade accounts receivable	8	13,771	8,832
Other receivables	9	11,854	8,443
Advance payments	10	11,211	4,393
Inventories	11	59,164	54,004
Other current assets		318	19
Total current assets		**104,417**	**81,434**
Non-current assets			
Long-term equity investments	12	110,475	129,257
Fixed assets	13	262,672	259,781
Construction in progress	14	61,435	41,010
Intangible assets	15	7,673	6,824
Long-term deferred expenses	17	3,169	3,279
Deferred tax assets	18	7,246	7,309
Other non-current assets		597	561
Total non-current assets		**453,267**	**448,021**
Total assets		**557,684**	**529,455**
Liabilities and shareholders' funds			
Current liabilities			
Short-term loans	20	8,852	15,851
Bills payable	21	16,105	16,265
Trade accounts payable	22	47,237	38,041
Receipts in advance	23	15,402	16,398
Staff costs payable		5,493	3,954
Taxes payable	24	13,057	11,933
Other creditors	25	53,613	45,047
Short-term debentures payable	28	—	9,885
Current portion of non-current loans	26	18,755	13,863
Total current liabilities		**178,514**	**171,237**
Non-current liabilities			
Long-term loans	27	76,591	87,945
Debentures payable	28	20,667	3,500
Provision	29	5,158	4,842
Deferred tax liabilities	18	1,919	2,364
Other non-current liabilities		1,181	852
Total non-current liabilities		**105,516**	**99,503**
Total liabilities		**284,030**	**270,740**
Shareholders' funds			
Share capital	30	86,702	86,702
Capital reserve	31	37,922	37,922
Surplus reserves	32	61,777	59,329
Retained profits (Including cash dividend declared after the balance sheet date of RMB 4,335 million (2006: Proposed cash dividend of RMB 9,537 million))		87,253	74,762
Total shareholders' funds		**273,654**	**258,715**
Total liabilities and shareholders' funds		**557,684**	**529,455**

These financial statements have been approved by the board of directors on 24 August 2007.

Su Shulin
Chairman
(Authorised representative)

Wang Tianpu
Director, President

Dai Houliang
Director, Senior Vice President
and Chief Financial Officer

Liu Yun
Head of Corporate
Finance Department

The notes on pages 43 to 85 form part of these financial statements.

CONSOLIDATED INCOME STATEMENT

for the six-month period ended 30 June 2007

	Note	Six-month periods ended 30 June **2007** **RMB millions**	2006 RMB millions
Operating income	33	566,830	491,171
Less: Cost of sales		465,105	418,594
Sales taxes and surcharges	34	14,144	12,918
Selling expenses		9,500	8,005
Administrative expenses		17,009	15,343
Financial expenses	35	2,696	2,917
Exploration expenses, including dry holes	36	5,717	3,085
Impairment losses	37	1,535	85
Fair value loss	38	897	—
Add: Investment income	39	2,817	1,417
Operating profit		**53,044**	**31,641**
Add: Non-operating income		169	132
Less: Non-operating expenses	40	749	591
Profit before taxation		**52,464**	**31,182**
Less: Income tax	41	16,107	9,892
Net profit		**36,357**	**21,290**
Attributable to:			
Equity shareholders of the Company		34,925	21,125
Minority interests		1,432	165
Basic and diluted earnings per share	52	**0.40**	**0.24**

These financial statements have been approved by the board of directors on 24 August 2007.

Su Shulin
Chairman
(Authorised representative)

Wang Tianpu
Director, President

Dai Houliang
Director, Senior Vice President and Chief Financial Officer

Liu Yun
Head of Corporate Finance Department

The notes on pages 43 to 85 form part of these financial statements.

INCOME STATEMENT

for the six-month period ended 30 June 2007

	Note	Six-month periods ended 30 June 2007 RMB millions	2006 RMB millions
Operating income	33	408,967	338,488
Less: Cost of sales		330,838	280,081
Sales taxes and surcharges	34	11,996	10,626
Selling expenses		8,122	6,579
Administrative expenses		13,478	11,838
Financial expenses	35	2,256	2,177
Exploration expenses, including dry holes	36	5,715	3,063
Impairment losses	37	1,577	(5)
Fair value loss	38	897	—
Add: Investment income	39	1,671	7,250
Operating profit		**35,759**	**31,379**
Add: Non-operating income		111	54
Less: Non-operating expenses	40	580	446
Profit before taxation		**35,290**	**30,987**
Less: Income tax	41	10,814	9,875
Net profit		**24,476**	**21,112**

These financial statements have been approved by the board of directors on 24 August 2007.

Su Shulin
Chairman
(Authorised representative)

Wang Tianpu
Director, President

Dai Houliang
Director, Senior Vice President
and Chief Financial Officer

Liu Yun
Head of Corporate
Finance Department

The notes on pages 43 to 85 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

for the six-month period ended 30 June 2007

	Note	Six-month periods ended 30 June 2007 RMB millions	2006 RMB millions
Cash flows from operating activities:			
Cash received from sale of goods and rendering of services		648,653	569,805
Rentals received		145	94
Other cash received relating to operating activities		1,675	1,696
Sub-total of cash inflows		**650,473**	**571,595**
Cash paid for goods and services		(517,682)	(493,302)
Cash paid for operating leases		(3,000)	(2,882)
Cash paid to and on behalf of employees		(9,453)	(9,301)
Value added tax paid		(21,877)	(14,455)
Income tax paid		(16,738)	(11,197)
Taxes paid other than value added tax and income tax		(12,935)	(10,028)
Other cash paid relating to operating activities		(4,791)	(6,237)
Sub-total of cash outflows		**(586,476)**	**(547,402)**
Net cash flow from operating activities	43(a)	**63,997**	**24,193**
Cash flows from investing activities:			
Cash received from sale of investments		752	163
Dividends received		1,624	380
Net cash received from sale of fixed assets and intangible assets		156	166
Cash received on maturity of time deposits with financial institutions		510	629
Other cash received relating to investing activities		366	243
Sub-total of cash inflows		**3,408**	**1,581**
Cash paid for acquisition of fixed assets and intangible assets		(40,599)	(30,787)
Cash paid for purchase of investments		(1,037)	(2,361)
Cash placed for time deposits with financial institutions		(3,178)	(465)
Cash paid for acquisition of subsidiaries, net		(7,116)	(21,971)
Sub-total of cash outflows		**(51,930)**	**(55,584)**
Net cash flow from investing activities		**(48,522)**	**(54,003)**
Cash flows from financing activities:			
Cash received from contribution from minority shareholders		194	82
Cash received from issuance of convertible bonds, net of issuing expenses		11,368	—
Cash received from issuance of corporate bonds		5,000	10,846
Cash received from borrowings		312,612	342,547
Sub-total of cash inflows		**329,174**	**353,475**
Cash repayments of corporate bonds		(10,000)	(10,000)
Cash repayments of borrowings		(318,224)	(311,825)
Cash paid for dividends, profits distribution or interest expenses		(13,192)	(5,994)
Dividends paid to minority shareholders by subsidiaries		(219)	(215)
Sub-total of cash outflows		**(341,635)**	**(328,034)**
Net cash flow from financing activities		**(12,461)**	**25,441**
Effects of changes in foreign exchange rate		**(7)**	**(7)**
Net increase/(decrease) in cash and cash equivalents	43(b)	**3,007**	**(4,376)**

These financial statements have been approved by the board of directors on 24 August 2007.

Su Shulin
Chairman
(Authorised representative)

Wang Tianpu
Director, President

Dai Houliang
Director, Senior Vice President and Chief Financial Officer

Liu Yun
Head of Corporate Finance Department

The notes on pages 43 to 85 form part of these financial statements.

CASH FLOW STATEMENT

for the six-month period ended 30 June 2007

	Note	Six-month periods ended 30 June **2007** **RMB millions**	2006 RMB millions
Cash flows from operating activities:			
Cash received from sale of goods and rendering of services		471,896	393,543
Rentals received		81	43
Other cash received relating to operating activities		4,915	1,012
Sub-total of cash inflows		**476,892**	**394,598**
Cash paid for goods and services		(369,376)	(329,071)
Cash paid for operating leases		(2,874)	(2,553)
Cash paid to and on behalf of employees		(7,498)	(6,848)
Value added tax paid		(16,977)	(11,552)
Income tax paid		(12,798)	(9,078)
Taxes paid other than value added tax and income tax		(10,787)	(7,248)
Other cash paid relating to operating activities		(3,507)	(9,075)
Sub-total of cash outflows		**(423,817)**	**(375,425)**
Net cash flow from operating activities	43(a)	**53,075**	**19,173**
Cash flows from investing activities:			
Cash received from sale of investments		173	69
Dividends received		8,744	2,625
Net cash received from sale of fixed assets and intangible assets		66	91
Cash received on maturity of time deposits with financial institutions		389	89
Other cash received relating to investing activities		199	120
Sub-total of cash inflows		**9,571**	**2,994**
Cash paid for acquisition of fixed assets and intangible assets		(31,506)	(25,186)
Cash paid for purchase of investments		(5,999)	(2,450)
Cash placed for time deposits with financial institutions		(468)	—
Cash paid for acquisition of subsidiaries, net		(3,500)	(21,971)
Sub-total of cash outflows		**(41,473)**	**(49,607)**
Net cash flow from investing activities		**(31,902)**	**(46,613)**
Cash flows from financing activities:			
Cash received from issuance of convertible bonds, net of issuing expenses		11,368	—
Cash received from issuance of corporate bonds		5,000	9,868
Cash received from borrowings		205,534	252,155
Sub-total of cash inflows		**221,902**	**262,023**
Cash repayments of corporate bonds		(10,000)	(10,000)
Cash repayments of borrowings		(218,890)	(220,681)
Cash paid for dividends, profits distribution or interest expenses		(12,249)	(4,944)
Sub-total of cash outflows		**(241,139)**	**(235,625)**
Net cash flow from financing activities		**(19,237)**	**26,398**
Net increase/(decrease) in cash and cash equivalents	43(b)	**1,936**	**(1,042)**

These financial statements have been approved by the board of directors on 24 August 2007.

Su Shulin
Chairman
(Authorised representative)

Wang Tianpu
Director, President

Dai Houliang
Director, Senior Vice President
and Chief Financial Officer

Liu Yun
Head of Corporate
Finance Department

The notes on pages 43 to 85 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the six-month period ended 30 June 2007

	Share capital RMB millions	Capital reserve RMB millions	Surplus reserves RMB millions	Unrecognised investment losses RMB millions	Retained profits RMB millions	Total shareholders' funds attributable to equity shareholders of the Company RMB millions	Minority interests RMB millions	Total shareholders' funds RMB millions
Balance at 31 December 2005	86,702	37,121	34,028	(594)	58,366	215,623	29,383	245,006
Change in accounting policies (Note 4)	—	(595)	110	594	1,003	1,112	185	1,297
Balance at 1 January 2006	86,702	36,526	34,138	—	59,369	216,735	29,568	246,303
Profit for the period	—	—	—	—	21,125	21,125	165	21,290
Appropriation:								
Appropriation to surplus reserves	—	—	2,113	—	(2,113)	—	—	—
Dividend declared (Note 42)	—	—	—	—	(7,803)	(7,803)	—	(7,803)
Acquisitions of minority interests in subsidiaries	—	—	—	—	—	—	(9,178)	(9,178)
Distributions to minority interests net of contributions	—	—	—	—	—	—	(393)	(393)
Balance at 30 June 2006	**86,702**	**36,526**	**36,251**	**—**	**70,578**	**230,057**	**20,162**	**250,219**
Balance at 31 December 2006	86,702	37,607	59,094	(1,221)	72,693	254,875	21,985	276,860
Change in accounting policies (Note 4)	—	(561)	235	1,221	2,123	3,018	53	3,071
Balance at 1 January 2007	86,702	37,046	59,329	—	74,816	257,893	22,038	279,931
Net gain recognised directly in equity:								
Change in fair value of available-for-sale securities, net of deferred tax	—	170	—	—	—	170	127	297
Profit for the period	—	—	—	—	34,925	34,925	1,432	36,357
Total recognised income for the period	—	170	—	—	34,925	35,095	1,559	36,654
Appropriation:								
Appropriation to surplus reserves (Note 32)	—	—	2,448	—	(2,448)	—	—	—
Dividend declared (Note 42)	—	—	—	—	(9,537)	(9,537)	—	(9,537)
Distributions to minority interests net of contributions	—	—	—	—	—	—	(25)	(25)
Balance at 30 June 2007	**86,702**	**37,216**	**61,777**	**—**	**97,756**	**283,451**	**23,572**	**307,023**

These financial statements have been approved by the board of directors on 24 August 2007.

Su Shulin
Chairman
(Authorised representative)

Wang Tianpu
Director, President

Dai Houliang
Director, Senior Vice President and Chief Financial Officer

Liu Yun
Head of Corporate Finance Department

The notes on pages 43 to 85 form part of these financial statements.

STATEMENT OF CHANGES IN EQUITY

for the six-month period ended 30 June 2007

	Share capital RMB millions	Capital reserve RMB millions	Surplus reserves RMB millions	Retained profits RMB millions	Total shareholders' funds RMB millions
Balance at 31 December 2005	86,702	37,797	34,028	58,339	216,866
Change in accounting policies (Note 4)	—	(595)	110	1,003	518
Balance at 1 January 2006	86,702	37,202	34,138	59,342	217,384
Profit for the period	—	—	—	21,112	21,112
Appropriation:					
Appropriation to surplus reserves	—	—	2,113	(2,113)	—
Dividend declared (Note 42)	—	—	—	(7,803)	(7,803)
Balance at 30 June 2006	**86,702**	**37,202**	**36,251**	**70,538**	**230,693**
Balance at 31 December 2006	86,702	38,483	59,094	72,153	256,432
Change in accounting policies (Note 4)	—	(561)	235	2,609	2,283
Balance at 1 January 2007	86,702	37,922	59,329	74,762	258,715
Profit for the period	—	—	—	24,476	24,476
Appropriation:					
Appropriation to surplus reserves (Note 32)	—	—	2,448	(2,448)	—
Dividend declared (Note 42)	—	—	—	(9,537)	(9,537)
Balance at 30 June 2007	**86,702**	**37,922**	**61,777**	**87,253**	**273,654**

These financial statements have been approved by the board of directors on 24 August 2007.

Su Shulin
Chairman
(Authorised representative)

Wang Tianpu
Director, President

Dai Houliang
Director, Senior Vice President and Chief Financial Officer

Liu Yun
Head of Corporate Finance Department

The notes on pages 43 to 85 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.

The Company and its subsidiaries (the "Group") engage in the oil and gas and chemical operations and businesses, including:

(1) the exploration, development and production of crude oil and natural gas;

(2) the refining, transportation, storage and marketing of crude oil and petroleum products; and

(3) the production and sale of chemicals.

2 BASIS OF PREPARATION

Commencing on 1 January 2007, the financial statements of the Company have been prepared in accordance with the accounting policies in Note 3 making reference to the actual circumstances to the Group.

(1) Statement of compliance with the Accounting Standards for Business Enterprises ("ASBE")

The Company's financial statements comprise the consolidated balance sheet and balance sheet as at 31 December 2006 and 30 June 2007, and the consolidated income statement and income statement, consolidated cash flow statement and cash flow statement, consolidated statement of changes in equity and statement of changes in equity for the six-month periods ended 30 June 2006 and 2007, and notes to the financial statements.

These financial statements have been prepared in accordance with the requirements of ASBE (2006) issued by the MOF on 15 February 2006, "ASBE 38 – First Time Adoption of Accounting Standards for Business Enterprises" and by adopting the accounting policies as set out in Note 3 with reference to the requirements of "Opinions on the Implementation of the Accounting Standards for Business Enterprises" (the "Opinions") for the first time adoption of ASBE.

(2) Accounting year

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

(3) Measurement basis

The financial statements of the Group have been prepared using the historical cost basis, except for the assets and liabilities as set out below:

— available-for-sale financial assets (see Note 3(11))

— convertible bonds (see Note 3(11))

(4) Reporting currency

The Group's reporting and presentation currency are Renminbi.

3 SIGNIFICANT ACCOUNTING POLICIES

(1) Business combination and consolidated financial statements

(a) Business combination of entities under common control

A business combination of entities or businesses under common control is a business combination in which all of the combining entities or businesses are ultimately controlled by the same party or parties both before and after the business combination, and the control is not temporary. The assets and liabilities that the acquirer receives in the acquisition are accounted for at the acquiree's carrying amount on the acquisition date. The difference between the carrying amount of the acquired net assets and the consideration paid for the acquisition (or the total nominal value of shares issued) is recognised in the capital reserve, or the retained profits in case of any shortfall in the capital reserve. The acquisition date is the date on which the acquirer effectively obtains control of the acquiree.

(b) Business combination of entities not under common control

A business combination of entities or businesses not under common control is a business combination in which all of the combining entities or businesses are not ultimately controlled by the same party or parties both before and after the business combination. The consideration of the acquisition, including assets paid and liabilities incurred or assumed on the purchase date, is measured at fair value. The difference between the fair value and the carrying amount of the consideration is recognised in the income statement. The purchase date is the date on which the Group effectively obtains control of the acquiree.

The Group allocates the cost of a business combination and recognises the fair values of the acquiree's each identifiable asset, liability or contingent liability on the purchase day.

The excess of the cost of acquisition over the fair value of identifiable net assets acquired is recognised as goodwill.

When the cost of acquisition is less than the fair value of identifiable net assets acquired, the Group will reassess the measurement of the fair value of each identifiable asset, liability or contingent liability acquired as well as the cost of acquisition. When the cost of acquisition is still less than the fair value of identifiable net assets acquired after the reassessment, the difference is charged to the income statement.

(c) Consolidated financial statements

The scope of consolidation is governed by controlling interest and includes investees in which the Company, directly or indirectly through its subsidiaries, holds over 50% of the voting rights (except where evidence indicates that the Company cannot exercise control); or the Company holds 50% or less of the voting rights but can exercise control over the investees.

Subsidiaries acquired by the Company through a business combination of entities under common control are accounted for in the consolidated financial statements as if the Company obtains control over the subsidiaries at the same time as the ultimate controlling party of the Group does. The results of operation of subsidiaries acquired through a business combination under common control are included in the consolidated income statement in the period when the ultimate controlling party of the Group obtains control over the subsidiaries. Prior periods financial statements are restated accordingly.

The results of operation of subsidiaries acquired by the Company through a business combination of entities not under common control are included in the consolidated income statement from the purchase date. The results of operation of the acquired subsidiaries to be included in the consolidated income statement consider the fair values of each identifiable asset, liability, and contingent liability on the purchase date.

Minority interests are presented separately in the consolidated financial statements.

Where the accounting policies or accounting period adopted by the subsidiaries are different from those adopted by the Company, adjustments are made to the subsidiaries' financial statements according to the Company's accounting policies or accounting period. All significant inter-company balances and transactions, and any unrealised gains arising from inter-company transactions are eliminated on consolidation.

(2) Translation of foreign currencies

Foreign currency transactions during the period are translated into Renminbi at the applicable rate of exchange quoted by the People's Bank of China ("PBOC rates") prevailing on the transaction dates.

Foreign currency monetary items are translated at the PBOC rates at the balance sheet date. Exchange differences, except for those directly related to the acquisition, construction or production of qualified assets (see Note 3(6)), are recognised as income or expenses in the income statement. Non-monetary items denominated in foreign currency carried at historical cost are not translated. Non-monetary items denominated in foreign currency that are carried at fair value are translated using the exchange rates at the date when the fair value is determined. The difference between the translated amount and the original carried amount is charged to the income statement, otherwise is recognised in capital reserve, if the items are classified as available-for-sale financial assets.

All income statement items of overseas subsidiaries are translated into Renminbi at the annual average PBOC rates. Asset and liability items are translated into Renminbi at the PBOC rates at the balance sheet date. Equity items, except the item of "Retained Profits", are translated into Renminbi currency on the transaction dates. The resulting exchange differences are accounted for as foreign currency exchange differences.

(3) Cash equivalents

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

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(4) Inventories

Inventories are stated at the lower of cost and net realisable value.

Cost includes the cost of purchase and processing, and other cost. Inventories are stated at cost upon acquisition. The cost of inventories is calculated using the weighted average method. In addition to the cost of purchase of raw material, work in progress and finished goods include direct labour and an appropriate allocation of manufacturing overhead costs.

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 selling expenses and related taxes to make the sale.

Consumables, packaging and other ancillary materials are expensed or recognised as the costs of related assets when being consumed.

Inventories are recorded by perpetual method.

(5) Long-term equity investments

(a) Investment in subsidiaries

The initial investment cost of a long-term equity investment resulting from a business combination of entities under common control represents the amount of the Group's share of the subsidiary's shareholders' equity on the acquisition date. The difference between the initial investment cost, and the cash paid, non-monetary assets transferred and liabilities assumed by the Group, is recognised as share premium in capital reserve, or in the retained profits in case of any shortfall in share premium.

The initial investment cost of long-term equity investment resulting from a business combination of entities not under common control is the cost of acquisition on the purchase date.

The Company adopts cost method to account for investment in subsidiaries.

Impairment losses on investment in subsidiaries are provided according to Note 3(10).

(b) Investment in jointly controlled entities and associates

A jointly controlled entity is an entity of which the Group can exercise joint control with other venturers. Joint control represents the contractual agreement of sharing of control over the entity's economic activities, limited to economic activities related to significant financial and operating policies that require agreement of all venturers.

An associate is an entity of which the Group has significant influence. Significant influence represents the right to participate in the financial and operating policy decisions of the investee but not the right to control or joint control the establishment of these policies.

The initial cost of investment in jointly controlled entities and associates is stated at the consideration paid if the investment is made in cash, or at the fair value of the non-monetary asset exchanged for the investment. The difference between the fair value of the non-monetary asset being exchanged and its carrying amount is charged in the income statement.

Investments in entities under joint control with other venturers or which the Group can exercise significant influence are accounted for using the equity method.

The cost of investment is recorded at the higher of the initial investment cost or the fair value of the Group's share of identifiable net assets of the investee. The difference between the cost of investment and the initial investment cost is charged in the income statement.

The Group shares the results of operation of and profit or cash dividend declared by the jointly controlled entities and associates in the income statement and adjusts the carrying amount of long-term equity investments accordingly.

The fair value of the investee identifiable net asset upon the purchase of the investment is considered. Where the accounting policies or the accounting periods of the investee differ from those of the Group, adjustments are made to the investee financial statements in accordance with the Group's accounting policies or accounting period when being equity accounted for.

Impairment losses on investment in jointly controlled entities and associates are provided according to Note 3(10).

(c) Long-term equity investment in entities which the Group does not control or joint control or has no significant influence and without quoted prices in active markets and reliably measured fair values

The initial investment cost in these entities is recognised in the same way as for investment in jointly controlled entities and associates, and subsequently accounted for using the cost method.

Impairment losses on long-term equity investment accounted for under the cost method, without quoted prices in active markets and reliably measured fair values are provided according to Note 3(10).

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(6) Fixed assets and construction in progress

Fixed assets represent the tangible assets held by the Group using in the production of goods, rendering of services and for operation and administrative purposes with useful life over 1 year.

Fixed assets are stated in the balance sheet at cost less accumulated depreciation and impairment losses (see Note 3(10)). Construction in progress is stated in the balance sheet at cost less impairment losses (see Note 3(10)).

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 for the acquisition, construction, and production of qualified fixed assets. Costs of dismantling, removal and restoration are included in the initial cost.

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

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

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

(7) Oil and gas properties

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

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.

The Group estimates future dismantlement costs for oil and gas properties with reference to engineering estimates after taking into consideration the anticipated method of dismantlement required in accordance with the industry practices. These estimated future dismantlement costs are discounted at credit-adjusted risk-free rate and are capitalised as oil and gas properties, which are subsequently amortised as part of the costs of the oil and gas properties.

(8) Intangible assets

Intangible assets are stated in the balance sheet at cost less accumulated amortisation and provision for impairment losses (see Note 3(10)). The cost of intangible asset less residual value and impairment loss is amortised on a straight-line basis over the period of the expected useful life.

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

(9) Goodwill

Goodwill represents the excess of cost of acquisition over the fair value of the identifiable net assets acquired from business combination of entities not under common control. Goodwill is not amortised but tested for impairment annually (Note 3(10)).

(10) Impairment of assets

Internal and external sources of information are reviewed at each balance sheet date for indications that the following assets, including fixed assets, construction in progress, goodwill, intangible assets and long-term equity investments (except for long-term equity investments which do not have quoted prices in active markets or reliably measured fair values, and are accounted for using the cost method) may be impaired.

Assets are tested for impairment whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. The recoverable amounts of goodwill and intangible assets with uncertain useful lives are estimated annually no matter whether there are any indications of impairment. Goodwill is tested for impairment together with related asset units or groups of asset units.

An asset unit is the smallest identifiable group of assets that generates cash inflows largely independent from other assets or groups of assets. An asset unit comprises the related assets that generate associated cash inflows. In identifying an asset unit, the Group primarily considers whether the asset unit is able to generate cash inflows independently as well as the management style of production and operational activities, and the decision for the use or disposal of asset.

The recoverable amount is the greater of the fair value less costs to sell and the present value of expected future cash flows generated by the asset (or asset unit).

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(10) Impairment of assets *(Continued)*

Fair value less costs to sell of an asset (or asset unit) is based on its selling price in an arm's length transaction less any direct costs attributable to the disposal. Present value of expected future cash flows is an estimation of future cash flows to be generated from the use of and upon disposal of the asset (or asset unit), discounted at an appropriate discount rate over the asset's remaining useful life.

If the recoverable amount of an asset (or asset unit) is less than its carrying amount, the carrying amount is reduced to the recoverable amount. The amount by which the carrying amount is reduced is recognised as an impairment loss in the income statement.

Impairment losses for assets are not reversed.

(11) Financial Instruments

Financial instruments of the Group include cash and cash equivalents, bond investments, trade accounts receivable, trade accounts payable, loans and share capital, etc.

(a) Recognition and measurement of financial assets and financial liabilities

The Group recognises a financial asset or a financial liability on its balance sheet when the Group enters into and becomes a party to the underlining contract of the financial instrument.

Financial assets and financial liabilities are initially recognised at fair value. For financial asset or financial liability of which the change in its fair value is recognised in income statement, the relevant transaction cost is recognised in the income statement. The transaction costs for other financial assets or financial liabilities are included in the initial recognised amount.

— Financial asset or financial liability with change in fair value recognised in profit or loss (including financial asset or financial liability held for trading)

Include financial assets, financial liabilities and derivative instruments held by the Group for the purpose of selling or purchasing in short term. These financial instruments are initially recognised at fair value with subsequent changes in fair values recognised in profit or loss.

— Held-to-maturity investment

Held-to-maturity investment represents non-derivative financial asset with fixed or determinable recoverable amount and fixed maturity that the Group has the intention and ability to hold to maturity.

Held-to-maturity investments are stated at amortised cost using the effective interest rate method. The effective interest rate is the rate being used to discount the estimated future cash flows of the financial asset over its expected life or, when appropriate, a shorter period to its recognised amount.

— Trade accounts receivable

Trade accounts receivable is non-derivative financial asset with fixed or determinable recoverable amount and with no quoted price in active market. After the initial recognition, trade accounts receivable is stated at amortised cost using the effective interest rate method.

— Available-for-sale financial assets

Available-for-sale financial assets include non-derivative financial assets that are designated as available for sales and other financial assets which do not fall into any of the above categories. Investments in equity instruments that do not have quoted market prices in active markets and whose fair value cannot be reliably measured are stated at cost.

Other than the above equity instrument investments whose fair values cannot be measured reliably, other available-for-sale financial assets are initially stated at fair values. The gains or losses arising from changes in the fair values are directly recognised in equity, except for the impairment losses and exchange differences from monetary financial assets denominated in foreign currencies, which are recognised in the income statement. The cumulative gains and losses previously recognised in equity are transferred to the income statement when the available-for-sale financial assets are derecognised.

(b) Impairment of financial assets

The carrying amounts of financial assets (except those financial assets stated at fair value with changes in the fair values charged to profit or loss) are reviewed at each balance sheet date to determine whether there is objective evidence of impairment. If any such evidence exists, impairment loss is provided.

— Trade accounts receivable and held-to-maturity investments

When the present value of the estimated future cash flows of trade accounts receivable or held-to-maturity investments (excluding unrealised future credit loss), which was discounted at the original effective interest rate, is lower than the carrying amount, the carrying amount of trade accounts receivable or held-to-maturity investments is reduced to the present value. The amount being reduced is recognised as impairment loss and is charged to the income statement.

Impairment loss on trade accounts receivable or held-to-maturity invesments is reversed in the income statement if evidence suggests that the financial assets' carrying amounts have increased and the reason for the increase is objectively as a result of an event occured after the recognition of the impairment loss. The reversed carrying amount shall not exceed the amortised cost of the financial assets had no impairment been recognised.

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(11) Financial Instruments *(Continued)*

(b) Impairment of financial assets *(Continued)*

— Available-for-sale financial assets

When available-for-sale financial assets are impaired, despite not derecognised, the cumulative losses resulted from the decrease in fair value which had previously been recognised directly in shareholders' funds, are reversed and charged to income statement.

Impairment loss of available-for-sale debt instrument is reversed if, the reason for the subsequent increase in fair value is objectively as a result of an event occured after the recognition of the impairment loss. Impairment loss for available-for-sale equity instrument is not reversed through income statement.

— Long-term equity investments with no quoted prices in active markets and reliably estimated fair values

Impairment loss on long-term equity investments with no quoted prices in active markets and reliably estimated fair values is recognised if the carrying amount of the investment or the derivative financial asset is lower than the present value of its future cash flows which are discounted at a current rate of return of a similar kind of financial asset. The impairment loss is recognised in income statement and cannot be reversed.

(c) Determination of fair value

Fair value of financial asset or financial liability is determined with reference to quoted market price in active market, or is estimated by valuation if there is no active market for the financial instrument.

Valuation includes making reference to recent market price based on arm's length transactions, reference to the fair value of another financial instrument that is substantially the same in circumstances, discounted cash flow analysis and option pricing models. The Group regularly assesses its valuation methods and test their effectiveness.

(d) Convertible bonds

Convertible bonds issued with a cash settlement option and other embedded derivative features are split into liability and derivative components.

At initial recognition, the derivative component of the convertible bonds is measured at fair value. Any excess of proceeds over the amount initially recognised as the derivative component is recognised as the liability component. Transaction costs that relate to the issue of the convertible bonds are allocated to the liability and derivative components in proportion to the allocation of proceeds. The portion of the transaction costs relating to the liability component is recognised initially as part of the liability. The portion relating to the derivative component is recognised immediately as an expense in the income statement.

The derivative component is subsequently remeasured at each balance sheet date and any gains or losses arising from change in the fair value are recognised in the income statement. The liability component is subsequently carried at amortised cost until extinguished on conversion or redemption. The interest expense recognised in the income statement on the liability component is calculated using the effective interest method. Both the liability and the related derivative components are presented together for financial statements reporting purposes.

If the convertible bonds are converted, the carrying amounts of the derivative and liability components are transferred to share capital and share premium as consideration for the shares issued. If the convertible bonds are redeemed, any difference between the amount paid and the carrying amounts of both components is recognised in the income statement.

(e) Derecognition of financial assets and financial abilities

The Group derecognises a financial asset when the contractual right to receive cash flows from the financial asset expires, or where the Group transfers substantially all risks and rewards of ownership.

On derecognition of a financial asset, the difference between the following amounts is recognised in income statement:

— the carrying amount; and

— the sum of the consideration received and any cumulative gain or loss that had been recognised directly in equity.

If a part of the financial asset qualifies for derecognition, the carrying amount of the financial asset is allocated between the part that continues to be recognised and the part that qualifies for derecognisation, based on the fair values of the respective parts. The difference between the following amounts is recognised in income statement:

— the carrying amount of the part that qualifies for derecognization; and

— the sum of the consideration received and any cumulative gain or loss that had been recognised in equity in relation to the part that qualifies for derecognition.

Where the obligations for financial liabilities are completely or partially discharged, the financial liabilities or part of financial liabilities are derecognised.

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(11) Financial Instruments *(Continued)*

(f) Equity instruments

An equity instrument is a contract that the holder of which entitles the Company's residual assets.

The consideration received from the issue of equity instruments less transaction costs is recognised in share capital and capital reserve.

The consideration paid for the repurchase of the Company's issued equity instruments plus the associated transaction costs is charged to the shareholders' funds.

(12) Employee benefits

Employee benefits include various payments and other related expenses paid in exchange for services rendered by employees. When an employee has rendered service to the Group during an accounting period, the Group shall recognise the employee benefits payable (other than termination benefits) as a liability and charged to the cost of an asset or as an expense in the same time.

(a) Retirement benefits

Pursuant to the relevant laws and regulations in the PRC, the Group participates in various defined contribution retirement plans organised by the respective divisions in municipal and provincial governments for its staff. The Group is required to make contributions to the retirement plans in accordance with the contribution rates and basis as defined by the municipal and provincial governments. The contributions are charged to the income statement on an accrual basis. When employees retire, the respective divisions are responsible for paying their basic retirement benefits. The Group does not have any other obligations in this respect.

(b) Housing fund and other social insurance

In addition to retirement benefits, the Group makes contributions to housing fund and other social insurance such as basic medical insurance, unemployment insurance, work injury insurance and maternity insurance, etc. for its employees in accordance with the relevant rules and regulations. The Group makes monthly contributions to the housing fund and the above insurance based on the applicable rates of employees' salaries. The contributions are charged to the income statement on an accrual basis.

(c) Termination benefits

The Group recognises termination benefits if it decides to terminate an employee's employment before the employment contract has expired, or makes an offer to an employee for voluntary redundancy. The termination benefits, which are the liabilities payable on termination, are recognised in the income statement when both of the following conditions have been satisfied:

— the Group has a detailed formal plan for the termination of employment or has made an offer to employees for voluntary redundancy, which will be implemented shortly; and

— the Group is not allowed to withdraw from the termination of employment or voluntary redundancy being offered unilaterally.

(13) Income tax

Current tax and deferred tax are recognised in the income statement except to the extent that they relates to items recognised directly in equity, in which case, they are recognised in equity.

Deferred tax assets and liabilities are recognised based on deductible temporary differences and taxable temporary differences respectively. Temporary difference is the difference between the carrying amounts of assets and liabilities and their tax bases including unused tax losses and unused tax credits able to be utilised in subsequent years. Deferred tax assets are recognised to the extent that it is probable that future taxable income will be available to offset deductible temporary differences.

Temporary differences arise in a transaction, which is not a business combination, and at the time of transaction, does not affect the accounting profit or taxable profit (or unused tax losses), will not result in deferred tax. Temporary differences arising from the initial recognition of goodwill will not result in deferred tax.

Current tax liabilities (assets) for current and prior periods are recognised based on the expected tax payable (tax recoverable) as calculated under the relevant tax laws and tax rates that have been enacted at the balance sheet date.

The amounts of deferred tax assets and liabilities are recognised based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities using tax rates enacted and relevant tax laws at the balance sheet date.

(14) Provisions and contingent liabilities

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

In terms of a possible obligation resulting from a past transaction or event, whose existence will only be confirmed by the occurrence or non-occurrence of future events, or a present obligation resulting from a past transaction or event, 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 possible or present obligation is disclosed as a contingent liability.

Provisions for future dismantlement costs are initially recognised based on the present value of the future costs expected to be incurred in respect of the Group's expected dismantlement and abandonment costs at the end of related oil and gas exploration and development activities. Any subsequent change in the present value of the estimated costs, other than the change due to passage of time which is regarded as interest cost, is reflected as an adjustment to the provision and oil and gas properties.

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(15) Revenue recognition

Revenue is the total inflow of economic benefits generated from the Group's normal activities, which causes shareholders' funds to increase but is unrelated to shareholder's injection of capital. Revenue is recognised only when it is probable that economic benefits will flow to the enterprise and cause assets to increase or liabilities to decrease, and that the amount of the economic benefits' inflow can be measured reliably. Revenue is recognised based on the following:

(a) Revenues from sales of goods

Revenue from the sales of goods is recognised when all of the following conditions are satisfied:

— significant risks and rewards of ownership and title have been transferred to buyers

— the Group does not retain the management right, which is normally associated with owner, on goods sold and has no control over the goods sold

— the amount of revenue and costs incurred or to be incurred in respect of the transaction can be measured reliably

— it is probable that economic benefits associated with the transaction will flow to the Group

(b) Revenues from rendering services

Revenue from rendering of services is recognised in the income statement upon completion. If the rendering of services lasts more than one accounting years, when the outcome of 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 rendering of services cannot be estimated reliably, revenues are recognised only to the extent that the costs incurred are expected to be recoverable. If the costs of rendering of services are not expected to be recoverable, the costs are charged to the income statement when incurred, and revenues are not recognised.

(c) Interest income

Interest income is recognised on a time proportion basis based on the principal amount and the applicable interest rate.

(16) Government grants

Government grants are gratuitous monetary assets or non-monetary assets that the Group receives from the government, excluding capital injection by the government as an investor.

Government grants are recognised when there is reasonable assurance that the grants will be received and the Group is able to comply with the conditions attaching to them. Government grants in the form of monetary assets are recorded based on the amount received or receivable, whereas non-monetary assets are recorded at fair value.

Government grants received in relation to assets are recorded as deferred income, and recognised evenly in the income statement over the assets' useful lives. Government grants received in relation to revenue are recorded as deferred income, and recognised as income in future periods as compensation when the associated future expenses or losses arise; or directly recognised as income in the current period as compensation for past expenses or losses.

(17) Borrowing costs

Borrowing costs incurred on borrowings for the acquisition, construction or production of qualified assets are capitalised into the cost of the related assets.

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

(18) Repairs and maintenance expenses

Repairs and maintenance (including overhauling expenses) expenses are recognised in the income statement when incurred.

(19) Environmental expenditures

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

(20) Research and development costs

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

(21) Operating leases

Operating lease payments are charged as expenses on a straight-line basis over the period of the respective leases.

(22) Dividends

Dividends are recognised in the period in which 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 not recognised as a liability at the balance sheet date and are separately disclosed in the notes to the financial statements.

3 SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(23) Related parties

Parties are considered to be related to the Group if the Group controls, jointly controls or exercises significant influence over another party, or vice versa, or where the Group and the party are subject to common control, joint control or significant influence from another party. Related parties may be individuals or enterprises. Where enterprises are subject to state control but are otherwise unrelated, they are not related parties. The Group's related parties include but not limited to the following:

(a) the holding company of the Company;

(b) the subsidiaries of the Company;

(c) the parties that are subject to common control with the Company;

(d) investors which exercise joint control over the Group;

(e) investors which exercise significant influence over the Group;

(f) jointly controlled entities of the Group;

(g) associates of the Group;

(h) the major individual investors of the Group and a close family member of such individuals;

(i) the member of key management personnel of the Group, and a close family member of such individuals;

(j) the member of key management personnel of the Company's holding company;

(k) close family member of key management personnel of the Company's holding company; and

(l) an entity which is under control, joint control or significant influence of major individual investor, key management personnel or a close family of such individuals.

(24) Segment 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.

4 Explanation on changes in significant accounting policies

(1) Changes in significant accounting policies

The Group adopts ASBE (2006) effective from 1 January 2007. Significant accounting policies are summarised in Note 3.

The Group has issued H-shares and the financial statements in prior years were reported by using the applicable PRC Accounting Rules and Regulations and the International Financial Reporting Standards ("IFRS"). Pursuant to the requirements of the Opinions, the Group, on the first day of adopting ASBE (2006), made retrospective adjustments to those items affected by the change in accounting policies according to the following principles.

Where the principles stipulated in ASBE (2006) differ from those of the applicable PRC Accounting Rules and Regulations and if the Group had already adopted these principles in preparing the financial statements in accordance with the IFRS in prior years, the Group, based on the information used in preparing the financial statements in accordance with IFRS, made retrospective adjustments to those items affected by the change in accounting policies. In addition, retrospective adjustments were made to other items in accordance with the related requirements of "ASBE 38 – First Time Adoption of Accounting Standards for Business Enterprises".

Except for the retrospective adjustments made to the following items in accordance with the requirements of the Opinions and "ASBE 38 – First Time Adoption of Accounting Standards for Business Enterprises", there were no other retrospective adjustments resulted from the change in accounting policies.

(a) Capitalisation of general borrowing costs

Borrowing costs on general borrowings for the acquisition and construction of fixed assets, previously recognised in the income statement as incurred, are capitalised as part of the cost of the qualifying assets when the relevant conditions could be satisfied. Retrospective adjustments were made to the carrying amounts of the fixed assets and construction in progress as at 1 January 2007, resulting in an increase in retained profits.

(b) Long-term equity investment differences

The excess of the initial investment cost of investment in jointly controlled entities and associates under equity method over the Group's share of equity of the investee enterprise was amortised on a straight-line basis to the income statement. Under ASBE (2006), the excess of the initial investment cost of investment in jointly controlled entities and associates over the fair value of identifiable net asset acquired is no longer amortised. Retrospective adjustments were made to the equity investment differences by reversing the equity investment differences amortised in prior years, resulting in an increase in retained profits.

(c) Disposal of oil and gas properties

Gains or losses on the retirement or disposal of an individual item of proved oil and gas property are not recognised unless the retirement or disposal encompasses an entire oil field. Retrospective adjustments are made to the losses on such item, after netting off the depreciation effect, resulting in a corresponding increase in retained profits.

(d) Change in fair value of available-for-sale financial assets

Investments in available-for-sale financial assets are adjusted to fair value which are based on the quoted price from active market as at 1 January 2007. Differences between the carrying amounts and fair value are adjusted retrospectively with a corresponding increase in equity.

4 Explanation on changes in significant accounting policies *(Continued)*

(1) Changes in significant accounting policies *(Continued)*

(e) Pre-operating expenditures

Pre-operating expenditures incurred during the start-up period were recorded in long-term deferred expenses. The whole amount of Pre-operating expenditures was charge to the income statement when operations commence. Under the ASBE (2006), expenditures on start-up activities are recognised as an expense when they are incurred. The pre-operating expenditures incurred in prior years have been charged to retained profits.

(f) Government grants

Asset-related government grants (excluding governmental capital injections for investment purposes), previously recognised in capital reserve once complied with the conditions attached, are recognised as deferred income and charged evenly to the income statements over the related assets' useful lives. Retrospective adjustments have been made to asset-related government grants received in prior years which had been recognised in the capital reserve.

(g) Income tax

Due to retrospective adjustments made to above items (a) to (f), the Group adjusted the deferred tax as at 1 January 2007.

(h) Unrecognised investment losses

The operating results of subsidiaries were 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. Under ASBE (2006), the excess of subsidiaries' accumulated loss over the carrying amount is borne by the holding company, unless stated in the articles of associations or agreement that the minority interest is liable and able to bear such losses. As at 1 January 2006 and 31 December 2006, unrecognised investment losses for prior years and for the year are adjusted to retained profits and profit the year.

(i) Minority interests

In accordance with ASBE (2006), minority interests are presented in the total shareholders' funds, separately from the shareholders' funds attributable to the equity shareholders of the Company, leading to an increase in total shareholders' funds. Minority interests in the results of the Group are presented on the face of the consolidated income statement as an allocation of the net profit between minority interests and the equity shareholders of the Company.

(j) Investments in jointly controlled entities

Investments in jointly controlled entities, previously accounted for in the consolidated financial statements on a proportionate consolidation basis, are accounted for by using the equity method. Retrospective adjustments made to the comparative figures did not have an impact on the Group's net profit and shareholders' funds.

(2) Effects of changes in significant accounting policies

The effects of the above changes in significant accounting policies on the Group's net profits for the six-month period ended 30 June 2006 and the shareholders' funds in prior years are summarised as follows:

		The Group		
	Note	Net profit for the six-month period ended 30 June 2006	Shareholders' fund as at 30 June 2006	Shareholders' funds as at 1 January 2006
Net profit and shareholders' funds before adjustment		20,679	254,875	215,623
Capitalisation of general borrowing costs	4(1)(a)	294	2,636	2,111
Long-term equity investment differences	4(1)(b)	394	1,358	200
Disposals of oil and gas properties	4(1)(c)	(317)	620	1,254
Change in fair value of available-for-sale financial assets	4(1)(d)	—	38	—
Pre-operating expenditures	4(1)(e)	(16)	(64)	(759)
Government grants	4(1)(f)	6	(576)	(588)
Income tax	4(1)(g)	74	(994)	(1,106)
Unrecognised investment losses	4(1)(h)	11	—	—
Minority interests	4(1)(i)	165	22,038	29,568
Total		**611**	**25,056**	**30,680**
Net profit and shareholders' funds after adjustment		**21,290**	**279,931**	**246,303**

4 **Explanation on changes in significant accounting policies** *(Continued)*

(2) Effects of changes in significant accounting policies *(Continued)*

The effects of the above changes in significant accounting policies on the Company's net profits for the six-month period ended 30 June 2006 and the shareholders' funds in prior years are summarised as follows:

		The Company		
	Note	Net profit for the six-month period ended 30 June 2006	Shareholders' funds as at 30 June 2006	Shareholders' funds as at 1 January 2006
Net profit and shareholders' funds before adjustment		20,666	256,432	216,866
Capitalisation of general borrowing costs	4(1)(a)	294	2,636	2,111
Long-term equity investment differences	4(1)(b)	394	1,358	200
Disposals of oil and gas properties	4(1)(c)	(317)	620	1,254
Change in fair value of available-for-sale financial assets	4(1)(d)	—	38	—
Pre-operating expenditures	4(1)(e)	(16)	(64)	(759)
Government grants	4(1)(f)	6	(576)	(588)
Income tax	4(1)(g)	74	(994)	(1,106)
Unrecognised investment losses	4(1)(h)	11	(735)	(594)
Total		**446**	**2,283**	**518**
Net profit and shareholders' funds after adjustment		**21,112**	**258,715**	**217,384**

In accordance with Note 4(1), the Group and the Company made retrospective adjustments to the balance sheet items as at 31 December 2006 and reclassified the balance sheet items as at 31 December 2006 in accordance to the requirements of "ASBE 38 – First Time Adoption of Accounting Standards for Business Enterprises".

5 **TAXATION**

Major types of tax applicable to the Group and the Company are income tax, consumption tax, resources tax, value added tax and special oil income levy.

Income tax rate is 33% and certain branches and subsidiaries are taxed at 15%.

Consumption tax is levied on gasoline, diesel, naphtha, solvent oil, lubricant oil, fuel oil and jet fuel oil at a rate of RMB 277.6 per tonne, RMB 117.6 per tonne, RMB 277.0 per tonne, RMB 256.4 per tonne, RMB 225.2 per tonne, RMB 101.5 per tonne and RMB 124.6 per tonne respectively. The consumption tax on jet fuel oil is temporarily exempted while others are temporarily imposed on 30% of the taxable amounts.

Resources tax is levied on crude oil and natural gas at rates ranging from RMB 14 per tonne to RMB 30 per tonne and RMB 7 to RMB 15 per 1000 cubic 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%.

With effective from 26 March 2006, the Ministry of Finance imposed a special oil income levy on any income derived from the sale by an oil exploration and production enterprise of locally produced crude oil exceeding a standard price. The levy starts at USD 40 per barrel and the imposed rate ranges from 20% to 40%.

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

Name of branches and subsidiaries	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
Tahe Oilfield Petrochemical Factory	15%	Tax preferential policy in the western part of China
Sinopec Yangzi Petrochemical Company Limited	15%	High technology enterprise
Sinopec Zhongyuan Petroleum Company Limited	15%	High technology enterprise
Petro-CyberWorks Information Technology Company Limited	15%	High technology enterprise
Sinopec Hainan Refining and Chemical Company Limited	2-year exemption and 3-year 50% reduction	Foreign investment enterprise

On 16 March 2007, the Fifty Plenary Session of the Tenth National Peoples, Congress passed the "Enterprise Income Tax Law of the People's Republic of China" ("new tax law"), which will take effect on 1 January 2008. According to the new tax law, the Group's corporate income tax rate, except certain high-tech entities, as defined in the new tax law, will be reduced from 33% to 25% since 1 January 2008. In addition, branches and subsidiaries that are currently taxed at preferential rates will be subject to five-year transition period during which the tax rates will gradually be increased to the unified rate of 25%. Since the detailed implementation for the five-year transition have not been promulgated, management of the Group estimated the applicable tax rate in the future based on the shorter of remaining tax preferential period and five years. The impact of the new tax law on the carrying amount of deferred tax assets and liabilities is reflected in the Group's current period financial statements.

6 CASH AT BANK AND IN HAND

The Group

	At 30 June 2007			At 31 December 2006		
	Original currency millions	**Exchange rates**	**RMB millions**	Original currency millions	Exchange rates	RMB millions
Cash in hand						
Renminbi			49			15
Cash at bank						
Renminbi			10,499			5,826
US Dollars	136	7.6155	1,039	92	7.8087	717
Hong Kong Dollars	736	0.9744	717	27	1.0047	27
Japanese Yen	178	0.0618	11	259	0.0656	17
Euro	2	10.2337	17	2	10.2665	23
			12,332			**6,625**
Deposits at related parties						
Renminbi			656			688
US Dollars	—	7.6155	1	—	7.8087	1
Total cash at bank and in hand			**12,989**			**7,314**

The Company

	At 30 June 2007			At 31 December 2006		
	Original currency millions	**Exchange rates**	**RMB millions**	Original currency millions	Exchange rates	RMB millions
Cash in hand						
Renminbi			5			5
Cash at bank						
Renminbi			4,826			2,745
US Dollars	—	7.6155	1	—	7.8087	1
			4,832			**2,751**
Deposits at related parties						
Renminbi			315			231
US Dollars	—	7.6155	1	—	7.8087	1
Total cash at bank and in hand			**5,148**			**2,983**

Deposits at related parties represent deposits placed at Sinopec Finance Company Limited. Deposits interest is calculated based on market rate.

As at 30 June 2007, time deposits with financial institutions of the Group and the Company amounted to RMB 3,303 million (2006: RMB 635 million) and RMB 450 million (2006: RMB 220 million), respectively.

As at 30 June 2007, time deposits that were pledged by the Group amounted to RMB 2,415 million (2006: RMB nil). No time deposits were pledged by the Company.

7 BILLS RECEIVABLE

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

8 TRADE ACCOUNTS RECEIVABLE

	The Group		The Company	
	At 30 June 2007 RMB millions	At 31 December 2006 RMB millions	**At 30 June 2007 RMB millions**	At 31 December 2006 RMB millions
Amounts due from subsidiaries	—	—	8,349	5,570
Amounts due from Sinopec Group Company and fellow subsidiaries	4,558	3,386	1,287	923
Amounts due from associates and jointly controlled entities	2,663	1,400	1,515	385
Amounts due from others	22,714	14,458	5,251	4,622
	29,935	**19,244**	**16,402**	**11,500**
Less: Allowance for doubtful accounts	3,224	3,334	2,631	2,668
Total	**26,711**	**15,910**	**13,771**	**8,832**

8 TRADE ACCOUNTS RECEIVABLE *(Continued)*

Allowance for doubtful accounts is analysed as follows:

	The Group		The Company	
	At 30 June 2007 RMB millions	At 31 December 2006 RMB millions	**At 30 June 2007 RMB millions**	At 31 December 2006 RMB millions
Balance at 1 January	3,334	3,140	2,668	2,319
Provision for the period/year	19	438	12	261
Written back for the period/year	(90)	(153)	(39)	(128)
Written off for the period/year	(39)	(91)	(10)	(78)
Transferred from subsidiaries	—	—	—	294
Balance at 30 June/31 December	**3,224**	**3,334**	**2,631**	**2,668**

Ageing analysis on trade accounts receivable is as follows:

	The Group							
	At 30 June 2007				At 31 December 2006			
	Amount RMB millions	**Percentage of total accounts receivable %**	**Allowance RMB millions**	**Percentage of allowance to accounts receivable balance %**	Amount RMB millions	Percentage of total accounts receivable %	Allowance RMB millions	Percentage of allowance to accounts receivable balance %
Within one year	26,569	88.8	48	0.2	15,752	81.8	94	0.6
Between one and two years	267	0.9	124	46.4	295	1.5	126	42.7
Between two and three years	128	0.4	99	77.3	242	1.3	186	76.9
Over three years	2,971	9.9	2,953	99.4	2,955	15.4	2,928	99.1
Total	**29,935**	**100.0**	**3,224**		**19,244**	**100.0**	**3,334**	

	The Company							
	At 30 June 2007				At 31 December 2006			
	Amount RMB millions	**Percentage of total accounts receivable %**	**Allowance RMB millions**	**Percentage of allowance to accounts receivable balance %**	Amount RMB millions	Percentage of total accounts receivable %	Allowance RMB millions	Percentage of allowance to accounts receivable balance %
Within one year	13,615	83.0	23	0.2	8,655	75.3	47	0.5
Between one and two years	173	1.1	40	23.1	219	1.9	61	27.9
Between two and three years	119	0.7	90	75.6	144	1.3	101	70.1
Over three years	2,495	15.2	2,478	99.3	2,482	21.5	2,459	99.1
Total	**16,402**	**100.0**	**2,631**		**11,500**	**100.0**	**2,668**	

At 30 June 2007 and 31 December 2006, the total amounts of the top five trade accounts receivable of the Group are set out below:

	At 30 June 2007	At 31 December 2006
Total amount (RMB millions)	5,304	3,374
Ageing	Within 1 year	Within 1 year
Percentage to the total balance of trade accounts receivable	17.7%	17.5%

Except for the balances disclosed in Note 44, 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 periods ended 30 June 2007 and 2006, the Group and the Company had no individually significant trade accounts receivable been fully or substantially provided allowance for doubtful accounts.

During the six-month periods ended 30 June 2007 and 2006, the Group and the Company had no individually significant write-off or recovery of doubtful debts which had been fully or substantially provided for in prior years.

At 30 June 2007 and 31 December 2006, the Group and the Company had no individually significant trade accounts receivable that aged over three years.

9 OTHER RECEIVABLES

	The Group		The Company	
	At 30 June 2007 RMB millions	At 31 December 2006 RMB millions	**At 30 June 2007 RMB millions**	At 31 December 2006 RMB millions
Amounts due from subsidiaries	—	—	1,634	3,592
Amounts due from Sinopec Group Company and fellow subsidiaries	1,942	2,093	1,342	1,784
Amounts due from associates	248	306	221	284
Amounts due from others	12,565	10,571	12,357	6,482
	14,755	**12,970**	**15,554**	**12,142**
Less: Allowance for doubtful accounts	3,455	3,470	3,700	3,699
Total	**11,300**	**9,500**	**11,854**	**8,443**

Allowance for doubtful accounts is analysed as follows:

	The Group		The Company	
	At 30 June 2007 RMB millions	At 31 December 2006 RMB millions	**At 30 June 2007 RMB millions**	At 31 December 2006 RMB millions
Balance at 1 January	3,470	3,512	3,699	3,200
Provision for the period/year	19	107	7	80
Written back for the period/year	(17)	(113)	(8)	(81)
Written off for the period/year	(17)	(36)	(6)	(31)
Transferred from subsidiaries	—	—	8	531
Balance at 30 June/31 December	**3,455**	**3,470**	**3,700**	**3,699**

Ageing analysis of other receivables is as follows:

	The Group							
	At 30 June 2007				At 31 December 2006			
	Amount RMB millions	**Percentage of total other receivables %**	**Allowance RMB millions**	**Percentage of allowance to other receivable balance %**	Amount RMB millions	Percentage of total other receivables %	Allowance RMB millions	Percentage of allowance to other receivable balance %
Within one year	6,922	46.9	29	0.4	6,153	47.4	25	0.4
Between one and two years	2,780	18.8	61	2.2	1,747	13.5	49	2.8
Between two and three years	983	6.7	165	16.8	397	3.1	296	74.6
Over three years	4,070	27.6	3,200	78.6	4,673	36.0	3,100	66.3
Total	**14,755**	**100.0**	**3,455**		**12,970**	**100.0**	**3,470**	

	The Company							
	At 30 June 2007				At 31 December 2006			
	Amount RMB millions	**Percentage of total other receivables %**	**Allowance RMB millions**	**Percentage of allowance to other receivable balance %**	Amount RMB millions	Percentage of total other receivables %	Allowance RMB millions	Percentage of allowance to other receivable balance %
Within one year	10,193	65.5	9	0.1	6,152	50.7	9	0.1
Between one and two years	635	4.1	28	4.4	566	4.6	31	5.5
Between two and three years	292	1.9	36	12.3	254	2.1	41	16.1
Over three years	4,434	28.5	3,627	81.8	5,170	42.6	3,618	70.0
Total	**15,554**	**100.0**	**3,700**		**12,142**	**100.0**	**3,699**	

At 30 June 2007 and 31 December 2006, the total amounts of the top five other receivables of the Group are set out below:

	At 30 June 2007	At 31 December 2006
Total amount (RMB millions)	640	1,616
Ageing	Within one year to two years	Within one year to over three years
Percentage to the total balance of other receivables	4.3%	12.5%

Except for the balances disclosed in Note 44, 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 periods ended 30 June 2007 and 2006, the Group and the Company had no individually significant other receivables been fully or substantially provided allowance for doubtful accounts.

During the six-month periods ended 30 June 2007 and 2006, the Group and the Company had no individually significant write-off or recovery of doubtful debts which had been fully or substantially provided for in prior years.

At 30 June 2007 and 31 December 2006, except for the amount due from Sinopec Group Company, the Group and the Company had no individually significant other receivables that aged over three years.

10 ADVANCE PAYMENTS

All advance payments are aged within one year.

Except for the balances disclosed in Note 44, there is no amount due from shareholders who hold 5% or more voting right of the Company included in the balance of advance payments.

11 INVENTORIES

	The Group		The Company	
	At 30 June 2007 RMB millions	At 31 December 2006 RMB millions	**At 30 June 2007 RMB millions**	At 31 December 2006 RMB millions
Raw materials	54,765	53,844	30,603	28,972
Work in progress	11,416	9,563	7,251	5,061
Finished goods	35,003	25,398	19,934	17,574
Spare parts and consumables	3,811	4,159	1,839	2,866
	104,995	**92,964**	**59,627**	**54,473**
Less: Provision for diminution in value of inventories	797	866	463	469
	104,198	**92,098**	**59,164**	**54,004**

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

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

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

	The Group		The Company	
	At 30 June 2007 RMB millions	At 31 December 2006 RMB millions	**At 30 June 2007 RMB millions**	At 31 December 2006 RMB millions
Balance at 1 January	866	892	469	309
Provision for the period/year	10	419	8	154
Written back for the period/year	(48)	(317)	(27)	(41)
Written off for the period/year	(31)	(128)	(26)	(59)
Transferred from subsidiaries	—	—	39	106
Balance at 30 June/31 December	**797**	**866**	**463**	**469**

The cost of inventories recognised as costs and expenses by the Group and the Company amounted to RMB 462,302 million (2006: RMB 415,171 million) and RMB 328,722 million (2006: RMB 279,463 million) for the six-month period ended 30 June 2007, respectively.

12 LONG-TERM EQUITY INVESTMENTS

The Group

	Investments in associates and jointly controlled entities RMB millions	Other equity investment RMB millions	Provision for impairment losses RMB millions	Total RMB millions
Balance at 1 January 2007	21,103	2,431	(316)	23,218
Additions for the period	823	186	—	1,009
Share of profits less losses from investments accounted for under the equity method	2,167	—	—	2,167
Dividends receivable/received	(1,679)	—	—	(1,679)
Disposals for the period	(9)	(323)	—	(332)
Movement of provision for impairment losses	—	—	25	25
Balance at 30 June 2007	**22,405**	**2,294**	**(291)**	**24,408**

12 LONG-TERM EQUITY INVESTMENTS *(Continued)*

The Company

	Investments in subsidiaries RMB millions	Investments in associates and jointly controlled entities RMB millions	Other equity investment RMB millions	Provision for impairment losses RMB millions	Total RMB millions
Balance at 1 January 2007	117,550	10,681	1,138	(112)	129,257
Additions for the period	4,969	233	174	—	5,376
Share of profits less losses from investments accounted for under the equity method	—	1,497	—	—	1,497
Dividends receivable/received	(7,593)	(1,100)	—	—	(8,693)
Disposals for the period	—	(9)	(78)	—	(87)
Subsidiaries changed to branches	(16,875)	—	—	—	(16,875)
Balance at 30 June 2007	**98,051**	**11,302**	**1,234**	**(112)**	**110,475**

Provision for impairment losses is analysed as follows:

	The Group		The Company	
	At 30 June 2007 RMB millions	At 31 December 2006 RMB millions	**At 30 June 2007 RMB millions**	At 31 December 2006 RMB millions
Balance at 1 January	316	327	112	103
Additions for the period/year	—	48	—	20
Written off	(25)	(59)	—	(11)
Balance at 30 June/31 December	**291**	**316**	**112**	**112**

During the six-month period ended 30 June 2007, the Group and the Company had no individually significant long-term equity investments which had been provided for impairment losses.

Other equity investments represent the Group's interests in PRC domiciled enterprises which are mainly engaged in non-oil and natural gas and chemical activities and operations. This includes non-consolidated investments which the Group has over 50% equity interest but the costs of investment are not significant or the Group has no control on the entities. Stock investments of the Company represent investments in subsidiaries, associates and jointly controlled entities. Details of the Company's principal subsidiaries are set out in Note 46.

At 30 June 2007, details of listed stock investment (associates) 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 2007 RMB millions	Share of profits under the equity method RMB millions	Dividends receivable/ received RMB millions	**Balance at 30 June 2007** RMB millions	**Market price at 30 June 2007* RMB millions**
Sinopec Shandong Taishan Petroleum Company Limited	Legal person shares	118	24.57%	124	343	23	(11)	355	927

* Quoted by Shenzhen Stock Exchange.

At 30 June 2007, details of principal associates of the Group are as follows:

Name of investee enterprise	Initial investment cost RMB millions	Percentage of equity interest held by the Group	Balance at 1 January 2007 RMB millions	Share of profits under the equity method RMB millions	Dividends receivable/ received RMB millions	**Balance at 30 June 2007 RMB millions**
Sinopec Finance Company Limited (i) (ii)	2,712	49%	3,259	235	—	3,494
China Aviation Oil Supply Company Limited (ii)	1,102	29%	1,155	32	(62)	1,125
Shanghai Petroleum National Gas Corporation (i) (ii)	300	30%	1,014	88	(135)	967
Shanghai Chemical Industry Park Development Company Limited (ii)	608	38%	911	1	—	912
China Shipping & Sinopec Suppliers Company Limited (ii)	438	50%	524	13	(26)	511

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

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

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

12 LONG-TERM EQUITY INVESTMENTS *(Continued)*

At 30 June 2007, the Group's principal interests in jointly controlled entities are as follows:

Name of jointly controlled entities	Registered capital/ 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	Registered capital USD 901,440,964	30.00	20.00	Manufacturing and distribution of petrochemical products
BASF-YPC Company Limited	Registered capital RMB 8,793,000,000	30.00	10.00	Manufacturing and distribution of petrochemical products
Yueyang Sinopec and Shell Coal Gasification Company Limited	Registered capital USD 45,588,700	50.00	—	Manufacturing and distribution of industrial gas

At 30 June 2007, details of principal jointly controlled entities of the Group are as follows:

Name of investee enterprise	Initial investment cost RMB millions	Balance at 1 January 2007 RMB millions	Share of profits/(losses) under the equity method RMB millions	Dividends receivable/ received RMB millions	**Balance at 30 June 2007 RMB millions**
Shanghai Secco Petrochemical Company Limited	3,517	4,365	760	(680)	4,445
BASF-YPC Company Limited	3,722	4,698	903	(669)	4,932
Yueyang Sinopec and Shell Coal Gasification Company Limited	189	173	(38)	—	135

13 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:						
Balance at 1 January 2007	254,466	146,899	85,428	176,080	4,869	667,742
Additions for the period	344	29	75	29	152	`629
Transferred from construction in progress	5,880	912	1,644	2,921	764	12,121
Acquisition of subsidiaries	—	—	2,610	—	—	2,610
Disposals	(11)	(137)	(559)	(425)	(16)	(1,148)
Balance at 30 June 2007	**260,679**	**147,703**	**89,198**	**178,605**	**5,769**	**681,954**
Accumulated depreciation:						
Balance at 1 January 2007	132,316	67,089	15,905	101,176	1,837	318,323
Depreciation charge for the period	8,168	4,034	2,040	4,438	320	19,000
Acquisition of subsidiaries	—	—	991	—	—	991
Written back on disposals	(1)	(86)	(213)	(317)	(11)	(628)
Balance at 30 June 2007	**140,483**	**71,037**	**18,723**	**105,297**	**2,146**	**337,686**
Provision for impairment losses:						
Balance at 1 January 2007	1,171	11	1,151	3,746	—	6,079
Additions for the period	25	770	567	123	—	1,485
Written off for the period	—	—	(28)	(18)	—	(46)
Balance at 30 June 2007	**1,196**	**781**	**1,690**	**3,851**	**—**	**7,518**
Net book value:						
Balance at 30 June 2007	**119,000**	**75,885**	**68,785**	**69,457**	**3,623**	**336,750**
Balance at 31 December 2006	**120,979**	**79,799**	**68,372**	**71,158**	**3,032**	**343,340**

13 FIXED ASSETS *(Continued)*

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:						
Balance at 1 January 2007	221,434	108,247	74,935	87,218	3,269	495,103
Additions for the period	291	—	20	1	149	461
Transferred from construction in progress	5,047	772	1,387	1,611	133	8,950
Transferred from subsidiaries	—	15,108	—	1,640	—	16,748
Disposals	(11)	(92)	(533)	(34)	(11)	(681)
Balance at 30 June 2007	**226,761**	**124,035**	**75,809**	**90,436**	**3,540**	**520,581**
Accumulated depreciation:						
Balance at 1 January 2007	113,943	52,037	14,994	48,693	1,227	230,894
Depreciation charge for the period	6,898	3,331	1,469	2,062	114	13,874
Transferred from subsidiaries	—	6,859	—	727	—	7,586
Written back on disposals	(1)	(83)	(204)	(19)	(8)	(315)
Balance at 30 June 2007	**120,840**	**62,144**	**16,259**	**51,463**	**1,333**	**252,039**
Provision for impairment losses:						
Balance at 1 January 2007	1,089	13	1,122	2,204	—	4,428
Additions for the period	24	770	550	123	—	1,467
Written off for the period	—	—	(24)	(1)	—	(25)
Balance at 30 June 2007	**1,113**	**783**	**1,648**	**2,326**	**—**	**5,870**
Net book value:						
Balance at 30 June 2007	**104,808**	**61,108**	**57,902**	**36,647**	**2,207**	**262,672**
Balance at 31 December 2006	**106,402**	**56,197**	**58,819**	**36,321**	**2,042**	**259,781**

The Group — by asset class

	Land and buildings RMB millions	Oil and gas properties RMB millions	Oil depots, storage tanks and service stations RMB millions	Plant, machinery, equipment, vehicles and others RMB millions	Total RMB millions
Cost/valuation:					
Balance at 1 January 2007	45,360	231,795	90,249	300,338	667,742
Additions for the period	91	245	59	234	629
Transferred from construction in progress	35	5,621	1,998	4,467	12,121
Acquisition of subsidiaries	1,502	—	1,001	107	2,610
Reclassification	(746)	(27)	1,028	(255)	—
Disposals	(70)	—	(417)	(661)	(1,148)
Balance at 30 June 2007	**46,172**	**237,634**	**93,918**	**304,230**	**681,954**
Accumulated depreciation:					
Balance at 1 January 2007	21,820	122,667	16,866	156,970	318,323
Depreciation charge for the period	849	7,539	2,153	8,459	19,000
Acquisition of subsidiaries	511	—	381	99	991
Reclassification	(287)	(9)	429	(133)	—
Written back on disposals	(37)	—	(119)	(472)	(628)
Balance at 30 June 2007	**22,856**	**130,197**	**19,710**	**164,923**	**337,686**
Provision for impairment losses:					
Balance at 1 January 2007	522	1,152	1,002	3,403	6,079
Additions for the period	203	—	384	898	1,485
Reclassification	(51)	—	100	(49)	—
Written off for the period	(4)	—	(20)	(22)	(46)
Balance at 30 June 2007	**670**	**1,152**	**1,466**	**4,230**	**7,518**
Net book value:					
Balance at 30 June 2007	**22,646**	**106,285**	**72,742**	**135,077**	**336,750**
Balance at 31 December 2006	**23,018**	**107,976**	**72,381**	**139,965**	**343,340**

13 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, vehicles and others RMB millions	Total RMB millions
Cost/valuation:					
Balance at 1 January 2007	27,784	204,845	78,784	183,690	495,103
Additions for the period	72	200	2	187	461
Transferred from construction in progress	30	4,847	1,170	2,903	8,950
Transferred from subsidiaries	1,294	—	1,440	14,014	16,748
Reclassification	(463)	(26)	1,010	(521)	—
Disposals	(41)	—	(399)	(241)	(681)
Balance at 30 June 2007	**28,676**	**209,866**	**82,007**	**200,032**	**520,581**
Accumulated depreciation:					
Balance at 1 January 2007	12,219	106,192	15,453	97,030	230,894
Depreciation charge for the period	412	6,958	1,571	4,933	13,874
Transferred from subsidiaries	320	—	655	6,611	7,586
Reclassification	(269)	(9)	420	(142)	—
Written back on disposals	(24)	—	(114)	(177)	(315)
Balance at 30 June 2007	**12,658**	**113,141**	**17,985**	**108,255**	**252,039**
Provision for impairment losses:					
Balance at 1 January 2007	404	1,089	1,020	1,915	4,428
Additions for the period	202	—	368	897	1,467
Reclassification	(51)	—	100	(49)	—
Written off for the period	(4)	—	(20)	(1)	(25)
Balance at 30 June 2007	**551**	**1,089**	**1,468**	**2,762**	**5,870**
Net book value:					
Balance at 30 June 2007	**15,467**	**95,636**	**62,554**	**89,015**	**262,672**
Balance at 31 December 2006	**15,161**	**97,564**	**62,311**	**84,745**	**259,781**

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

In connection with relevant rules and regulations in respect of the acquisitions of certain entities and related operations from Sinopec Group Company in prior years, the related fixed assets were revalued by independent valuers in accordance with the relevant PRC rules and regulations. Surplus on these revaluations of RMB 1,029 million has been incorporated in the Group's financial statements.

At 30 June 2007, the carrying amounts of fixed assets that were pledged by the Group and the Company were RMB 265 million (2006: RMB 288 million) and RMB 23 million (2006: RMB 75 million), respectively.

The factors resulting in provision for impairment losses of RMB 25 million (2006: RMB nil) for the six-month period ended 30 June 2007 in the exploration and production segment of the Group were unsuccessful development drilling and high operating and development costs for certain small oil fields. The carrying values of these oil and gas properties were written down to a recoverable value which was determined based on the present values of the expected future cash flows of the assets. The oil and gas pricing was a factor used in the determination of the present values of the expected future cash flows of the assets and had an impact on the recognition of the asset impairment.

Provision for impairment losses recognised on fixed assets of the refining and chemicals segment of the Group of RMB 770 million (2006: RMB nil) and RMB 123 million (2006: RMB 29 million) for the six-month period ended 30 June 2007 relate to certain refining and chemicals production facilities that are held for use. The carrying values of these facilities were written down to their recoverable values that were determined based on the asset held for use model using the present value of estimated future cash flows of the production facilities. The primary factor resulting in the provision for impairment losses of the refining and 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 of relevant goods.

Provision for impairment losses recognised on fixed assets of the marketing and distribution segment of the Group of RMB 567 million (2006: RMB 5 million) for the period ended 30 June 2007 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 2007 and 31 December 2006, the Group and the Company had no individually significant fixed assets which were temporarily idle or pending for disposal.

13 FIXED ASSETS *(Continued)*

At 30 June 2007 and 31 December 2006, the Group and the Company had no individually significant fully depreciated fixed assets which were still in use.

The additions in the exploration and production segment and oil and gas properties of the Group and the Company for the six-month period ended 30 June 2007 included RMB 183 million and RMB 171 million, respectively, relating to the estimated dismantlement costs for site restoration recognised during the period.

14 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
Balance at 1 January 2007	16,420	15,172	10,416	7,017	3,699	52,724
Additions for the period	20,232	6,161	4,248	3,226	867	34,734
Dry hole costs written off	(2,157)	—	—	—	—	(2,157)
Transferred to fixed assets	(5,880)	(912)	(1,644)	(2,921)	(764)	(12,121)
Transferred to other assets	—	(84)	(320)	(843)	(21)	(1,268)
Balance at 30 June 2007	**28,615**	**20,337**	**12,700**	**6,479**	**3,781**	**71,912**
Provision for impairment losses:						
Additions for the period/Balance at period end	—	(153)	(4)	—	—	(157)
Net book value:						
Balance at 30 June 2007	**28,615**	**20,184**	**12,696**	**6,479**	**3,781**	**71,755**
Balance at 31 December 2006	**16,420**	**15,172**	**10,416**	**7,017**	**3,699**	**52,724**

The interest rates per annum at which borrowing costs were capitalised during the six-month period ended 30 June 2007 by the Group ranged from 3.6% to 6.8% (2006: 3.3% to 6.6%).

At 30 June 2007, major construction projects of the Group are as follows:

Project name	Budgeted amount RMB millions	At 1 January 2007 RMB millions	Additions for the period RMB millions	**At 30 June 2007 RMB millions**	Percentage of completion	Source of fundings	**Accumulated interest capitalised at 30 June 2007 RMB millions**
Qingdao Refinery Construction Project	12,499	3,151	2,135	5,286	42%	Bank loans & self-financing	80
Crude oil transportation and storage project for Tianjing Refinery and Chemistry Incorporation program	22,924	2,302	908	3,210	14%	Bank loans & self-financing	42
10,000,000 tonnes Refinery Plant Reform	2,521	2,241	215	2,456	97%	Bank loans & self-financing	89
Sichuan Natural Gas Pipeline Project	25,554	1,931	2,012	3,943	15%	Self-financing	—
15,000 million cubic per year Natural Gas Capacity Improvement Project	29,059	1,883	4,624	6,507	22%	Bank loans & self-financing	27

14 CONSTRUCTION IN PROGRESS (Continued)

The Company

	Exploration and production RMB millions	Refining RMB millions	Marketing and distribution RMB millions	Chemicals RMB millions	Others RMB millions	Total RMB millions
Balance at 1 January 2007	11,798	12,569	8,957	4,644	3,042	41,010
Additions for the period	19,692	4,926	3,565	2,457	811	31,451
Transferred from subsidiaries	—	177	—	360	—	537
Dry hole costs written off	(2,157)	—	—	—	—	(2,157)
Transferred to fixed assets	(5,047)	(772)	(1,387)	(1,611)	(133)	(8,950)
Transferred to other assets	—	(84)	(195)	—	(20)	(299)
Balance at 30 June 2007	**24,286**	**16,816**	**10,940**	**5,850**	**3,700**	**61,592**
Provision for impairment losses:						
Additions for the period/Balance at period end	—	(153)	(4)	—	—	(157)
Net book value:						
Balance at 30 June 2007	**24,286**	**16,663**	**10,936**	**5,850**	**3,700**	**61,435**
Balance at 31 December 2006	**11,798**	**12,569**	**8,957**	**4,644**	**3,042**	**41,010**

The interest rates per annum at which borrowing costs were capitalised for the six-month period ended 30 June 2007 by the Company ranged from 3.6% to 6.8% (2006: 3.3% to 6.6%).

15 INTANGIBLE ASSETS

The Group

	Land use right RMB millions	Computer software license RMB millions	Technical know-how RMB millions	Exploration right RMB millions	Others RMB millions	Total RMB millions
Cost:						
Balance at 1 January 2007	4,696	1,121	2,890	3,163	948	12,818
Additions for the period	550	43	47	—	124	764
Acquisition of subsidiaries	1,735	—	—	—	—	1,735
Other transfer in	1,237	—	—	—	—	1,237
Disposals	(32)	—	—	—	(12)	(44)
Balance at 30 June 2007	**8,186**	**1,164**	**2,937**	**3,163**	**1,060**	**16,510**
Accumulated Amortisation:						
Balance at 1 January 2007	681	739	1,349	702	215	3,686
Amortisation charge for the period	82	28	155	58	46	369
Acquisition of subsidiaries	213	—	—	—	—	213
Other transfer in	71	—	—	—	—	71
Written back on disposals	(4)	—	—	—	(7)	(11)
Balance at 30 June 2007	**1,043**	**767**	**1,504**	**760**	**254**	**4,328**
Net book value:						
Balance at 30 June 2007	**7,143**	**397**	**1,433**	**2,403**	**806**	**12,182**
Balance at 31 December 2006	**4,015**	**382**	**1,541**	**2,461**	**733**	**9,132**

Except for the exploration right, the above intangible assets were acquired from third parties. The Company acquired Sinopec National Star together with the exploration right from Sinopec Group Company. The exploration right was valued with reference to the proved reserves of the associated oil fields. The amortisation period of the exploration right was 27 years. At 30 June 2007, the remaining amortisation period of the exploration right was 20.5 years.

15 INTANGIBLE ASSETS (Continued)

The Company

	Land use right RMB millions	Computer software license RMB millions	Technical know-how RMB millions	Exploration right RMB millions	Others RMB millions	Total RMB millions
Cost:						
Balance at 1 January 2007	2,662	918	2,134	3,163	422	9,299
Additions for the period	458	42	47	—	59	606
Transferred from subsidiaries	246	7	193	—	—	446
Other transfer in	270	—	—	—	—	270
Disposals	(17)	—	—	—	(5)	(22)
Balance at 30 June 2007	**3,619**	**967**	**2,374**	**3,163**	**476**	**10,599**
Accumulated Amortisation:						
Balance at 1 January 2007	84	629	1,028	702	32	2,475
Amortisation charge for the period	44	26	109	58	21	258
Transferred from subsidiaries	55	4	138	—	—	197
Written back on disposals	(3)	—	—	—	(1)	(4)
Balance at 30 June 2007	**180**	**659**	**1,275**	**760**	**52**	**2,926**
Net book value:						
Balance at 30 June 2007	**3,439**	**308**	**1,099**	**2,403**	**424**	**7,673**
Balance at 31 December 2006	**2,578**	**289**	**1,106**	**2,461**	**390**	**6,824**

Except for the exploration right, the above intangible assets were acquired from third parties. The Company acquired Sinopec National Star together with the exploration right from Sinopec Group Company. The exploration right was valued with reference to the proved reserves of the associated oil fields. The amortisation period of the exploration right was 27 years. At 30 June 2007, the remaining amortisation period of the exploration right was 20.5 years.

16 GOODWILL

	The Group **2007** **RMB millions**
Balance at 1 January	14,525
Additions for the period	1,022
Disposals for the period	(140)
Balance at 30 June	**15,407**
Less: Impairment losses	—
Net balance at 30 June	**15,407**

Goodwill is allocated to the following Group's cash-generating units:

	At 30 June 2007 RMB millions	At 31 December 2006 RMB millions
Sinopec Beijing Yanshan Branch ("Sinopec Yanshan")	1,157	1,157
Sinopec Zhenhai Refining and Chemical Company Limited ("Sinopec Zhenhai")	4,043	4,043
Sinopec Qilu Petrochemical Company Limited ("Sinopec Qilu")	2,159	2,159
Sinopec Yangzi Petrochemical Company Limited ("Sinopec Yangzi")	2,737	2,737
Sinopec Zhongyuan Petroleum Company Limited ("Sinopec Zhongyuan")	1,500	1,500
Sinopec Shengli Oil Field Dynamic Company Limited ("Dynamic")	1,361	1,361
Hong Kong gas stations	1,004	—
Multiple units without significant goodwill	1,446	1,568
	15,407	**14,525**

During the year ended 31 December 2005, the Group acquired the entire 1,012,000,000 H shares, representing approximately 29.99% of the issued share capital of Sinopec Beijing Yanshan Petrochemical Company Limited from minority interests shareholders at HK$3.80 per share. The total consideration paid by the Group was approximately RMB 4,088 million which was settled in cash. The excess of the cost of purchase over the fair value of the underlying assets and liabilities (on a proportionate share) was RMB 1,157 million.

During the year ended 31 December 2006, the Group acquired additional equity interests in Sinopec Zhenhai, Sinopec Qilu, Sinopec Yangzi, Sinopec Zhongyuan and Dynamic of 28.7%, 17.7%, 14.8%, 28.5% and 71.4%, respectively. The Company acquired these additional equity interests to reduce management layers and improve the efficiency of the production, management and sales of the Group as a whole. The total consideration paid by the Group was approximately RMB 21,971 million which was settled in cash. The excess of the cost of purchase over the fair value of the underlying assets and liabilities (on a proportionate share) in Sinopec Zhenhai, Sinopec Qilu, Sinopec Yangzi, Sinopec Zhongyuan and Dynamic were RMB 3,952 million, RMB 2,159 million, RMB 2,737 million, RMB 1,391 million and RMB 1,361 million, respectively.

16 GOODWILL *(Continued)*

During the six-month period ended 30 June 2007, the Group acquired the entire equity interests of a gas stations company incorporated in Hong Kong. The Group acquired this gas stations company to achieve economy of scale on marketing and distribution of refined petroleum products in Hong Kong. The total consideration paid by the Group was approximately RMB 3,898 million which was settled in cash. The excess of cost of purchase over the fair value of the underlying assets and liabilities acquired was RMB 1,004 million.

The recoverable amounts of Sinopec Yanshan, Sinopec Zhenhai, Sinopec Yangzi, Sinopec Qilu, Sinopec Zhongyuan and Dynamic are determined based on value in use calculations. These calculations use cash flow projections based on financial budgets approved by management of the Company covering a one-year period and pre-tax discount rates primarily ranging from 14.2% to 17.2%. Cash flows beyond the one-year period are maintained constant. Management believes any reasonably possible change in the key assumptions on which these entities' recoverable amounts are based would not cause these entities' carrying amounts to reasonably possible exceed their recoverable amounts.

Key assumptions used for the value in use calculations for these entities are the gross margin and sales volume. Management determined the budgeted gross margin based on the gross margin achieved in the period immediately before the budget period and its expectation for the development of international crude oil prices. The sales volume was based on the production capacity and the sales volume in the period immediately before the budget period.

17 LONG-TERM DEFERRED EXPENSES

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

18 DEFERRED TAX ASSETS AND LIABILITIES

The Group

	Assets		Liabilities		Net balance	
	At 30 June 2007 RMB millions	At 31 December 2006 RMB millions	**At 30 June 2007 RMB millions**	At 31 December 2006 RMB millions	**At 30 June 2007 RMB millions**	At 31 December 2006 RMB millions
Current						
Receivables and inventories	3,564	3,526	—	—	3,564	3,526
Accruals	828	865	—	—	828	865
Non-current						
Fixed assets	3,260	3,773	(2,189)	(2,578)	1,071	1,195
Tax value of losses carried forward	97	53	—	—	97	53
Available-for-sale securities	—	—	(96)	(4)	(96)	(4)
Others	358	50	—	—	358	50
Deferred tax assets/(liabilities)	**8,107**	**8,267**	**(2,285)**	**(2,582)**	**5,822**	**5,685**

The Company

	Assets		Liabilities		Net balance	
	At 30 June 2007 RMB millions	At 31 December 2006 RMB millions	**At 30 June 2007 RMB millions**	At 31 December 2006 RMB millions	**At 30 June 2007 RMB millions**	At 31 December 2006 RMB millions
Current						
Receivables and inventories	3,398	3,334	—	—	3,398	3,334
Accruals	784	814	—	—	784	814
Non-current						
Fixed assets	2,746	3,144	(1,919)	(2,364)	827	780
Others	318	17	—	—	318	17
Deferred tax assets/(liabilities)	**7,246**	**7,309**	**(1,919)**	**(2,364)**	**5,327**	**4,945**

18 DEFERRED TAX ASSETS AND LIABILITIES *(Continued)*

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

The Group

	Balance at 1 January 2007 RMB millions	Recognised in consolidated income statement RMB millions	Acquisitions of subsidiaries RMB millions	Recognised in capital reserve RMB millions	**Balance at 30 June 2007 RMB millions**
Current					
Receivables and inventories	3,526	38	—	—	3,564
Accruals	865	(37)	—	—	828
Non-current					
Fixed assets	1,195	(77)	(47)	—	1,071
Tax value of losses carried forward	53	44	—	—	97
Available-for-sale securities	(4)	—	—	(92)	(96)
Others	50	308	—	—	358
Net deferred tax assets/(liabilities)	**5,685**	**276**	**(47)**	**(92)**	**5,822**

The Company

	Balance at 1 January 2007 RMB millions	Recognised in income statement RMB millions	Transferred from a subsidiary RMB millions	**Balance at 30 June 2007 RMB millions**
Current				
Receivables and inventories	3,334	39	25	3,398
Accruals	814	(30)	—	784
Non-current				
Fixed assets	780	47	—	827
Others	17	299	2	318
Net deferred tax assets	**4,945**	**355**	**27**	**5,327**

19 IMPAIRMENT LOSSES

At 30 June 2007, impairment losses of the Group are analysed as follows:

	Note	Balance at 1 January 2007 RMB millions	Provision for the period RMB millions	Written back for the period RMB millions	Written off for the period RMB millions	**Balance at 30 June 2007 RMB millions**
Allowance for doubtful accounts						
Included: Trade accounts receivable	8	3,334	19	(90)	(39)	3,224
Other receivables	9	3,470	19	(17)	(17)	3,455
		6,804	**38**	**(107)**	**(56)**	**6,679**
Provision for diminution in value of inventories	11	866	10	(48)	(31)	797
Long-term equity investment	12	316	—	—	(25)	291
Fixed assets	13	6,079	1,485	—	(46)	7,518
Construction in progress	14	—	157	—	—	157
Total		**14,065**	**1,690**	**(155)**	**(158)**	**15,442**

At 30 June 2007, impairment losses of the Company are analysed as follows:

	Note	Balance at 1 January 2007 RMB millions	Provision for the period RMB millions	Written back for the period RMB millions	Written off for the period RMB millions	Transferred from a subsidiary RMB millions	**Balance at 30 June 2007 RMB millions**
Allowance for doubtful accounts							
Included: Trade accounts receivable	8	2,668	12	(39)	(10)	—	2,631
Other receivables	9	3,699	7	(8)	(6)	8	3,700
		6,367	**19**	**(47)**	**(16)**	**8**	**6,331**
Provision for diminution in value of inventories	11	469	8	(27)	(26)	39	463
Long-term equity investment	12	112	—	—	—	—	112
Fixed assets	13	4,428	1,467	—	(25)	—	5,870
Construction in progress	14	—	157	—	—	—	157
Total		**11,376**	**1,651**	**(74)**	**(67)**	**47**	**12,933**

See the note on each class of assets for the reason for corresponding impairment losses recognised in the current period.

20 SHORT-TERM LOANS

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

	The Group		The Company	
	At 30 June 2007 RMB millions	At 31 December 2006 RMB millions	**At 30 June 2007 RMB millions**	At 31 December 2006 RMB millions
Short-term bank loans	24,622	25,621	7,027	15,045
Loans from Sinopec Group Company and fellow subsidiaries	6,818	5,576	1,825	806
Total	**31,440**	**31,197**	**8,852**	**15,851**

At 30 June 2007, the Group's and the Company's weighted average interest rates per annum on short-term loans were 5.4% (2006: 5.2%) and 4.9% (2006: 4.7%) respectively. The majority of the above loans are by credit.

Except for the balances disclosed in Note 44, there is no amount due to shareholders who hold 5% or more voting right of the Company included in the balance of short-term loans.

At 30 June 2007 and 31 December 2006, the Group and the Company had no significant overdue short-term loan.

21 BILLS PAYABLE

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

22 TRADE ACCOUNTS PAYABLE

Except for the balances disclosed in Note 44, 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 2007 and 31 December 2006, the Group and the Company had no individually significant trade accounts payable aged over three years.

23 RECEIPTS IN ADVANCE

Except for the balances disclosed in Note 44, 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 2007 and 31 December 2006, the Group and the Company had no individually significant receipts in advance aged over one year.

24 TAXES PAYABLE

	The Group		The Company	
	At 30 June 2007 RMB millions	At 31 December 2006 RMB millions	**At 30 June 2007 RMB millions**	At 31 December 2006 RMB millions
Value-added tax	458	(1,364)	939	(591)
Consumption tax	1,413	1,744	1,177	1,362
Income tax	8,886	9,176	5,533	7,162
Business tax	44	88	24	81
Special oil income levy	2,371	1,169	2,213	1,041
Resources tax	1,648	1,782	1,537	1,741
City construction tax	689	642	621	394
Education surcharge	479	412	440	327
Other taxes	632	625	573	416
Total	**16,620**	**14,274**	**13,057**	**11,933**

The provision for PRC current income tax is based on a statutory rate of 33% of the assessable income of the Group and the Company as determined in accordance with the relevant tax rules and regulations of the PRC during six-month period ended 30 June 2007 and year ended 31 December 2006, except for certain branches and subsidiaries of the Company, which are taxed at a preferential rate of 15%, and certain subsidiaries 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.

25 OTHER CREDITORS

At 30 June 2007 and 31 December 2006, the Group's and the Company's other creditors primarily represented payables for constructions.

Except for the balances disclosed in Note 44, 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 2007 and 31 December 2006, the Group and the Company had no individually significant other creditors aged over three years.

26 CURRENT PORTION OF LONG-TERM LOANS

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

	The Group		The Company	
	At 30 June 2007 RMB millions	At 31 December 2006 RMB millions	**At 30 June 2007 RMB millions**	At 31 December 2006 RMB millions
Long-term bank loans				
– Renminbi loans	18,810	13,909	17,207	12,443
– Japanese Yen loans	325	526	325	526
– US Dollar loans	241	831	195	314
– Euro loans	25	25	25	25
	19,401	**15,291**	**17,752**	**13,308**
Long-term other loans				
– Renminbi loans	1,010	22	1,000	—
– US Dollar loans	3	5	3	3
	1,013	**27**	**1,003**	**3**
Long-term loans from Sinopec Group Company and fellow subsidiaries				
– Renminbi loans	—	**552**	—	**552**
Total current portion of long-term loans	**20,414**	**15,870**	**18,755**	**13,863**

At 30 June 2007 and 31 December 2006, the Group and the Company had no significant overdue long-term loan.

27 LONG-TERM LOANS

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

	Interest rate and final maturity	The Group		The Company	
		At 30 June 2007 RMB millions	At 31 December 2006 RMB millions	**At 30 June 2007 RMB millions**	At 31 December 2006 RMB millions
Third parties debts					
Long-term bank loans					
Renminbi loans	Interest rates ranging from interest free to 7.4% per annum at 30 June 2007 with maturities through 2016	63,001	65,398	51,914	55,373
Japanese Yen loans	Interest rates ranging from 2.6% to 3.0% per annum at 30 June 2007 with maturities through 2024	2,375	2,713	2,375	2,713
US Dollar loans	Interest rates ranging from interest free to 7.4% per annum at 30 June 2007 with maturities through 2031	1,357	2,081	991	1,192
Euro loans	Fixed rate at 6.7% per annum at 30 June 2007 with maturities through 2010	88	101	88	101
Hong Kong Dollar loans	Floating rate at Hong Kong Interbank Offer Rate plus 0.5% per annum at 30 June 2007 with maturities through 2008	390	—	—	—
Less: Current portion		19,401	15,291	17,752	13,308
Long-term bank loans		**47,810**	**55,002**	**37,616**	**46,071**
Other long-term loans					
Renminbi loans	Interest rates ranging from interest free to 5.2% per annum at 30 June 2007 with maturities through 2009	3,087	3,098	3,009	3,007
US Dollar loans	Interest rates ranging from interest free to 2.0% per annum at 30 June 2007 with maturities through 2015	41	44	29	30
Less: Current portion		1,013	27	1,003	3
Other long-term loans		**2,115**	**3,115**	**2,035**	**3,034**
Long-term loans from Sinopec Group Company and fellow subsidiaries					
Renminbi loans	Interest rates ranging from interest free to 5.9% per annum at 30 June 2007 with maturities through 2020	37,290	39,572	36,940	39,392
Less: Current portion		—	552	—	552
Long-term loans from Sinopec Group Company and fellow subsidiaries		**37,290**	**39,020**	**36,940**	**38,840**
Total		**87,215**	**97,137**	**76,591**	**87,945**

27 LONG-TERM LOANS *(Continued)*

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

	The Group		The Company	
	At 30 June 2007 RMB millions	At 31 December 2006 RMB millions	**At 30 June 2007 RMB millions**	At 31 December 2006 RMB millions
Between one and two years	21,303	25,746	19,361	24,590
Between two and five years	22,923	33,633	14,964	26,147
After five years	42,989	37,758	42,266	37,208
Total long-term loans	**87,215**	**97,137**	**76,591**	**87,945**

At 30 June 2007, the Group and the Company had loans from third parties secured by fixed assets amounting to RMB 165 million (2006: RMB 171 million) and RMB 20 million (2006: RMB 46 million) respectively. At 30 June 2007, the Group had loans from third parties secured by cash at bank amounting to RMB 2,336 million (2006: RMB nil). The remaining long-term loans are by credit.

Except for the balances disclosed in Note 44, 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.

28 DEBENTURES PAYABLE

	The Group		The Company	
	At 30 June 2007 RMB millions	At 31 December 2006 RMB millions	**At 30 June 2007 RMB millions**	At 31 December 2006 RMB millions
Short-term corporate bonds (i)	**2,000**	**11,885**	**—**	**9,885**
Debentures payable:				
– Corporate bonds (ii)	8,500	3,500	8,500	3,500
– Convertible bonds (iii)	12,167	—	12,167	—
	20,667	**3,500**	**20,667**	**3,500**

(i) The Company issued 182-day corporate bonds of face value at RMB 10 billion to corporate investors in PRC debenture market on 13 November 2006, at a discounted value of RMB 98.43 per RMB 100 par value, with an effective yield of 3.20% per annum. The Company redeemed the corporate bonds in May 2007.

A subsidiary of the Company issued 365-day corporate bonds of face value at RMB 2 billion to corporate investors in the PRC debenture market on 11 December 2006 at par value of RMB 100, with an effective yield 3.83% per annum. The bonds will be mature in December 2007.

(ii) The Company issued ten-year 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 and annual interest payment schedule. Interest payable for the current period was included in other creditors.

The Company issued ten-year corporate bonds of RMB 5 billion to corporate investors in the PRC on 10 May 2007 with a fixed interest rate of 4.20% per annum and with annual interest payment schedule. Interest payable for the current period was included in other creditors.

(iii) On 17 April 2007, the Company offered to issue zero coupon convertible bonds due 2014 with an aggregate principal amount of HK$11.7 billion (the "Convertible Bonds"). The Convertible Bonds were issued to holders on 24 April 2007 and are convertible into shares of the Company from 4 June 2007 onwards at a price of HK$10.76 per share, subject to adjustment for, amongst other things, subdivision or consolidation of shares, bonus issues, rights issues, capital distribution, change of control and other events, which have diluting effects on the issued share capital of the Company. Unless previously redeemed, converted or purchased and cancelled, the Convertible Bonds will be redeemed on the maturity date at 121.069% of the principal amount. The Company has an early redemption option at any time after 24 April 2011 (subject to certain criteria) and a cash settlement option when the holders exercise their conversion right. The holders also have an early redemption option to require the Company to redeem all or some of the Convertible Bonds on 24 April 2011 at an early redemption amount of 111.544% of the principal amount.

At 30 June 2007, the carrying amounts of liability and derivative components of the Convertible Bonds were RMB 10,411 million and RMB 1,756 million, respectively. No conversion of the Convertible Bonds has occurred up to 30 June 2007.

28 DEBENTURES PAYABLE *(Continued)*

The fair value of the derivative component of the Convertible Bonds was calculated using the Black-Scholes Model with the major inputs in the model as at 17 April 2007 and 30 June 2007 as follows:

	At 30 June 2007	At 17 April 2007
Stock price	HKD 8.65	HKD 7.17
Exercise price	HKD 10.76	HKD 10.76
Volatility	36%	30%
Risk free rate	4.90% to 5.00%	4.42% to 4.52%
Expected life	3.8 to 6.8 years	4.0 to 7.0 years

Any change in the major inputs into the model will result in changes in the fair value of the derivative component. The change in the fair value of the conversion option from 24 April 2007 to 30 June 2007 resulted in a fair value loss of RMB 897 million, which has been recorded as the "Fair value loss" in the income statement for the six-month period ended 30 June 2007.

The initial carrying amount of the liability component is the residual amount, which is after deducting the allocated issuance cost of the Convertible Bonds for liability component and the fair value of the derivative component as at 24 April 2007, and is subsequently carried at amortised cost. Interest expense is calculated using the effective interest method by applying the effective interest rate of 4.19% to the adjusted liability component. Should the aforesaid derivative component not be separated out and the entire Convertible Bonds is considered as the liability component, the effective interest rate would have been 3.03%.

29 PROVISION

Provision primarily represents provision for future dismantlement costs of oil and gas properties. In the past, the Group did not have legal obligation nor constructive obligation to take any dismantlement measures for its retired oil and gas properties. Commencing 2007, the Group has established standard measurements for the dismantlement of its retired oil and gas properties according to the industry practices and is thereafter constructively obligated to take dismantlement measures of its retired oil and gas properties. During the six-month period ended 30 June 2007, the Group recognised provision of RMB 183 million in respect of its obligations for the dismantlement of its retired oil and gas properties, and accretion expenses of RMB 155 million.

30 SHARE CAPITAL

	The Group and the Company	
	At 30 June 2007 RMB millions	At 31 December 2006 RMB millions
Registered, issued and fully paid:		
69,921,951,000 domestic listed A shares of RMB 1.00 each	69,922	69,922
16,780,488,000 overseas listed H shares of RMB 1.00 each	16,780	16,780
	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, 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.

On 25 September 2006, the shareholders of listed A shares accepted the proposal offered by the shareholders of state-owned A shares whereby the shareholders of state-owned A shares agreed to transfer 2.8 state-owned A shares to shareholders of listed A shares for every 10 listed A shares they held, in exchange for the approval for the listing of all state-owned A shares. 66,337,951,000 domestic stated-owned A shares have been granted trading right upon settlement of the above consideration. The 784,000,000 stated-owned A shares paid to the shareholders of the listed A shares were tradable on 10 October 2006.

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.

31 CAPITAL RESERVE

The movements in capital reserve are as follows:

	The Group		The Company	
	At 30 June 2007 RMB millions	At 31 December 2006 RMB millions	**At 30 June 2007 RMB millions**	At 31 December 2006 RMB millions
Balance at 1 January	37,046	36,526	37,922	37,202
Gain from debt restructuring by a subsidiary (i)	—	486	—	486
Reserve for equity investment (ii)	—	—	—	200
Change in fair value of available-for-sale securities, net of deferred tax (iii)	170	34	—	34
Balance at 30 June/31 December	**37,216**	**37,046**	**37,922**	**37,922**

The capital reserve represents mainly: (a) 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 (b) share premiums derived from issuances of H shares and A shares by the Company and excess of cash paid by investors over their proportionate shares in share capital.

(i) During the year ended 31 December 2006, a subsidiary of the Group reached an agreement with a bank to waive loan principal balance and related interest payable. The gain in connection with the debt restructuring was reflected as an increase of capital reserve.

(ii) During the year ended 31 December 2006, the Company invested in certain newly established subsidiaries with certain non-monetary assets. The initial investment costs are determined based on the assets' revalued amount. The shortfalls of the initial investment costs over the Company's share of the shareholders' funds in these subsidiaries resulting from the surplus of the assets' revalued amount over the carrying amount are recognised in the Company's capital reserve. Such reserve for equity investment has been eliminated in the Group's consolidated financial statements.

(iii) The available-for-sale securities held by the Group are carried at fair value with any change in fair value, net of deferred tax, recognised directly in capital reserve.

32 SURPLUS RESERVES

Movements in surplus reserves are as follows:

	The Group and the Company		
	Statutory surplus reserve RMB millions	Discretionary surplus reserve RMB millions	Total RMB millions
At 1 January 2007	32,329	27,000	59,329
Profit appropriation	2,448	—	2,448
At 30 June 2007	**34,777**	**27,000**	**61,777**

The Articles of Association of the Company and the PRC Company Law have set out the following profit appropriation plans:

(a) 10% of the net profit is transferred to the statutory surplus reserve;

(b) after the transfer to the statutory surplus reserve, a transfer to discretionary surplus reserve can be made upon the passing of a resolution at the shareholders' meeting.

33 OPERATING INCOME

	The Group Six-month periods ended 30 June		The Company Six-month periods ended 30 June	
	2007 RMB millions	2006 RMB millions	**2007 RMB millions**	2006 RMB millions
Income from principal operations	554,342	480,063	398,573	331,021
Income from other operations	12,488	11,108	10,394	7,467
Total	**566,830**	**491,171**	**408,967**	**338,488**

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 49.

For the six-month period ended 30 June 2007, revenue from sales to top five customers amounted to RMB 37,409 million (2006: RMB 37,239 million) which accounted for 7% (2006: 8%) of income from principal operations of the Group.

34 SALES TAXES AND SURCHARGES

	The Group Six-month periods ended 30 June		The Company Six-month periods ended 30 June	
	2007	2006	**2007**	2006
	RMB millions	RMB millions	**RMB millions**	RMB millions
Consumption tax	7,304	6,644	6,050	4,948
Special oil income levy	3,290	3,652	3,067	3,554
City construction tax	1,900	1,409	1,501	1,109
Education surcharge	1,027	694	832	535
Resources tax	443	407	416	394
Business tax	180	112	130	86
Total	**14,144**	**12,918**	**11,996**	**10,626**

35 FINANCIAL EXPENSES

	The Group Six-month periods ended 30 June		The Company Six-month periods ended 30 June	
	2007	2006	**2007**	2006
	RMB millions	RMB millions	**RMB millions**	RMB millions
Interest expenses incurred	4,112	3,903	3,108	2,907
Less: Capitalised interest expenses	308	634	182	574
Net interest expenses	**3,804**	**3,269**	**2,926**	**2,333**
Interest income	(368)	(242)	(199)	(120)
Foreign exchange loss	60	47	7	39
Foreign exchange gain	(800)	(157)	(478)	(75)
Total	**2,696**	**2,917**	**2,256**	**2,177**

36 EXPLORATION EXPENSES

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

37 IMPAIRMENT LOSSES

	The Group Six-month periods ended 30 June		The Company Six-month periods ended 30 June	
	2007	2006	**2007**	2006
	RMB millions	RMB millions	**RMB millions**	RMB millions
Trade accounts receivable	(69)	8	(28)	(14)
Inventories	(38)	2	(19)	—
Long-term equity investments	—	41	—	4
Fixed assets	1,485	34	1,467	5
Construction in progress	157	—	157	—
Total	**1,535**	**85**	**1,577**	**(5)**

38 FAIR VALUE LOSS

	The Group Six-month periods ended 30 June		The Company Six-month periods ended 30 June	
	2007	2006	**2007**	2006
	RMB millions	RMB millions	**RMB millions**	RMB millions
Fair value loss on the derivative component of convertible bonds	**897**	**—**	**897**	**—**

39 INVESTMENT INCOME

	The Group Six-month periods ended 30 June		The Company Six-month periods ended 30 June	
	2007	2006	**2007**	2006
	RMB millions	RMB millions	**RMB millions**	RMB millions
Investment income accounted for under the cost method	650	172	174	12
Investment income from subsidiaries	—	—	—	6,393
Investment income from associates and jointly controlled entities	2,167	1,245	1,497	845
Total	**2,817**	**1,417**	**1,671**	**7,250**

40 NON-OPERATING EXPENSES

	The Group Six-month periods ended 30 June		The Company Six-month periods ended 30 June	
	2007	2006	**2007**	2006
	RMB millions	RMB millions	**RMB millions**	RMB millions
Loss on disposal of fixed assets	344	43	279	24
Fines, penalties and compensation	19	37	18	33
Donations	45	40	17	31
Others	341	471	266	358
Total	**749**	**591**	**580**	**446**

41 INCOME TAX

	The Group Six-month periods ended 30 June		The Company Six-month periods ended 30 June	
	2007	2006	**2007**	2006
	RMB millions	RMB millions	**RMB millions**	RMB millions
Provision for PRC income tax for the period	16,134	9,819	10,920	9,851
Deferred taxation	(276)	(167)	(355)	(216)
Adjustment for provision for income tax in respect of proceeding year	249	240	249	240
Total	**16,107**	**9,892**	**10,814**	**9,875**

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

	The Group Six-month periods ended 30 June		The Company Six-month periods ended 30 June	
	2007	2006	**2007**	2006
	RMB millions	RMB millions	**RMB millions**	RMB millions
Profit before taxation	52,464	31,182	35,290	30,987
Expected PRC income tax expense at a statutory tax rate of 33%	17,313	10,290	11,646	10,226
Tax effect of non-deductible expenses	302	379	234	339
Tax effect of non-taxable income	(1,078)	(660)	(717)	(351)
Tax effect of differential tax rate on business entities' income (Note)	(972)	(956)	(795)	(579)
Tax effect of tax losses not recognised for deferred tax	38	600	—	—
Adjustment for provision for income tax in respect of proceeding year	249	240	249	240
Tax credit for domestic equipment purchases	(500)	(1)	(500)	—
Effect of change in tax rate on deferred tax	755	—	697	—
Actual tax expense	**16,107**	**9,892**	**10,814**	**9,875**

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 entities of the Group, which are taxed at a preferential rate of 15%.

42 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 Board of Directors' meeting on 24 August 2007, an interim dividend for the year ending 31 December 2007 of RMB 0.05 (2006: RMB 0.04) per share totalling RMB 4,335 million (2006: 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 29 May 2007, a final dividend of RMB 0.11 per share totalling RMB 9,537 million in respect of the year ended 31 December 2006 was declared and paid on 29 June 2006.

Pursuant to the shareholders' approval at the Annual General Meeting on 24 May 2006, a final dividend of RMB 0.09 per share totalling RMB 7,803 million in respect of the year ended 31 December 2005 was declared and paid on 30 June 2006.

43 SUPPLEMENTAL INFORMATION TO THE CASH FLOW STATEMENT

(a) Reconciliation of net profit to cash flows from operating activities:

	The Group Six-month periods ended 30 June		The Company Six-month periods ended 30 June	
	2007 **RMB millions**	2006 RMB millions	**2007** **RMB millions**	2006 RMB millions
Net profit	34,925	21,125	24,476	21,112
Add: Impairment losses on assets	1,535	85	1,577	(5)
Depreciation of fixed assets	19,000	16,118	13,874	12,412
Amortisation of intangible assets	369	308	258	187
Dry hole costs	2,157	1,398	2,157	1,398
Net loss/(gain) on disposal of fixed assets	290	13	235	(1)
Fair value loss	897	—	897	—
Financial expenses	2,696	2,917	2,256	2,177
Investment income	(2,817)	(1,417)	(1,671)	(4,972)
Decrease/(increase) in deferred tax assets	160	(86)	90	(139)
Decrease in deferred tax liabilities	(436)	(81)	(445)	(77)
Increase in inventories	(11,455)	(15,480)	(1,292)	(6,281)
Increase in operating receivables	(11,680)	(6,724)	(10,321)	(15,385)
Increase in operating payables	26,924	5,852	20,984	8,747
Minority interests	1,432	165	—	—
Net cash flow from operating activities	**63,997**	**24,193**	**53,075**	**19,173**

(b) Net change in cash and cash equivalents:

	The Group Six-month periods ended 30 June		The Company Six-month periods ended 30 June	
	2007 **RMB millions**	2006 RMB millions	**2007** **RMB millions**	2006 RMB millions
Cash balance at the end of the period	49	16	5	11
Less: Cash balance at the beginning of the period	15	19	5	12
Add: Cash equivalents at the end of the period	9,637	9,065	4,694	3,961
Less: Cash equivalents at the beginning of the period	6,664	13,438	2,758	5,002
Net increase/(decrease) of cash and cash equivalents	**3,007**	**(4,376)**	**1,936**	**(1,042)**

(c) The analysis of cash and cash equivalents held by the Group and the Company is as follows:

	The Group		The Company	
	At 30 June 2007 **RMB millions**	At 31 December 2006 RMB millions	**At 30 June 2007** **RMB millions**	At 31 December 2006 RMB millions
Cash				
– Cash in hand	49	16	5	11
– Demand deposits	9,637	9,065	4,694	3,961
Cash and cash equivalents at the end of the period	**9,686**	**9,081**	**4,699**	**3,972**

44 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	:	Su Shulin
Registered capital	:	RMB 104,912 million

There is no movement in the above registered capital for the six-month period ended 30 June 2007.

For the six-month period ended 30 June 2007, Sinopec Group Company held 75.84% shares of the Company and there is no change on percentage shareholding 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
Sinopec Shengli Petroleum Administration Bureau
Sinopec Zhongyuan Petroleum Exploration Bureau
Qingdao Petrochemical Company
Zhanjiang Dongxing Petroleum Corporation Company Limited
Baling Petrochemical Company Limited
Jinling Petrochemical Company Limited
Sinopec Assets Management Corporation
Sinopec International Petroleum Exploration and Production Corporation
Guangdong Nanhua Petroleum Company Limited
Guangdong Petroleum Enterprises Group Southern Petrochemical Company Limited

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

Jointly controlled entities of the Group:
Shanghai Secco Petrochemical Company Limited
BASF-YPC Company Limited
Yueyang Sinopec and Shell Coal Gasification Company Limited

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

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

	Note	Six-month periods ended 30 June **2007** **RMB millions**	2006 RMB millions
Sales of goods	(i)	71,191	59,108
Purchases	(ii)	37,967	31,974
Transportation and storage	(iii)	527	777
Exploration and development services	(iv)	13,345	9,490
Production related services	(v)	6,465	4,725
Ancillary and social services	(vi)	801	842
Operating lease charges	(vii)	1,858	1,715
Agency commission income	(viii)	40	33
Interest received	(ix)	15	21
Interest paid	(x)	337	476
Net deposits withdrawn from related parties	(xi)	32	3,463
Net loans (repaid to)/obtained from related parties	(xii)	(1,040)	5,983

The amounts set out in the table above in respect of the six-month periods ended 30 June 2007 and 2006 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 2007 and 31 December 2006, 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.

Notes:

(i) Sales of goods represent the sale of crude oil, intermediate petrochemical products, petroleum products and ancillary materials.

(ii) Purchases represent the purchase of material and utility supplies directly related to the Group's operations such as the procurement of raw and ancillary materials and related services, supply of water, electricity and gas.

(iii) Transportation and storage represent the cost for the use of railway, road and marine transportation services, pipelines, loading, unloading and storage facilities.

(iv) Exploration and development services comprise direct costs incurred in the exploration of crude oil such as geophysical, drilling, well testing and well measurement services.

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

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

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

(viii)Agency commission income represents commission earned for acting as an agent in respect of sales of products and purchase of goods of certain entities owned by Sinopec Group Company.

(ix) 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.

(x) Interest paid represents interest charges on the loans and advances obtained from Sinopec Group Company and Sinopec Finance Company Limited.

(xi) Deposits withdrawn from related parties represent net deposits withdrawn from with Sinopec Finance Company Limited.

(xii) The Group obtained loans from/repaid loans to Sinopec Group Company and Sinopec Finance Company Limited. The calculated periodic balance of average loan for the six-month period ended 30 June 2007, which is based on monthly average balances, was RMB 44,045 million (2006: RMB 44,240 million).

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

In connection with the Reorganisation, the Company and Sinopec Group Company entered into a number of agreements under which 1) Sinopec Group Company will provide goods and products and a range of ancillary, social and supporting services to the Group and 2) the Group will sell certain goods to Sinopec Group Company. These agreements impacted the operating results of the Group for the six-month period ended 30 June 2007. 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 agrees not to terminate the agreement if the Group is unable to obtain comparable services from a third party. The pricing policy for these services and products provided by Sinopec Group Company to the Group is as follows:

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

(b) The Company has entered into 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 3,234 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, however, such amount cannot 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.

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

(d) Balances with Sinopec Group Company and fellow subsidiaries, associates and jointly controlled entities

The balances with the Group's related parties at 30 June 2007 and 31 December 2006 are as follows:

	The ultimate holding company		Other related companies	
	At 30 June 2007 RMB millions	At 31 December 2006 RMB millions	**At 30 June 2007 RMB millions**	At 31 December 2006 RMB millions
Cash and cash equivalents	—	—	657	689
Trade accounts receivable	—	—	7,221	4,786
Advance payments and other receivables	396	806	2,659	1,537
Trade accounts payable	—	—	7,416	3,463
Receipts in advance	—	—	1,060	1,668
Other creditors	—	—	8,621	10,893
Short-term loans	—	—	6,818	5,576
Long-term loans (including current portion) (Note)	—	—	37,290	39,572

Note: The Sinopec Group Company had borrowed an interest free loan for 20 years amounted to RMB 35,561 million to the Group through Sinopec Finance Company Limited which was included in the long-term loans.

As at and for the six-month period ended 30 June 2007, and as at and for the year ended 31 December 2006, no significant impairment losses for bad and doubtful debts were recorded in respect of amounts due from Sinopec Group Company and fellow subsidiaries, associates and jointly controlled entities.

(e) Key management personnel emoluments

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including directors and supervisors of the Group. The key management compensations are as follows:

	Six-month periods ended 30 June	
	2007 RMB'000	2006 RMB'000
Short-term employee benefits	2,469	1,977
Retirement scheme contributions	91	68
	2,560	**2,045**

45 PRINCIPAL ACCOUNTING ESTIMATES AND JUDGEMENTS

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

The selection of critical accounting policies, the judgements and other uncertainties affecting application of those policies and the sensitivity of reported results to changes in conditions and assumptions are factors to be considered when reviewing the financial statements. The principal accounting policies are set forth in Note 3. The Group believes the following critical accounting policies involve the most significant judgements and estimates used in the preparation of the financial statements.

(a) 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 industry. 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.

Future dismantlement costs for oil and gas properties are estimated with reference to engineering estimates after taking into consideration the anticipated method of dismantlement required in accordance with industry practices in similar geographic area, including estimation of economic life of oil and gas properties, technology and price level. The present values of these estimated future dismantlement costs are capitalised as oil and gas properties with equivalent amounts recognised as provisions for dismantlement costs.

Despite the inherent imprecision in these engineering estimates, these estimates are used in determining depreciation expense, impairment expense and future dismantlement costs. Producing properties' capitalised costs are amortised based on the straight line method.

(b) Impairment for assets

If circumstances indicate that the net book value of a long-lived asset may not be recoverable, the asset may be considered "impaired", and an impairment loss may be recognised in accordance with "ASBE 8 – Impairment of Assets". The carrying amounts of long-lived assets are reviewed periodically in order to assess whether the recoverable amounts have declined below the carrying amounts. These assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. When such a decline has occurred, the carrying amount is reduced to recoverable amount. For goodwill, the recoverable amount is estimated annually. The recoverable amount is the greater of the net selling price and the value in use. It is difficult to precisely estimate selling price because quoted market prices for the Group's assets or cash-generating units are not readily available. In determining the value in use, expected cash flows generated by the asset or the cash-generating unit 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.

(c) Depreciation

Fixed assets 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.

(d) Allowances for doubtful accounts

The Group estimates allowances for doubtful accounts resulting from the inability of the customers to make the required payments. The Group bases the estimates on the ageing 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.

46 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 period ended 30 June 2007. Except for Sinopec Kantons Holdings Limited, which is incorporated in Bermuda, the companies below are incorporated in the PRC. The following list contains only the particulars of subsidiaries which principally affected the results or assets of the Group:

Name of enterprise	Registered capital/paid-up capital RMB millions	Percentage of equity interest held by the Group %	Principal activities
China Petrochemical International Company Limited	1,663	100.00	Trading of petrochemical products
Sinopec Sales Company Limited	1,700	100.00	Marketing and distribution of refined petroleum products
Sinopec Qilu Petrochemical Company Limited	1,950	99.76	Manufacturing of intermediate petrochemical products and petroleum products
Sinopec Yangzi Petrochemical Company Limited	2,330	99.81	Manufacturing of intermediate petrochemical products and petroleum products
Sinopec Zhongyuan Petroleum Company Limited	875	99.35	Exploration and production of crude oil and natural gas
Sinopec Shengli Oil Field Dynamic Company Limited	364	97.71	Exploration and production of crude oil and distribution of petrochemical products
Sinopec Fujian Petrochemical Company Limited (i)	2,253	50.00	Manufacturing of plastics, 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	HKD 104	72.40	Trading of crude oil and petroleum products
Sinopec Wuhan Petroleum Group Company Limited (i)	147	46.25	Marketing and distribution of refined petroleum products
Sinopec Yizheng Chemical Fibre Company Limited (i)	4,000	42.00	Production and sale of polyester chips and polyester fibres
Sinopec Zhongyuan Petrochemical Company Limited	2,400	93.51	Manufacturing of chemical products
Sinopec Shell (Jiangsu) Petroleum Marketing Company Limited	830	60.00	Marketing and distribution of refined petroleum products
BP Sinopec (Zhejiang) Petroleum Company Limited	800	60.00	Marketing and distribution of refined petroleum products
Sinopec Qingdao Refining and Chemical Company Limited	800	85.00	Manufacturing of intermediate petrochemical products and petroleum products
China International United Petroleum and Chemical Company Limited	223	100.00	Trading of crude oil and petrochemical products
Sinopec Hainan Refining and Chemical Company Limited	3,986	75.00	Manufacturing of intermediate petrochemical products and petroleum products
Sinopec (Hong Kong) Limited	HKD 5,477	100.00	Trading of crude oil and petrochemical products

(i) The Group consolidated the results of the entity because the Group controlled the board of this entity and had the power to govern its financial and operating policies.

47 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 2007 and 31 December 2006, the future minimum lease payments of the Group and the Company under operating leases are as follows:

	The Group		The Company	
	At 30 June 2007 RMB millions	At 31 December 2006 RMB millions	**At 30 June 2007 RMB millions**	At 31 December 2006 RMB millions
Within one year	4,304	4,703	4,172	4,457
Between one and two years	4,280	4,565	4,156	4,391
Between two and three years	4,229	4,529	4,106	4,359
Between three and four years	4,208	4,505	4,084	4,337
Between four and five years	4,173	4,450	4,053	4,372
After five years	120,222	122,406	116,792	120,638
	141,416	**145,158**	**137,363**	**142,554**

47 COMMITMENTS *(Continued)*

Capital commitments

At 30 June 2007 and 31 December 2006, the capital commitments are as follows:

	The Group		The Company	
	At 30 June 2007 RMB millions	At 31 December 2006 RMB millions	**At 30 June 2007 RMB millions**	At 31 December 2006 RMB millions
Authorised and contracted for	111,199	113,192	95,766	95,206
Authorised but not contracted for	149,388	165,967	108,155	97,699
	260,587	**279,159**	**203,921**	**192,905**

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 equity investments.

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 303 million for the six-month period ended 30 June 2007 (2006: RMB 12 million).

Estimated future annual payments are as follows:

	The Group		The Company	
	At 30 June 2007 RMB millions	At 31 December 2006 RMB millions	**At 30 June 2007 RMB millions**	At 31 December 2006 RMB millions
Within one year	137	156	137	156
Between one and two years	103	147	103	147
Between two and three years	57	67	57	67
Between three and four years	33	57	33	57
Between four and five years	13	10	13	10
After five years	232	226	232	226
	575	**663**	**575**	**663**

48 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 2007 and 31 December 2006, 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 2007 RMB millions	At 31 December 2006 RMB millions	**At 30 June 2007 RMB millions**	At 31 December 2006 RMB millions
Subsidiaries	—	—	2,617	2,674
Associates and jointly controlled entities	11,752	11,957	11,665	11,863
Total	**11,752**	**11,957**	**14,282**	**14,537**

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 2007 and 31 December 2006, it is not probable that the Company will be required to make payments under the guarantees. Thus no liability has been accrued for a loss related to the Company's obligation under the guarantees arrangement.

Environmental contingencies

To date, the Group has not incurred any significant expenditure for environmental remediation, is currently not involved in any environmental remediation, and has not accrued any amounts for environmental remediation relating to its operations. Under existing legislation, management believes that there are no probable liabilities that will have a material adverse effect on the financial position or operating results of the Group. The PRC government, however, has moved and may move further towards more rigorous enforcement of applicable laws, and towards the adoption of more stringent environmental standards. Environmental liabilities are subject to considerable uncertainties which affect the Group's ability to estimate the ultimate cost of remediation efforts. These uncertainties include: i) the exact nature and extent of the contamination at various sites including, but not limited to refineries, oil fields, service stations, terminals and land development areas, whether operating, closed or sold; ii) the extent of required cleanup efforts; iii) varying costs of alternative remediation strategies; iv) changes in environmental remediation requirements; and v) the identification of new remediation sites. The amount of such future cost is indeterminable due to such factors as the unknown magnitude of possible contamination and the unknown timing and extent of the corrective actions that may be required. Accordingly, the outcome of environmental liabilities under proposed or future environmental legislation cannot reasonably be estimated at present, and could be material. The Group paid normal routine pollutant discharge fee of approximately RMB 1,098 million for the six-month period ended 30 June 2007 (2006: RMB 667 million).

Legal contingencies

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

49 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, that 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 3). 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.

49 SEGMENTAL INFORMATION *(Continued)*

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

	Six-month periods ended 30 June	
	2007	2006
	RMB millions	RMB millions
Income from principal operations		
Exploration and production		
External sales	10,394	12,135
Inter-segment sales	46,624	53,362
	57,018	**65,497**
Refining		
External sales	50,132	52,821
Inter-segment sales	245,230	216,161
	295,362	**268,982**
Marketing and distribution		
External sales	307,083	273,153
Inter-segment sales	1,240	1,962
	308,323	**275,115**
Chemicals		
External sales	104,598	86,155
Inter-segment sales	7,330	5,225
	111,928	**91,380**
Others		
External sales	82,135	55,799
Inter-segment sales	120,003	38,335
	202,138	**94,134**
Elimination of inter-segment sales	(420,427)	(315,045)
Income from principal operations	**554,342**	**480,063**
Income from other operations		
Exploration and production	5,706	4,720
Refining	2,556	2,331
Marketing and distribution	224	282
Chemicals	3,792	3,543
Others	210	232
Income from other operations	**12,488**	**11,108**
Operating income	**566,830**	**491,171**
Operating profit		
By segment		
Exploration and production	22,740	33,028
Refining	5,541	(16,575)
Marketing and distribution	17,143	10,923
Chemicals	8,629	6,208
Others	(233)	(443)
Total segment operating profit	**53,820**	**33,141**
Financial expenses	(2,696)	(2,917)
Fair value loss	(897)	—
Investment income	2,817	1,417
Operating profit	**53,044**	**31,641**

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, equity investments and deferred tax assets. "Unallocated liabilities" consists primarily of bank loans, income tax payable and deferred tax liabilities.

Investments in and share of profits from associates and jointly controlled entities are included in the segments in which the associates and jointly controlled entities operate. Information on associates and jointly controlled entities is included in Note 12. Additions to long-lived assets by operating segment are included in Notes 13 and 14.

49 SEGMENTAL INFORMATION *(Continued)*

	At 30 June 2007 RMB millions	At 31 December 2006 RMB millions
Assets		
Segment assets		
Exploration and production	160,927	149,560
Refining	170,354	161,808
Marketing and distribution	116,988	108,213
Chemicals	112,155	110,467
Others	38,737	22,503
Total segment assets	**599,161**	**552,551**
Investments in associates and jointly controlled entities		
Exploration and production	1,059	1,063
Refining	1,101	1,117
Marketing and distribution	5,105	4,692
Chemicals	11,076	10,780
Others	4,064	3,500
Aggregate investments in associates and jointly controlled entities	**22,405**	**21,152**
Unallocated assets	**28,981**	**22,824**
Total assets	**650,547**	**596,527**
Liabilities		
Segment liabilities		
Exploration and production	36,483	35,251
Refining	37,727	28,072
Marketing and distribution	29,182	26,490
Chemicals	19,138	19,064
Others	46,794	35,775
Total segment liabilities	**169,324**	**144,652**
Unallocated liabilities	**174,200**	**171,944**
Total liabilities	**343,524**	**316,596**

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	
	2007 RMB millions	2006 RMB millions
Capital expenditure for the period		
Exploration and production	18,277	11,676
Refining	6,180	5,048
Marketing and distribution	4,922	6,515
Chemicals	3,296	5,803
Others	1,071	1,040
	33,746	**30,082**
Depreciation and amortisation for the period		
Exploration and production	8,191	6,417
Refining	4,081	3,491
Marketing and distribution	2,074	1,655
Chemicals	4,607	4,358
Others	416	205
	19,369	**16,126**
Impairment losses on long-lived assets for the period		
Exploration and production	25	—
Refining	923	—
Marketing and distribution	571	5
Chemicals	123	29
	1,642	**34**

50 FINANCIAL RISK MANAGEMENT

Overview

Financial assets of the Group include cash at bank, equity investments, trade accounts receivable, bills receivable, advance payments 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, receipts in advance and other creditors. The Group has no derivative instruments that are designated and qualified as hedging instruments at 30 June 2007 and 31 December 2006.

The Group has exposure to the following risks from its use of financial instruments:

- credit risk;
- liquidity risk; and
- market risk.

The Board of Directors has overall responsibility for the establishment, oversight of the Group's risk management framework, and developing and monitoring the Group's risk management policies.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations. Internal audit department undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Group's audit committee.

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers. The carrying amounts of cash at bank, trade accounts and bills receivables, and other current assets, except for prepayments and deposits, represent the Group's maximum exposure to credit risk in relation to financial assets.

The majority of the Group's trade accounts receivable relate to sales of petroleum and chemical products to related parties and third parties operating in the petroleum and chemical industries. The Group performs ongoing credit evaluations of its customers' financial condition and generally does not require collateral on trade accounts receivable. The Group maintains an impairment loss for 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.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. The Group prepares monthly cash flow budget to ensure that they will always have sufficient liquidity to meet its financial obligation as they fall due. The Group arranges and negotiates financing with financial institutions and maintains a certain level of standby credit facilities to reduce the liquidity risk.

At 30 June 2007, the Group had standby credit facilities with several PRC financial institutions which allowed the Group to borrow up to RMB 164,500 million (2006: RMB 130,000 million) on an unsecured basis, at 5.427% (2006: 5.020%). At 30 June 2007, the Group's outstanding borrowings under these facilities were RMB 15,301 million (2006: RMB 4,420 million) and were included in short-term bank loans.

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

(a) 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 PBOC. 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 PBOC or other banks authorised to buy and sell foreign currencies at the exchange rates quoted by the PBOC. Approval of foreign currency payments by the PBOC or other institutions requires submitting a payment application form together with suppliers' invoices, shipping documents and signed contracts.

With the authorisation from the PRC government, the PBOC 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 Group has no hedging policy on foreign currency balances, and principally reduces the currency risk by monitoring the level of foreign currency.

(b) Interest rate risk

The interest rates and terms of repayment of short-term and long-term debts of the Group are disclosed in Notes 20 and 27 respectively.

50 FINANCIAL RISK MANAGEMENT *(Continued)*

Capital management

The Group also optimises the structure of its capital, comprising equity and loans. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, issue new shares, adjust the capital expenditure plan, sell assets to reduce debt, or adjust the proportion of short-term and long-term loans. The Group monitors capital on the basis of debt-to-equity ratio, which is calculated by dividing long-term loans, including debentures payable, by the total of equity attributable to equity shareholders of the Company and long-term loans, and liability-to-asset ratio, which is calculated by dividing total liabilities by total assets. The Group's strategy is to make appropriate adjustments according to the operating and investment needs and the changes of market conditions, and has maintained the debt-to-equity ratio and the liability-to-asset ratio at a range considered as reasonable by management.

The schedule of the contractual maturities of loans and commitments are disclosed in Notes 27 and 47, respectively.

There were no changes in the Group's approach to capital management during the period. Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

Fair values

The financial assets and liabilities of the Group and the Company are carried at amounts not materially different from their fair values as at 31 December 2006 and 30 June 2007.

51 EXTRAORDINARY GAIN AND LOSS

Pursuant to "Questions and answers in the prepayment of information disclosures of companies issuing public shares, No.1 – Extraordinary gain and loss" (2007 revised), the extraordinary gains and losses of the Group are as follows:

	Six-month periods ended 30 June	
	2007	2006
	RMB millions	RMB millions
Extraordinary gain and loss for the year:		
Loss on disposal of fixed assets	344	43
Employee reduction expenses	150	48
Donations	45	40
Gain on disposal of long-term equity investments	(581)	(24)
Other non-operating income and expenses, excluding impairment losses on long-lived assets	192	377
Written back of provisions for impairment losses in previous years	(155)	(339)
Tax effect	2	(48)
Total	**(3)**	**97**

52 BASIC AND DILUTED EARNINGS PER SHARE

The calculations of basic and diluted earnings per share for the six-month period ended 30 June 2007 are based on the profit attributable to equity shareholders of the Company of RMB 34,925 million (2006: RMB 21,125 million) and the weighted average number of shares of 86,702,439,000 (2006: 86,702,439,000) in issue during the period.

For the six-month period ended 30 June 2007, diluted earnings per share is calculated on the same basis as basic earnings per share, since the effect of the convertible bonds was anti-dilutive.

53 COMPARATIVE FIGURES

Effective from 1 January 2007, the Group's financial statements have been prepared in accordance with the requirements of ASBE (2006), see Note 4 for details.

54 OTHER SIGNIFICANT EVENTS

The Group had no 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 of China Petroleum & Chemical Corporation (the "Company") set out on pages 87 to 125, which comprise the consolidated balance sheet as at 30 June 2007, and the consolidated income statement, the consolidated statement of changes in equity and the consolidated cash flow statement for the six-month period then ended, and a summary of significant accounting policies and other explanatory notes.

DIRECTORS' RESPONSIBILITY FOR THE FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation and the true and fair presentation of these interim financial statements in accordance with International Financial Reporting Standards promulgated by the International Accounting Standards Board. This responsibility includes designing, implementing and maintaining internal control relevant to the preparation and the true and fair presentation of interim financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these interim financial statements based on our audit. This report is made 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 the report.

We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance as to whether the interim financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the interim financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the interim financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and true and fair presentation of the interim financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the interim financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit 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 2007 and of the Group's profit and cash flows for the six-month period then ended in accordance with International Financial Reporting Standards promulgated by the International Accounting Standards Board.

KPMG
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

24 August 2007

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

CONSOLIDATED INCOME STATEMENT

for the six-month period ended 30 June 2007
(Amounts in millions, except per share data)

	Note	Six-month periods ended 30 June 2007 RMB	2006 RMB
Turnover and other operating revenues			
Turnover	3	554,342	480,113
Other operating revenues	4	12,488	11,108
		566,830	**491,221**
Operating expenses			
Purchased crude oil, products and operating supplies and expenses		(443,728)	(398,524)
Selling, general and administrative expenses	5	(17,595)	(16,323)
Depreciation, depletion and amortisation		(19,253)	(16,048)
Exploration expenses, including dry holes		(5,717)	(3,085)
Personnel expenses	6	(10,675)	(9,218)
Employee reduction expenses	7	(150)	(48)
Taxes other than income tax	8	(14,144)	(13,086)
Other operating expenses, net	9	(2,222)	(500)
Total operating expenses		**(513,484)**	**(456,832)**
Operating profit		**53,346**	**34,389**
Finance costs			
Interest expense	10	(3,804)	(3,282)
Interest income		368	243
Fair value loss on embedded derivative component of convertible bonds		(897)	—
Foreign exchange loss		(60)	(47)
Foreign exchange gain		800	157
Net finance costs		**(3,593)**	**(2,929)**
Investment income		650	140
Share of profits less losses from associates and jointly controlled entities		2,167	1,245
Profit before taxation		**52,570**	**32,845**
Taxation	11	(14,945)	(10,500)
Profit for the period		**37,625**	**22,345**
Attributable to:			
Equity shareholders of the Company		36,190	21,870
Minority interests		1,435	475
Profit for the period		**37,625**	**22,345**
Dividends payable to equity shareholders of the Company attributable to the period:			
Interim dividend declared after the balance sheet date	12	4,335	3,468
Basic and diluted earnings per share	13	**0.42**	**0.25**

The notes on pages 92 to 125 form part of these interim financial statements.

CONSOLIDATED BALANCE SHEET

at 30 June 2007
(Amounts in millions)

	Note	At 30 June 2007 RMB	At 31 December 2006 RMB
Non-current assets			
Property, plant and equipment	14	350,988	352,857
Construction in progress	15	71,755	52,595
Goodwill	16	15,207	14,325
Investments	17	3,382	2,881
Interest in associates	18	12,893	11,617
Interest in jointly controlled entities	19	9,512	9,236
Deferred tax assets	24	8,479	7,127
Lease prepayments		6,240	2,574
Long-term prepayments and other assets	20	6,637	7,435
Total non-current assets		**485,093**	**460,647**
Current assets			
Cash and cash equivalents		9,686	6,679
Time deposits with financial institutions		3,303	635
Trade accounts receivable	21	26,711	15,910
Bills receivable	21	9,067	8,375
Inventories	22	104,170	92,080
Prepaid expenses and other current assets	23	24,237	18,751
Total current assets		**177,174**	**142,430**
Current liabilities			
Short-term debts	25	47,036	52,824
Loans from Sinopec Group Company and fellow subsidiaries	25	6,818	6,128
Trade accounts payable	26	69,947	52,331
Bills payable	26	20,372	21,685
Accrued expenses and other payables	27	74,581	68,373
Income tax payable		8,886	9,176
Total current liabilities		**227,640**	**210,517**
Net current liabilities		**(50,466)**	**(68,087)**
Total assets less current liabilities		**434,627**	**392,560**
Non-current liabilities			
Long-term debts	25	70,592	61,617
Loans from Sinopec Group Company and fellow subsidiaries	25	37,290	39,020
Deferred tax liabilities	24	6,429	6,339
Other liabilities	28	7,204	795
Total non-current liabilities		**121,515**	**107,771**
		313,112	**284,789**
Equity			
Share capital	29	86,702	86,702
Reserves		202,912	176,143
Total equity attributable to equity shareholders of the Company		**289,614**	**262,845**
Minority interests		**23,498**	**21,944**
Total equity		**313,112**	**284,789**

Approved and authorised for issue by the board of directors on 24 August 2007.

Su Shulin
Chairman

Wang Tianpu
Director, President

Dai Houliang
Director, Senior Vice President and Chief Financial Officer

The notes on pages 92 to 125 form part of these interim financial statements.

CONSOLIDATED CASH FLOW STATEMENT

for the six-month period ended 30 June 2007
(Amounts in millions)

	Note	Six-month periods ended 30 June 2007 RMB	2006 RMB
Net cash generated from operating activities	(a)	**61,636**	**19,069**
Investing activities			
Capital expenditure		(35,550)	(29,171)
Exploratory wells expenditure		(4,320)	(3,351)
Purchase of investments, investments in associates and subsidiaries, net of cash acquired		(4,653)	(2,235)
Proceeds from disposal of investments and investments in associates		752	217
Proceeds from disposal of property, plant and equipment		123	166
Acquisitions of minority interests in subsidiaries		—	(21,971)
Purchase of time deposits with financial institutions		(3,178)	(465)
Maturity of time deposits with financial institutions		510	629
Net cash used in investing activities		**(46,316)**	**(56,181)**
Financing activities			
Proceeds from bank and other loans		312,612	347,859
Proceeds of issuance of convertible bonds, net of issuing expenses		11,368	—
Proceeds of issuance of corporate bonds		5,000	10,846
Repayments of bank and other loans		(318,224)	(313,798)
Repayments of corporate bonds		(10,000)	(10,000)
Distributions to minority interests		(219)	(215)
Contributions from minority interests		194	82
Dividend paid		(9,537)	(2,242)
Distributions to Sinopec Group Company		(3,500)	—
Net cash (used in)/generated from financing activities		**(12,306)**	**32,532**
Net increase/(decrease) in cash and cash equivalents		**3,014**	**(4,580)**
Effect of foreign exchange rate changes		**(7)**	**(7)**
Cash and cash equivalents at 1 January		**6,679**	**13,781**
Cash and cash equivalents at 30 June		**9,686**	**9,194**

The notes on pages 92 to 125 form part of these interim financial statements.

(Amounts in millions)

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

	Six-month periods ended 30 June 2007 RMB	2006 RMB
Operating activities		
Profit before taxation	52,570	32,845
Adjustments for:		
Depreciation, depletion and amortisation	19,253	16,048
Dry hole costs	2,157	1,398
Share of profits less losses from associates and jointly controlled entities	(2,167)	(1,245)
Investment income	(650)	(140)
Interest income	(368)	(243)
Interest expense	3,804	3,282
Unrealised foreign exchange gain	(593)	(26)
Loss on disposal of property, plant and equipment, net	290	13
Impairment losses on long-lived assets	1,642	34
Fair value loss on embedded derivative component of convertible bonds	897	—
Operating profit before changes in working capital	**76,835**	**51,966**
Increase in trade accounts receivable	(9,611)	(3,817)
Increase in bills receivable	(433)	(366)
Increase in inventories	(11,445)	(16,752)
Increase in prepaid expenses and other current assets	(579)	(3,569)
(Increase)/decrease in lease prepayments	(3,084)	52
Decrease/(increase) in long-term prepayments and other assets	2,906	(706)
Increase/(decrease) in trade accounts payable	16,510	(2,420)
(Decrease)/increase in bills payable	(1,471)	3,985
Increase in accrued expenses and other payables	10,062	5,276
Increase in other liabilities	349	6
Cash generated from operations	**80,039**	**33,655**
Interest received	366	244
Interest paid	(3,655)	(3,765)
Investment and dividend income received	1,624	389
Income tax paid	(16,738)	(11,454)
Net cash generated from operating activities	**61,636**	**19,069**

The notes on pages 92 to 125 form part of these interim financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the six-month period ended 30 June 2007
(Amounts in millions)

	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	Total equity attributable to equity shareholders of the Company RMB	Minority interests RMB	Total equity RMB
Balance at 1 January 2006	86,702	(19,217)	18,072	26,342	13,514	13,514	7,000	987	77,387	224,301	30,679	254,980
Profit for the period	–	–	–	–	–	–	–	–	21,870	21,870	475	22,345
Final dividend for 2005 (Note 12)	–	–	–	–	–	–	–	–	(7,803)	(7,803)	–	(7,803)
Appropriation (Note (a))	–	–	–	–	2,068	–	–	–	(2,068)	–	–	–
Statutory public welfare fund transferred to statutory surplus reserve (Note (b))	–	–	–	–	13,514	(13,514)	–	–	–	–	–	–
Revaluation surplus realised	–	–	–	(57)	–	–	–	–	57	–	–	–
Realisation of deferred tax on land use rights	–	–	–	–	–	–	–	(4)	4	–	–	–
Transfer from retained earnings to other reserves	–	–	–	–	–	–	–	464	(464)	–	–	–
Acquisitions of minority interests in subsidiaries (Note 16)	–	–	–	–	–	–	–	–	–	–	(9,178)	(9,178)
Distributions to minority interests net of contributions	–	–	–	–	–	–	–	–	–	–	(393)	(393)
Balance at 30 June 2006	**86,702**	**(19,217)**	**18,072**	**26,285**	**29,096**	**–**	**7,000**	**1,447**	**88,983**	**238,368**	**21,583**	**259,951**
Balance at 1 January 2007	86,702	(21,590)	18,072	24,752	32,094	–	27,000	269	95,546	262,845	21,944	284,789
Net gain recognised directly in equity:												
Change in fair value of available-for-sale securities, net of deferred tax	–	–	–	–	–	–	–	170	–	170	127	297
Profit for the period	–	–	–	–	–	–	–	–	36,190	36,190	1,435	37,625
Total recognised income for the period	–	–	–	–	–	–	–	170	36,190	36,360	1,562	37,922
Final dividend for 2006 (Note 12)	–	–	–	–	–	–	–	–	(9,537)	(9,537)	–	(9,537)
Adjustment to statutory surplus reserve (Note (a))	–	–	–	–	235	–	–	–	(235)	–	–	–
Appropriation (Note (a))	–	–	–	–	2,448	–	–	–	(2,448)	–	–	–
Revaluation surplus realised	–	–	–	(150)	–	–	–	–	150	–	–	–
Realisation of deferred tax on land use rights	–	–	–	–	–	–	–	(58)	4	(54)	17	(37)
Distributions to minority interests net of contributions	–	–	–	–	–	–	–	–	–	–	(25)	(25)
Balance at 30 June 2007	**86,702**	**(21,590)**	**18,072**	**24,602**	**34,777**	**–**	**27,000**	**381**	**119,670**	**289,614**	**23,498**	**313,112**

Notes:

(a) According to the Company's Articles of Association, the Company is required to transfer 10% of its net profit to statutory surplus reserve until the reserve balance reaches 50% of the registered capital. Before 1 January 2007, the net profit was determined in accordance with the PRC Accounting Rules and Regulations and RMB 2,068 million was transferred to this reserve for the six-month period ended 30 June 2006.

On 1 January 2007, the Group has adopted the PRC Accounting Standards for Business Enterprises issued by the Ministry of Finance of the PRC (the "MOF") on 15 February 2006, certain PRC accounting policies have been changed and applied retrospectively. The statutory surplus reserve has been adjusted accordingly. The adjustment to the statutory surplus reserve was reflected as a movement in the current period.

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 2007, the Company transferred RMB 2,448 million, being 10% of the current period's net profit determined in accordance with the PRC Accounting Standards for Business Enterprises, to this reserve.

(b) Before 1 January 2006, according to the Company's Articles of Association, the Company was 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 could 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. The transfer to this fund must be made before distribution of a dividend to shareholders.

According to the Company Law of the PRC which was revised on 27 October 2005, the Company is no longer required to make appropriation to the statutory public welfare fund commencing from 1 January 2006. Pursuant to the notice "Cai Qi [2006] No. 67" issued by the MOF on 15 March 2006, the balance of this fund as at 31 December 2005 was transferred to the statutory surplus reserve.

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

(d) According to the Company's Articles of Association, the amount of retained earnings available for distribution to equity shareholders of the Company is the lower of the amount determined in accordance with the PRC Accounting Standards for Business Enterprises and the amount determined in accordance with International Financial Reporting Standards ("IFRS"). At 30 June 2007, the amount of retained earnings available for distribution was RMB 63,091 million (2006: RMB 42,156 million), being the amount determined in accordance with IFRS. Interim dividend of RMB 4,335 million (2006: RMB 3,468 million) proposed 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 of certain entities and related operations acquired from Sinopec Group Company.

(f) The application of the share premium account is governed by Sections 168 and 169 of the PRC Company Law.

The notes on pages 92 to 125 form part of these interim financial statements.

1 PRINCIPAL ACTIVITIES, ORGANISATION AND BASIS OF PREPARATION

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 were transferred to the Company. 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 preparation

Pursuant to the resolution passed at the Directors' meeting on 10 October 2006, the Group acquired the equity interests in Sinopec Hainan Refining and Chemical Company Limited ("Sinopec Hainan") for cash of RMB 2,990 million (hereinafter referred to as the "Acquisition of Sinopec Hainan"). Sinopec Hainan was previously wholly owned by Sinopec Group Company.

Pursuant to the resolution passed at the Directors' meeting on 6 December 2006, the Group acquired the equity interests in certain oil and gas production companies ("Oil Production Plants") from Sinopec Group Company, for cash of RMB 3,500 million (hereinafter referred to as the "Acquisition of Oil Production Plants").

As the Group, Sinopec Hainan and Oil Production Plants are under the common control of Sinopec Group Company, the Acquisitions of Sinopec Hainan and Oil Production Plants 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 Hainan and Oil Production Plants have been accounted for at historical cost. 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 and the considerations paid by the Company for these acquisitions were treated as equity transactions.

The financial condition as at 31 December 2006 and results of operation for the six-month period ended 30 June 2006 previously reported by the Group have been restated to include the results of Sinopec Hainan and Oil Production Plants (collectively the "Acquired Group") and the application of equity method for investments in jointly controlled entities.

In prior year, investments in jointly controlled entities were accounted for in the consolidated financial statements on a proportionate consolidation basis. With effect from 1 January 2007, investments in jointly controlled entities are accounted for in the consolidated financial statements by using the equity method. This change is to achieve a consistency between the accounting policies adopted in the financial statements of the Group prepared under IFRS and the PRC Accounting Standards for Business Enterprises. The effect of this change did not have an impact on the profit and the equity attributable to equity shareholders of the Company in the periods prior to the change.

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

	The Group, as previously reported RMB millions	The Acquired Group RMB millions	Effect of accounting for investments in jointly controlled entities under equity method RMB millions	The Group, as restated RMB millions
Results of operation for the six-month period ended 30 June 2006:				
Operating revenue	493,128	50	(1,957)	491,221
Share of profits less losses from associates and jointly controlled entities	447	—	798	1,245
Profit attributable to the equity shareholders of the Company	21,406	464	—	21,870
Basic and diluted earnings per share (RMB)	0.25	—	—	0.25
Financial condition as at 31 December 2006:				
Current assets	145,467	—	(3,037)	142,430
Interest in jointly controlled entities	—	—	9,236	9,236
Total assets	611,790	—	(8,713)	603,077
Current liabilities	210,802	—	(285)	210,517
Total liabilities	327,001	—	(8,713)	318,288
Total equity attributable to equity shareholders of the Company	262,845	—	—	262,845

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. A summary of the principal accounting policies adopted by the Group are set out in Note 2. These accounting policies have been consistently applied by the Group.

The accompanying interim financial statements are prepared on the historical cost basis as modified by the revaluation of certain property, plant and equipment (Note 2(f)) and by the fair values of financial instruments classified as available-for-sale securities (Note 2(k)) and derivative component of the convertible bonds (Note 2(o)).

The preparation of the interim financial statements in accordance with IFRS requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities 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.

Key assumptions and estimation made by management in the application of IFRS that have significant effect on the interim financial statements and have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities in the following financial year are disclosed in Note 36.

2 PRINCIPAL ACCOUNTING POLICIES

(a) Basis of consolidation

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

(i) Subsidiaries

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

The interim financial statements of subsidiaries are included in the consolidated interim financial statements from the date that control effectively commences until the date that control effectively ceases.

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

The particulars of the Group's principal subsidiaries are set out in Note 34.

(ii) Associates and jointly controlled entities

An associate is an entity, 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 or joint control over those policies.

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 associates and jointly controlled entities are accounted for in the consolidated interim financial statements using the equity method from the date that significant influence or joint control commences until the date that significant influence or joint control ceases.

(iii) Transactions eliminated on consolidation

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

(b) Translation of foreign currencies

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

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

(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 (Note 2(l)). 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 items and restoring the site on which they are 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 cost of replacing part of such an item when that cost is incurred if it is probable that the future economic benefits embodied with the item will flow to the Group and the cost of the item can be measured reliably. All other expenditure is recognised as an expense in the income statement in the period in which it is incurred.

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

Depreciation is provided to write off the cost/revalued amount of items of property, plant and equipment, other than oil and gas properties (Note 2(g)), over its estimated useful life on a straight-line basis, after taking into account its estimated residual value, as follows:

Buildings	15 to 45 years
Plant, machinery, equipment, oil depots, storage tanks and others	4 to 18 years
Service stations	25 years

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

(g) Oil and gas properties

The Group uses the successful efforts method of accounting for its oil and gas producing activities. Under this method, costs of development wells and the related support equipment are capitalised. The cost of exploratory wells is initially capitalised as construction in progress pending determination of whether the well has found proved reserves. The impairment of exploratory well costs occurs upon the determination that the well has not found proved reserves. Exploratory wells that find oil and gas reserves in any area requiring major capital expenditure are expensed unless the well has found a sufficient quantity of reserves to justify its completion as a producing well if the required capital expenditure is made, and drilling of the additional exploratory wells is under way or firmly planned for the near future. However, in the absence of a determination of the discovery of proved reserves, exploratory well costs are not carried as an asset for more than one year following completion of drilling. If, after one year has passed, a determination of the discovery of proved reserves cannot be made, the exploratory well costs are impaired and charged to expense. All other exploration costs, including geological and geophysical costs, other dry hole costs and annual lease rentals, are expensed as incurred. Capitalised costs relating to proved properties are amortised at the field level on a unit-of-production method. The amortisation rates are determined based on oil and gas reserves estimated to be recoverable from existing facilities over the shorter of the economic lives of crude oil and natural gas reservoirs and the terms of the relevant production licenses.

Gains and losses on the disposal of proved oil and gas properties are not recognised unless the disposal encompasses an entire property. The proceeds on such disposals are credited to the carrying amounts of oil and gas properties.

The Group estimates future dismantlement costs for oil and gas properties with reference to engineering estimates after taking into consideration the anticipated method of dismantlement required in accordance with the industry practices. These estimated future dismantlement costs are discounted at credit-adjusted risk-free rate and are capitalised as oil and gas properties, which are subsequently amortised as part of the costs of the oil and gas properties.

(h) Lease prepayments

Lease prepayments represent land use rights paid to the relevant government authorities. Land use rights are carried at cost less accumulated amortisation and impairment losses (Note 2(l)). Amortisation is provided to write off the cost of lease prepayments 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 (Note 2(l)). Cost comprises direct costs of construction as well as interest charges, and foreign exchange differences on related borrowed funds to the extent that they are regarded as an adjustment to interest charges, during the periods of construction.

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

No depreciation is provided in respect of construction in progress.

2 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(j) Goodwill

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

Goodwill is stated at cost less accumulated impairment losses. Goodwill is allocated to cash-generating units and is tested annually for impairment (Note 2(l)). In respect of associates or jointly controlled entities, the carrying amount of goodwill is included in the carrying amount of the interest in the associate or jointly controlled entity.

(k) Investments

Investment in available-for-sale equity securities are carried at fair value with any change in fair value, other than impairment losses (Note 2(l)), recognised directly in equity. When these investments are derecognised or impaired, the cumulative gain or loss previously recognised directly in equity is recognised in the income statement. Investments in equity securities, other than investments in associates and jointly controlled entities, that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are recognised in the balance sheet at cost less impairment losses (Note 2(l)).

(l) Impairment of assets

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

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

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

The carrying amounts of other long-lived assets, including property, plant and equipment, construction in progress, lease prepayments, and investments in associates and jointly controlled entities, are reviewed periodically in order to assess whether the recoverable amounts have declined below the carrying amounts. These assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. When such a decline has occurred, the carrying amount is reduced to the recoverable amount. For goodwill, the recoverable amount is estimated at each balance sheet date.

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

The amount of the reduction is recognised as an expense in the income statement unless the asset is carried at revalued amount for which an impairment loss is recognised directly against any related revaluation reserve to the extent that the impairment loss does not exceed the amount held in the revaluation reserve for that same asset. Impairment losses recognised in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit and then, to reduce the carrying amount of the other assets in the unit on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs to sell, or value in use, if determinable.

The Group assesses at each balance sheet date whether there is any indication that an impairment loss recognised for an asset, except in the case of goodwill, in prior years may no longer exist. An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount. A subsequent increase in the recoverable amount of an asset, when the circumstances and events that led to the write-down or write-off cease to exist, is recognised as an income unless the asset is carried at revalued amount. Reversal of an impairment loss on a revalued asset is credited to the revaluation reserve except for impairment loss which was previously recognised as an expense in the income statement; a reversal of such impairment loss is recognised as an income. The reversal is reduced by the amount that would have been recognised as depreciation had the write-down or write-off not occurred. An impairment loss in respect of goodwill is not reversed.

(m) Trade accounts and other payables

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

(n) Interest-bearing borrowings

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

2 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(o) Convertible bonds

Convertible bonds issued with a cash settlement option and other embedded derivative features are split into liability and derivative components.

At initial recognition, the derivative component of the convertible bonds is measured at fair value. Any excess of proceeds over the amount initially recognised as the derivative component is recognised as the liability component. Transaction costs that relate to the issue of the convertible bonds are allocated to the liability and derivative components in proportion to the allocation of proceeds. The portion of the transaction costs relating to the liability component is recognised initially as part of the liability. The portion relating to the derivative component is recognised immediately as an expense in the income statement.

The derivative component is subsequently remeasured at each balance sheet date and any gains or losses arising from change in the fair value are recognised in the income statement. The liability component is subsequently carried at amortised cost until extinguished on conversion or redemption. The interest expense recognised in the income statement on the liability component is calculated using the effective interest method. Both the liability and the related derivative components are presented together for financial statements reporting purposes.

If the convertible bonds are converted, the carrying amounts of the derivative and liability components are transferred to share capital and share premium as consideration for the shares issued. If the convertible bonds are redeemed, any difference between the amount paid and the carrying amounts of both components is recognised in the income statement.

(p) Provisions and contingent liability

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

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

Provisions for future dismantlement costs are initially recognised based on the present value of the future costs expected to be incurred in respect of the Group's expected dismantlement and abandonment costs at the end of related oil and gas exploration and development activities. Any subsequent change in the present value of the estimated costs, other than the change due to passage of time which is regarded as interest cost, is reflected as an adjustment to the provision and oil and gas properties.

(q) Revenue recognition

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

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

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

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

(r) 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.

(s) Repairs and maintenance expenditure

Repairs and maintenance expenditure is expensed as incurred.

(t) 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.

2 PRINCIPAL ACCOUNTING POLICIES *(Continued)*

(u) Research and development costs

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

(v) Operating leases

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

(w) 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 32.

(x) 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.

(y) Dividends

Dividends are recognised as a liability in the period in which they are declared.

(z) 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	
	2007	2006
	RMB millions	RMB millions
Sale of materials, service and others	12,343	11,014
Rental income	145	94
	12,488	**11,108**

5 SELLING, GENERAL AND ADMINISTRATIVE EXPENSES

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

	Six-month periods ended 30 June	
	2007	2006
	RMB millions	RMB millions
Operating lease charges	2,587	2,435
Research and development costs	1,212	1,120

6 PERSONNEL EXPENSES

	Six-month periods ended 30 June	
	2007	2006
	RMB millions	RMB millions
Wages and salaries	8,512	6,850
Staff welfare	386	931
Contributions to retirement schemes (Note 32)	1,185	953
Social security contributions	592	484
	10,675	**9,218**

7 EMPLOYEE REDUCTION EXPENSES

In accordance with the Group's voluntary employee reduction plan, the Group recorded employee reduction expenses of RMB 150 million (2006: RMB 48 million) during the six-month period ended 30 June 2007 in respect of the voluntary termination of approximately 2,300 (2006: 1,000) employees.

8 TAXES OTHER THAN INCOME TAX

	Six-month periods ended 30 June	
	2007	2006
	RMB millions	RMB millions
Consumption tax	7,304	6,644
Special oil income levy	3,290	3,790
City construction tax	1,900	1,420
Education surcharge	1,027	701
Resources tax	443	419
Business tax	180	112
	14,144	**13,086**

Consumption tax is levied on producers of gasoline, diesel, naphtha, fuel oil, jet fuel, lubricant oil and solvent oil based on a tariff rate applied to the volume of sales. Effective 26 March 2006, a special oil income levy has been levied on oil exploration and production entities based on the progressive rates ranging from 20% to 40% on the portion of the monthly weighted average sales price of the crude oil produced in the PRC exceeding USD 40 per barrel. 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	
	2007	2006
	RMB millions	RMB millions
Fines, penalties and compensations	15	35
Donations	45	41
Loss on disposal of property, plant and equipment, net	290	13
Impairment losses on long-lived assets (Note)	1,642	34
Others	230	377
	2,222	**500**

Note:

Impairment losses recognised on long-lived assets of the refining segment was RMB 923 million (2006: RMB nil) for the six-month period ended 30 June 2007. Impairment losses recognised on long-lived assets of the chemicals segment was RMB 123 million (2006: RMB 29 million) for the six-month period ended 30 June 2007. These impairment losses relate to certain refining and chemicals production facilities that are held for use and a refining construction in progress. The carrying values of these facilities were written down to their recoverable amounts that were determined based on the asset held for use model using the present value of estimated future cash flows of the production facilities. The primary factor resulting in the impairment losses on long-lived assets of the refining and chemicals segments was due to higher operating and production costs caused by the increase in the prices of raw materials that are not expected to be recovered through an increase in selling price.

Impairment losses recognised on long-lived assets of the marketing and distribution segment of RMB 571 million (2006: RMB 5 million) for the six-month period ended 30 June 2007 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.

The factors resulting in impairment losses of RMB 25 million for the six-month period ended 30 June 2007 (2006: RMB nil) in the exploration and production segment were unsuccessful development drilling and high operating and development costs for certain small oil fields. The carrying values of these exploration and production properties were written down to a recoverable amount which was determined based on the present values of the expected future cash flows of the assets. The oil and gas pricing was a factor used in the determination of the present values of the expected future cash flows of the assets and had an impact on the recognition of the asset impairment.

10 INTEREST EXPENSE

	Six-month periods ended 30 June	
	2007	2006
	RMB millions	RMB millions
Interest expense incurred	4,112	3,916
Less: Interest expense capitalised*	(308)	(634)
Interest expense	**3,804**	**3,282**
* Interest rates per annum at which borrowing costs were capitalised for construction in progress	**3.6% to 6.8%**	**3.3% to 6.6%**

11 TAXATION

Taxation in the consolidated income statement represents:

	Six-month periods ended 30 June 2007 RMB millions	2006 RMB millions
Current tax		
– Provision for the period	16,134	10,187
– Under-provision in prior years	249	240
Deferred taxation	(1,438)	73
	14,945	**10,500**

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

	Six-month periods ended 30 June 2007 RMB millions	2006 RMB millions
Profit before taxation	52,570	32,845
Expected PRC income tax expense at a statutory tax rate of 33%	17,348	10,839
Tax effect of non-deductible expenses	302	383
Tax effect of non-taxable income	(1,078)	(660)
Tax effect of differential tax rate on business entities' income (Note)	(930)	(901)
Tax effect of tax losses not recognised for deferred tax	38	600
Under-provision in prior years	249	240
Tax credit for domestic equipment purchases	(500)	(1)
Effect of change in tax rate on deferred tax	(484)	—
Actual tax expense	**14,945**	**10,500**

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 entities of the Group, which are taxed at a preferential rate of 15%.

12 DIVIDENDS

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

	Six-month periods ended 30 June 2007 RMB millions	2006 RMB millions
Interim dividends declared after the balance sheet date of RMB 0.05 per share (2006: RMB 0.04 per share)	**4,335**	**3,468**

Pursuant to the Company's Articles of Association and a resolution passed at the Directors' meeting on 24 August 2007, the directors authorised to declare the interim dividends for the year ending 31 December 2007 of RMB 0.05 (2006: RMB 0.04) per share totalling RMB 4,335 million (2006: RMB 3,468 million). Interim dividend of RMB 4,335 million (2006: RMB 3,468 million) declared after the balance sheet date has not been recognised as a liability at the balance sheet date.

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

	Six-month periods ended 30 June 2007 RMB millions	2006 RMB millions
Final dividends in respect of the previous financial year, approved and paid during the period of RMB 0.11 per share (2006: RMB 0.09 per share)	**9,537**	**7,803**

Pursuant to the shareholders' approval at the Annual General Meeting on 29 May 2007, a final dividend of RMB 0.11 per share totalling RMB 9,537 million in respect of the year ended 31 December 2006 was declared and paid on 29 June 2007.

Pursuant to the shareholders' approval at the Annual General Meeting on 24 May 2006, a final dividend of RMB 0.09 per share totalling RMB 7,803 million in respect of the year ended 31 December 2005 was declared and paid on 30 June 2006.

13 BASIC AND DILUTED EARNINGS PER SHARE

The calculations of basic and diluted earnings per share for the six-month period ended 30 June 2007 are based on the profit attributable to equity shareholders of the Company of RMB 36,190 million (2006: RMB 21,870 million) and the weighted average number of shares of 86,702,439,000 (2006: 86,702,439,000) in issue during the period.

For the six-month period ended 30 June 2007, diluted earnings per share is calculated on the same basis as basic earnings per share, since the effect of the convertible bonds was anti-dilutive.

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 2006	215,041	121,882	77,021	164,615	4,474	583,033
Additions	67	92	168	181	161	669
Transferred from construction in progress	4,925	4,632	4,097	1,842	156	15,652
Acquisition of subsidiaries	2,071	—	—	—	—	2,071
Reclassification	—	557	—	(557)	—	—
Disposals	(39)	(96)	(101)	(171)	(17)	(424)
Balance at 30 June 2006	**222,065**	**127,067**	**81,185**	**165,910**	**4,774**	**601,001**
Balance at 1 January 2007	241,364	146,899	86,108	176,717	4,869	655,957
Additions	5,578	29	75	29	152	5,863
Transferred from construction in progress	5,880	912	1,644	2,921	764	12,121
Acquisitions of subsidiaries	—	—	2,636	—	—	2,636
Disposals	(11)	(137)	(1,239)	(425)	(16)	(1,828)
Balance at 30 June 2007	**252,811**	**147,703**	**89,224**	**179,242**	**5,769**	**674,749**
Accumulated depreciation:						
Balance at 1 January 2006	103,343	61,135	14,812	99,435	1,549	280,274
Depreciation charge for the period	6,235	3,470	1,637	4,237	199	15,778
Acquisition of subsidiaries	592	—	—	—	—	592
Impairment losses for the period	—	—	5	29	—	34
Reclassification	—	1,235	—	(1,235)	—	—
Written back on disposals	(18)	(60)	(45)	(125)	(8)	(256)
Balance at 30 June 2006	**110,152**	**65,780**	**16,409**	**102,341**	**1,740**	**296,422**
Balance at 1 January 2007	112,050	67,100	17,154	104,959	1,837	303,100
Depreciation charge for the period	8,125	4,034	2,040	4,438	320	18,957
Acquisitions of subsidiaries	—	—	991	—	—	991
Impairment losses for the period	25	770	567	123	—	1,485
Written back on disposals	(1)	(86)	(339)	(335)	(11)	(772)
Balance at 30 June 2007	**120,199**	**71,818**	**20,413**	**109,185**	**2,146**	**323,761**
Net book value:						
Balance at 1 January 2006	111,698	60,747	62,209	65,180	2,925	302,759
Balance at 30 June 2006	**111,913**	**61,287**	**64,776**	**63,569**	**3,034**	**304,579**
Balance at 1 January 2007	129,314	79,799	68,954	71,758	3,032	352,857
Balance at 30 June 2007	**132,612**	**75,885**	**68,811**	**70,057**	**3,623**	**350,988**

14 PROPERTY, PLANT AND EQUIPMENT *(Continued)*

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 2006	45,543	195,280	73,117	269,093	583,033
Additions	249	38	136	246	669
Transferred from construction in progress	353	4,801	5,822	4,676	15,652
Acquisition of subsidiaries	519	1,313	—	239	2,071
Reclassification	1,415	1	(1,238)	(178)	—
Disposals	(75)	(3)	(41)	(305)	(424)
Balance at 30 June 2006	**48,004**	**201,430**	**77,796**	**273,771**	**601,001**
Balance at 1 January 2007	46,677	218,693	90,249	300,338	655,957
Additions	91	5,479	59	234	5,863
Transferred from construction in progress	35	5,621	1,998	4,467	12,121
Acquisitions of subsidiaries	1,528	—	1,001	107	2,636
Reclassification	(746)	(27)	1,028	(255)	—
Disposals	(750)	—	(417)	(661)	(1,828)
Balance at 30 June 2007	**46,835**	**229,766**	**93,918**	**304,230**	**674,749**
Accumulated depreciation:					
Balance at 1 January 2006	21,412	94,373	13,730	150,759	280,274
Depreciation charge for the period	878	5,860	1,656	7,384	15,778
Acquisitions of subsidiaries	49	468	—	75	592
Impairment losses for the period	29	—	5	—	34
Reclassification	151	2	(129)	(24)	—
Written back on disposals	(20)	(3)	(20)	(213)	(256)
Balance at 30 June 2006	**22,499**	**100,700**	**15,242**	**157,981**	**296,422**
Balance at 1 January 2007	22,477	102,382	17,868	160,373	303,100
Depreciation charge for the period	849	7,496	2,153	8,459	18,957
Acquisitions of subsidiaries	511	—	381	99	991
Impairment losses for the period	203	—	384	898	1,485
Reclassification	(338)	(9)	529	(182)	—
Written back on disposals	(139)	—	(139)	(494)	(772)
Balance at 30 June 2007	**23,563**	**109,869**	**21,176**	**169,153**	**323,761**
Net book value:					
Balance at 1 January 2006	24,131	100,907	59,387	118,334	302,759
Balance at 30 June 2006	**25,505**	**100,730**	**62,554**	**115,790**	**304,579**
Balance at 1 January 2007	24,200	116,311	72,381	139,965	352,857
Balance at 30 June 2007	**23,272**	**119,897**	**72,742**	**135,077**	**350,988**

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 acquisitions of certain entities and related operations from Sinopec Group Company in prior years, the related property, plant and equipment were revalued by independent valuers in accordance with relevant PRC rules and regulations. The surplus on these revaluations of RMB 1,409 million, net of amounts allocated to minority interests, was credited to revaluation reserve.

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.

The additions in the exploration and production segment and oil and gas properties of the Group for the six-month period ended 30 June 2007 included RMB 5,427 million relating to the estimated dismantlement costs for site restoration recognised during the period.

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 2006	11,003	20,333	10,336	10,058	2,146	53,876
Additions	13,667	6,384	6,517	5,749	879	33,196
Acquisition of a subsidiary	89	—	—	—	—	89
Dry hole costs written off	(1,398)	—	—	—	—	(1,398)
Transferred to property, plant and equipment	(4,925)	(4,632)	(4,097)	(1,842)	(156)	(15,652)
Balance at 30 June 2006	**18,436**	**22,085**	**12,756**	**13,965**	**2,869**	**70,111**
Balance at 1 January 2007	16,420	15,172	10,287	7,017	3,699	52,595
Additions	20,232	6,161	4,248	3,226	867	34,734
Dry hole costs written off	(2,157)	—	—	—	—	(2,157)
Transferred to property, plant and equipment	(5,880)	(912)	(1,644)	(2,921)	(764)	(12,121)
Transferred to other assets	—	(84)	(191)	(843)	(21)	(1,139)
Impairment losses for the period	—	(153)	(4)	—	—	(157)
Balance at 30 June 2007	**28,615**	**20,184**	**12,696**	**6,479**	**3,781**	**71,755**

As at 30 June 2007, the amount of capitalised cost of exploratory wells included in the Group's construction in progress in the exploration and production segment was RMB 6,359 million (2006: RMB 4,771 million). The geological and geophysical costs paid during the six-month period ended 30 June 2007 were RMB 1,844 million (2006: RMB 1,732 million).

16 GOODWILL

	2007 RMB millions	2006 RMB millions
Cost:		
Balance at 1 January	14,325	2,203
Additions	1,022	11,731
Disposals	(140)	—
Balance at 30 June	**15,207**	**13,934**
Accumulated impairment losses:		
Balance at 1 January and 30 June	**—**	**—**
Net book value:		
Balance at 1 January	14,325	2,203
Balance at 30 June	**15,207**	**13,934**

Impairment tests for cash-generating units containing goodwill

Goodwill is allocated to the following Group's cash-generating units:

	At 30 June 2007 RMB millions	At 31 December 2006 RMB millions
Sinopec Beijing Yanshan Branch ("Sinopec Yanshan")	1,157	1,157
Sinopec Zhenhai Refining and Chemical Company Limited ("Sinopec Zhenhai")	3,952	3,952
Sinopec Qilu Petrochemical Company Limited ("Sinopec Qilu")	2,159	2,159
Sinopec Yangzi Petrochemical Company Limited ("Sinopec Yangzi")	2,737	2,737
Sinopec Zhongyuan Petroleum Company Limited ("Sinopec Zhongyuan")	1,391	1,391
Sinopec Shengli Oil Field Dynamic Company Limited ("Dynamic")	1,361	1,361
Hong Kong gas stations	1,004	—
Multiple units without significant goodwill	1,446	1,568
	15,207	**14,325**

During the year ended 31 December 2005, the Group acquired the entire 1,012,000,000 H shares, representing approximately 29.99% of the issued share capital of Sinopec Beijing Yanshan Petrochemical Company Limited from minority interests shareholders at HK$ 3.80 per share. The total consideration paid by the Group was approximately RMB 4,088 million which was settled in cash. The excess of the cost of purchase over the fair value of the underlying assets and liabilities (on a proportionate share) was RMB 1,157 million.

During the year ended 31 December 2006, the Group acquired additional equity interests in Sinopec Zhenhai, Sinopec Qilu, Sinopec Yangzi, Sinopec Zhongyuan and Dynamic of 28.7%, 17.7%, 14.8%, 28.5% and 71.4%, respectively. The Company acquired these additional equity interests to reduce management layers and improve the efficiency of the production, management and sales of the Group as a whole. The total consideration paid by the Group was approximately RMB 21,971 million which was settled in cash. The excess of the cost of purchase over the fair value of the underlying assets and liabilities (on a proportionate share) in Sinopec Zhenhai, Sinopec Qilu, Sinopec Yangzi, Sinopec Zhongyuan and Dynamic were RMB 3,952 million, RMB 2,159 million, RMB 2,737 million, RMB 1,391 million and RMB 1,361 million, respectively.

During the six-month period ended 30 June 2007, the Group acquired the entire equity interests of a gas stations company incorporated in Hong Kong. The Group acquired this gas stations company to achieve economy of scale on marketing and distribution of refined petroleum products in Hong Kong. The total consideration paid by the Group was approximately RMB 3,898 million which was settled in cash. The excess of cost of purchase over the fair value of the underlying assets and liabilities acquired was RMB 1,004 million.

16 GOODWILL *(Continued)*

The recoverable amounts of Sinopec Yanshan, Sinopec Zhenhai, Sinopec Yangzi, Sinopec Qilu, Sinopec Zhongyuan and Dynamic are determined based on value in use calculations. These calculations use cash flow projections based on financial budgets approved by management covering a one-year period and pre-tax discount rates primarily ranging from 14.2% to 17.2%. Cash flows beyond the one-year period are maintained constant. Management believes any reasonably possible change in the key assumptions on which these entities' recoverable amounts are based would not cause these entities' carrying amounts to exceed their recoverable amounts.

Key assumptions used for the value in use calculations for these entities are the gross margin and sales volume. Management determined the budgeted gross margin based on the gross margin achieved in the period immediately before the budget period and its expectation for the development of international crude oil prices. The sales volume was based on the production capacity and the sales volume in the period immediately before the budget period.

17 INVESTMENTS

	At 30 June 2007 RMB millions	At 31 December 2006 RMB millions
Available-for-sale equity securities, at quoted market price	531	157
Other unlisted investments, at cost	3,142	3,040
	3,673	**3,197**
Less: Impairment losses for investments	(291)	(316)
	3,382	**2,881**

Unlisted investments represent the Group's interests in PRC domiciled enterprises which are mainly engaged in non-oil and gas activities and operations.

Impairment losses for investments are analysed as follows:

	Six-month periods ended 30 June	
	2007 RMB millions	2006 RMB millions
Balance at 1 January	316	327
Impairment losses for the period	—	41
Written off	(25)	(8)
Balance at 30 June	**291**	**360**

18 INTEREST IN ASSOCIATES

	At 30 June 2007 RMB millions	At 31 December 2006 RMB millions
Share of net assets	**12,893**	**11,617**

The Group's investments in associates are with companies primarily engaged in the oil and gas and chemical operations in the PRC. These investments are individually and in the aggregate not material to the Group's financial condition or results of operations for all periods presented. The share of associates' taxation for the six-month period ended 30 June 2007 was RMB 265 million (2006: RMB 180 million). The principal investments in associates, all of which are incorporated in the PRC, are as follows:

Name of company	Form of business structure	Particulars of issued and paid up capital	Percentage of equity held by the Company %	Percentage of equity held by the Company's subsidiaries %	Principal activities
Sinopec Shandong Taishan Petroleum Company Limited	Incorporated	480,793,320 ordinary shares of RMB 1.00 each	24.57	—	Trading of petroleum products and decoration of service gas stations
Sinopec Finance Company Limited	Incorporated	Registered capital RMB 6,000,000,000	49.00	—	Provision of non-banking financial services
Shanghai Petroleum National Gas Corporation	Incorporated	Registered capital RMB 900,000,000	30.00	—	Exploration and production of crude oil and natural gas
Shanghai Chemical Industry Park Development Company Limited	Incorporated	Registered capital RMB 2,372,439,000	—	38.26	Planning, development and operation of the Chemical Industry Park in Shanghai, the PRC
China Shipping & Sinopec Suppliers Company Limited	Incorporated	Registered capital RMB 876,660,000	—	50.00	Transportation of petroleum products
China Aviation Oil Supply Company Limited	Incorporated	Registered capital RMB 3,800,000,000	—	29.00	Marketing and distribution of refined petroleum products

19 INTEREST IN JOINTLY CONTROLLED ENTITIES

	At 30 June 2007 RMB millions	At 31 December 2006 RMB millions
Share of net assets	**9,512**	**9,236**

The Group's principal interests in jointly controlled entities are primarily engaged in the chemical operations in the PRC 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

The Group's effective interest share of the jointly controlled entities' results of operation, financial condition and cash flows are as follows:

	Six-month periods ended 30 June 2007 RMB millions	2006 RMB millions
Results of operation:		
Operating revenue	9,333	8,049
Expenses	(7,708)	(7,250)
Net profit	**1,625**	**799**

	At 30 June 2007 RMB millions	At 31 December 2006 RMB millions
Financial condition:		
Current assets	4,881	4,716
Non-current assets	14,691	15,211
Current liabilities	(2,108)	(1,964)
Non-current liabilities	(7,952)	(8,727)
Net assets	**9,512**	**9,236**

	Six-month periods ended 30 June 2007 RMB millions	2006 RMB millions
Cash flows:		
Net cash generated from operating activities	2,155	784
Net cash used in investing activities	(37)	(166)
Net cash (used in)/generated from financing activities	(1,818)	48

20 LONG-TERM PREPAYMENTS AND OTHER ASSETS

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

21 TRADE ACCOUNTS AND BILLS RECEIVABLES

	At 30 June 2007 RMB millions	At 31 December 2006 RMB millions
Amounts due from third parties	22,714	14,458
Amounts due from Sinopec Group Company and fellow subsidiaries	4,558	3,386
Amounts due from associates and jointly controlled entities	2,663	1,400
	29,935	**19,244**
Less: Impairment losses for bad and doubtful debts	(3,224)	(3,334)
	26,711	**15,910**
Bills receivable	9,067	8,375
	35,778	**24,285**

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

	At 30 June 2007 RMB millions	At 31 December 2006 RMB millions
Within one year	35,588	24,033
Between one and two years	143	169
Between two and three years	29	56
Over three years	18	27
	35,778	**24,285**

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.

Impairment losses for bad and doubtful debts are analysed as follows:

	Six-month periods ended 30 June	
	2007 RMB millions	2006 RMB millions
Balance at 1 January	3,334	3,140
Impairment losses recognised for the period	19	77
Reversal of impairment losses	(90)	(48)
Written off	(39)	(1)
Balance at 30 June	**3,224**	**3,168**

22 INVENTORIES

	At 30 June 2007 RMB millions	At 31 December 2006 RMB millions
Crude oil and other raw materials	54,737	53,826
Work in progress	11,416	9,563
Finished goods	35,003	25,398
Spare parts and consumables	3,811	4,159
	104,967	**92,946**
Less: Allowance for diminution in value of inventories	(797)	(866)
	104,170	**92,080**

The cost of inventories recognised as an expense in the consolidated income statement amounted to RMB 464,459 million for the six-month period ended 30 June 2007 (2006: RMB 415,174 million), including the write-down of inventories amounted to RMB 10 million (2006: RMB 250 million) and the reversal of write-down of inventories made in prior years amounted to RMB 79 million (2006: RMB 250 million) that mainly arose from the sales of inventories.

23 PREPAID EXPENSES AND OTHER CURRENT ASSETS

	At 30 June 2007 RMB millions	At 31 December 2006 RMB millions
Advances to third parties	1,529	1,732
Amounts due from Sinopec Group Company and fellow subsidiaries	2,780	2,011
Other receivables	1,857	2,244
Purchase deposits	3,633	2,959
Prepayments in connection with construction work and equipment purchases	9,390	4,658
Prepaid value-added tax and customs duty	4,773	4,815
Amounts due from associates and jointly controlled entities	275	332
	24,237	**18,751**

24 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 2007 RMB millions	At 31 December 2006 RMB millions	**At 30 June 2007 RMB millions**	At 31 December 2006 RMB millions	**At 30 June 2007 RMB millions**	At 31 December 2006 RMB millions
Current						
Receivables and inventories	3,571	3,531	—	—	3,571	3,531
Accruals	828	865	—	—	828	865
Non-current						
Property, plant and equipment	3,315	2,277	(2,189)	(1,678)	1,126	599
Accelerated depreciation	—	—	(4,144)	(4,657)	(4,144)	(4,657)
Tax value of losses carried forward, net of valuation allowances	97	53	—	—	97	53
Lease prepayments	310	351	—	—	310	351
Available-for-sale securities	—	—	(96)	(4)	(96)	(4)
Others	358	50	—	—	358	50
Deferred tax assets/(liabilities)	**8,479**	**7,127**	**(6,429)**	**(6,339)**	**2,050**	**788**

As at 30 June 2007, certain subsidiaries of the Company provided valuation allowance against tax value of losses carried forward for PRC income tax purpose of RMB 4,534 million which are available to offset their future PRC taxable income, if any. The tax value of these losses carried forward of RMB 215 million, RMB 341 million, RMB 720 million, RMB 1,185 million, RMB 1,921 million and RMB 152 million will expire in 2007, 2008, 2009, 2010, 2011 and 2012, respectively.

A valuation allowance on deferred tax assets is recorded if it is probable that some portion or all of the deferred tax assets will not be realised through the recovery of taxes previously paid and/or future taxable income. The allowance is subject to ongoing adjustments based on changes in circumstances that affect the Group's assessment on the realisability of the deferred tax assets. The Group has reviewed its deferred tax assets at the balance sheet date. Based on this review, net valuation allowances of RMB 38 million (2006: RMB 600 million) were provided for the six-month period ended 30 June 2007. The Group determined the valuation allowance based on management's assessment of the probability that taxable profit will be available over the period which the deferred tax assets can be realised or utilised. In assessing the probability, both positive and negative evidence was considered, including whether it is probable that the operations will have future taxable profits over the periods which the deferred tax assets are deductible or utilised and whether the tax losses result from identifiable causes which are unlikely to recur. Based on this assessment, a valuation allowance was provided to reduce the deferred tax asset to the amount that is probable to be realised.

24 DEFERRED TAX ASSETS AND LIABILITIES *(Continued)*

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

	Balance at 1 January 2006 RMB millions	Recognised in consolidated income statement RMB millions	Acquisitions of subsidiaries RMB millions	Recognised in other reserve RMB millions	Balance at 30 June 2006 RMB millions
Current					
Receivables and inventories	3,448	221	—	—	3,669
Accruals	456	(3)	—	—	453
Non-current					
Property, plant and equipment	16	(124)	—	—	(108)
Accelerated depreciation	(4,290)	(195)	—	—	(4,485)
Tax value of losses carried forward, net of valuation allowance	128	(31)	—	—	97
Lease prepayments	359	(4)	—	—	355
Others	(27)	63	—	—	36
Net deferred tax assets/(liabilities)	**90**	**(73)**	**—**	**—**	**17**

	Balance at 1 January 2007 RMB millions	Recognised in consolidated income statement RMB millions	Acquisitions of subsidiaries RMB millions	Recognised in other reserve RMB millions	**Balance at 30 June 2007 RMB millions**
Current					
Receivables and inventories	3,531	40	—	—	3,571
Accruals	865	(37)	—	—	828
Non-current					
Property, plant and equipment	599	574	(47)	—	1,126
Accelerated depreciation	(4,657)	513	—	—	(4,144)
Tax value of losses carried forward, net of valuation allowance	53	44	—	—	97
Lease prepayments (i)	351	(4)	—	(37)	310
Available-for-sale securities (ii)	(4)	—	—	(92)	(96)
Others	50	308	—	—	358
Net deferred tax assets/(liabilities)	**788**	**1,438**	**(47)**	**(129)**	**2,050**

(i) The amount recognised in equity represents the effect of change in tax rate on deferred tax assets previously recognised directly in equity.

(ii) The amount recognised in equity represents the deferred tax effect of change in fair value of available-for-sale securities, which was recognised directly in equity.

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

Short-term debts represent:

	At 30 June 2007 RMB millions	At 31 December 2006 RMB millions
Third parties' debts		
Short-term bank loans	**24,622**	**25,621**
Current portion of long-term bank loans	19,401	15,291
Current portion of long-term other loans	1,013	27
	20,414	**15,318**
Corporate bonds (a)	**2,000**	**11,885**
	47,036	**52,824**
Loans from Sinopec Group Company and fellow subsidiaries		
Short-term loans	6,818	5,576
Current portion of long-term loans	—	552
	6,818	**6,128**
	53,854	**58,952**

The Group's weighted average interest rate on short-term loans was 5.4% (2006: 5.2%) at 30 June 2007.

25 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 2007 RMB millions	At 31 December 2006 RMB millions
Third parties' debts			
Long-term bank loans			
Renminbi denominated	Interest rates ranging from interest free to 7.4% per annum at 30 June 2007 with maturities through 2016	63,001	65,398
Japanese Yen denominated	Interest rates ranging from 2.6% to 3.0% per annum at 30 June 2007 with maturities through 2024	2,375	2,713
US Dollar denominated	Interest rates ranging from interest free to 7.4% per annum at 30 June 2007 with maturities through 2031	1,357	2,081
Euro denominated	Fixed interest rate at 6.7% per annum at 30 June 2007 with maturity through 2010	88	101
Hong Kong Dollar denominated	Floating rate at Hong Kong Interbank Offer Rate plus 0.5% per annum at 30 June 2007 with maturity through 2008	390	—
		67,211	**70,293**
Long-term other loans			
Renminbi denominated	Interest rates ranging from interest free to 5.2% per annum at 30 June 2007 with maturities through 2009	3,087	3,098
US Dollar denominated	Interest rates ranging from interest free to 2.0% per annum at 30 June 2007 with maturities through 2015	41	44
		3,128	**3,142**
Corporate bonds			
Renminbi denominated	Fixed interest rate at 4.61% per annum at 30 June 2007 with maturity in February 2014 (b)	3,500	3,500
	Fixed interest rate at 4.20% per annum at 30 June 2007 with maturity in May 2017 (c)	5,000	—
		8,500	**3,500**
Convertible bonds			
Hong Kong Dollar denominated	Zero coupon convertible bonds with maturity in April 2014 (d)	**12,167**	—
Total third parties' long-term debts		**91,006**	**76,935**
Less: Current portion		(20,414)	(15,318)
		70,592	**61,617**
Long-term loans form Sinopec Group Company and fellow subsidiaries			
Renminbi denominated	Interest rates ranging from interest free to 5.9% per annum at 30 June 2007 with maturities through 2020	37,290	39,572
Less: Current portion		—	(552)
		37,290	**39,020**
		107,882	**100,637**

(a) The Company issued 182-day corporate bonds of face value at RMB 10 billion to corporate investors in PRC debenture market on 13 November 2006, at a discounted value of RMB 98.43 per RMB 100 par value, with an effective yield of 3.20% per annum. The Company redeemed the corporate bonds in May 2007.

A subsidiary of the Company issued 365-day corporate bonds of face value at RMB 2 billion to corporate investors in the PRC debenture market on 11 December 2006 at par value of RMB 100, with an effective yield 3.83% per annum. The bonds will be mature in December 2007.

(b) The Company issued ten-year 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 and annual interest payment schedule. Interest payable for the current period was included in other creditors.

(c) The Company issued ten-year corporate bonds of RMB 5 billion to corporate investors in the PRC on 10 May 2007 with a fixed interest rate at 4.20% per annum and annual interest payment schedule. Interest payable for the current period was included in other creditors.

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

(d) On 17 April 2007, the Company offered to issue zero coupon convertible bonds due 2014 with an aggregate principal amount of HK$11.7 billion (the "Convertible Bonds"). The Convertible Bonds were issued to holders on 24 April 2007 and are convertible into shares of the Company from 4 June 2007 onwards at a price of HK$10.76 per share, subject to adjustment for, amongst other things, subdivision or consolidation of shares, bonus issues, rights issues, capital distribution, change of control and other events, which have diluting effects on the issued share capital of the Company. Unless previously redeemed, converted or purchased and cancelled, the Convertible Bonds will be redeemed on the maturity date at 121.069% of the principal amount. The Company has an early redemption option at any time after 24 April 2011 (subject to certain criteria) and a cash settlement option when the holders exercise their conversion right. The holders also have an early redemption option to require the Company to redeem all or some of the Convertible Bonds on 24 April 2011 at an early redemption amount of 111.544% of the principal amount.

At 30 June 2007, the carrying amounts of liability and derivative components of the Convertible Bonds were RMB 10,411 million and RMB 1,756 million, respectively. No conversion of the Convertible Bonds has occurred up to 30 June 2007.

The fair value of the derivative component of the Convertible Bonds was calculated using the Black-Scholes Model with the major inputs in the model as at 17 April 2007 and 30 June 2007 as follows:

	At 30 June 2007	At 17 April 2007
Stock price	HKD 8.65	HKD 7.17
Exercise price	HKD 10.76	HKD 10.76
Volatility	36%	30%
Risk free rate	4.90% to 5.00%	4.42% to 4.52%
Expected life	3.8 to 6.8 years	4.0 to 7.0 years

Any change in the major inputs into the model will result in changes in the fair value of the derivative component. The change in the fair value of the conversion option from 24 April 2007 to 30 June 2007 resulted in a fair value loss of RMB 897 million, which has been recorded as the "Fair value loss on embedded derivative component of convertible bonds" in the income statement for the six-month period ended 30 June 2007.

The initial carrying amount of the liability component is the residual amount, which is after deducting the allocated issuance cost of the Convertible Bonds for liability component and the fair value of the derivative component as at 24 April 2007, and is subsequently carried at amortised cost. Interest expense is calculated using the effective interest method by applying the effective interest rate of 4.19% to the adjusted liability component. Should the aforesaid derivative component not be separated out and the entire Convertible Bonds is considered as the liability component, the effective interest rate would have been 3.03%.

Third parties' loans of RMB 165 million of the Group at 30 June 2007 (2006: RMB 171 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 265 million at 30 June 2007 (2006: RMB 288 million).

Third parties' loans of RMB 2,336 million of the Group at 30 June 2007 (2006: RMB nil) were secured by the Group's certain time deposits. The carrying value of time deposits of the Group pledged as security amounted to RMB 2,415 million at 30 June 2007 (2006: RMB nil).

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

	At 30 June 2007 RMB millions	At 31 December 2006 RMB millions
Within one year	20,414	15,870
Between one and two years	21,303	25,746
Between two and five years	22,923	33,633
After five years	63,656	41,258
	128,296	**116,507**

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

	At 30 June 2007 millions	At 31 December 2006 millions
US Dollars	USD 404	USD 506
Japanese Yen	JPY 36,474	JPY 41,350
Euro	EUR 9	EUR 10
Hong Kong Dollars	HKD 12,580	HKD 7,789

26 TRADE ACCOUNTS AND BILLS PAYABLES

	At 30 June 2007 RMB millions	At 31 December 2006 RMB millions
Amounts due to third parties	62,531	48,868
Amounts due to Sinopec Group Company and fellow subsidiaries	6,019	2,185
Amounts due to associates and jointly controlled entities	1,397	1,278
	69,947	**52,331**
Bills payable	20,372	21,685
	90,319	**74,016**

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

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

	At 30 June 2007 RMB millions	At 31 December 2006 RMB millions
Due within 1 month or on demand	63,624	44,509
Due after 1 month but within 6 months	26,498	29,386
Due after 6 months	197	121
	90,319	**74,016**

27 ACCRUED EXPENSES AND OTHER PAYABLES

	At 30 June 2007 RMB millions	At 31December 2006 RMB millions
Amounts due to Sinopec Group Company and fellow subsidiaries	9,681	12,561
Accrued expenditures	32,750	23,199
Taxes other than income tax	7,119	6,243
Receipts in advance	16,786	18,259
Advances from third parties	1,143	1,356
Others	7,102	6,755
	74,581	**68,373**

28 OTHER LIABILITIES

Other liabilities primarily represent provision for future dismantlement costs of oil and gas properties and deferred income for uncompleted research projects. In the past, the Group did not have legal obligation nor constructive obligation to take any dismantlement measures for its retired oil and gas properties. Commencing 2007, the Group has established standard measurements for the dismantlement of its retired oil and gas properties according to the industry practices and is thereafter constructively obligated to take dismantlement measures of its retired oil and gas properties. During the six-month period ended 30 June 2007, the Group recognised provision of RMB 5,427 million in respect of its obligations for the dismantlement of its retired oil and gas properties, and accretion expenses of RMB 155 million.

29 SHARE CAPITAL

	At 30 June 2007 RMB millions	At 31December 2006 RMB millions
Registered, issued and fully paid:		
69,921,951,000 domestic listed A shares of RMB 1.00 each	69,922	69,922
16,780,488,000 overseas listed H shares of RMB 1.00 each	16,780	16,780
	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.

29 SHARE CAPITAL *(Continued)*

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.

On 25 September 2006, the shareholders of listed A shares accepted the proposal offered by the shareholders of state-owned A shares whereby the shareholders of state-owned A shares agreed to transfer 2.8 state-owned A shares to shareholders of listed A shares for every 10 listed A shares they held, in exchange for the approval for the listing of all state-owned A shares. In October 2006, 67,121,951,000 domestic state-owned A shares became listed A shares.

All A shares and H shares rank pari passu in all material aspects.

30 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 2007 and 31 December 2006, the future minimum lease payments under operating leases are as follows:

	At 30 June 2007 RMB millions	At 31December 2006 RMB millions
Within one year	4,304	4,703
Between one and two years	4,280	4,565
Between two and three years	4,229	4,529
Between three and four years	4,208	4,505
Between four and five years	4,173	4,450
Thereafter	120,222	122,406
	141,416	**145,158**

Capital commitments

At 30 June 2007 and 31 December 2006, capital commitments are as follows:

	At 30 June 2007 RMB millions	At 31December 2006 RMB millions
Authorised and contracted for	111,199	113,192
Authorised but not contracted for	149,388	165,967
	260,587	**279,159**

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, interest in associates and jointly controlled entities.

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 is 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 303 million for the six-month period ended 30 June 2007 (2006: RMB 12 million).

30 COMMITMENTS AND CONTINGENT LIABILITIES *(Continued)*

Estimated future annual payments are as follows:

	At 30 June 2007 RMB millions	At 31December 2006 RMB millions
Within one year	137	156
Between one and two years	103	147
Between two and three years	57	67
Between three and four years	33	57
Between four and five years	13	10
Thereafter	232	226
	575	**663**

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 2007 and 31 December 2006, guarantees given to banks in respect of banking facilities granted to the parties below were as follows:

	At 30 June 2007 RMB millions	At 31December 2006 RMB millions
Associates and jointly controlled entities	**11,752**	**11,957**

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 2007 and 31 December 2006, it is not probable that the Group will be required to make payments under the guarantees. Thus no liability has been accrued for a loss related to the Group's 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 1,098 million for the six-month period ended 30 June 2007 (2006: RMB 667 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.

31 RELATED PARTY TRANSACTIONS

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

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

The Group is part of a larger group of companies under Sinopec Group Company, which is owned by the PRC government, and has significant transactions and relationships with Sinopec Group Company and fellow subsidiaries. Because of these relationships, it is possible that the terms of these transactions are not the same as those that would result from transactions among 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:

		Six-month periods ended 30 June	
	Note	**2007 RMB millions**	2006 RMB millions
Sales of goods	(i)	71,191	59,108
Purchases	(ii)	37,967	29,844
Transportation and storage	(iii)	527	777
Exploration and development services	(iv)	13,345	9,490
Production related services	(v)	6,465	4,725
Ancillary and social services	(vi)	801	842
Operating lease charges	(vii)	1,858	1,715
Agency commission income	(viii)	40	33
Interest received	(ix)	15	21
Interest paid	(x)	337	506
Net deposits withdrawn from related parties	(xi)	32	3,463
Net loans (repaid to)/obtained from related parties	(xii)	(1,040)	4,269

The amounts set out in the table above in respect of the six-month period ended 30 June 2007 and 2006 represent the relevant costs to the Group as determined by the corresponding contracts with the related parties.

At 30 June 2007 and 31 December 2006, 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 and jointly controlled entities are disclosed in Note 30.

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 equipment.

31 RELATED PARTY TRANSACTIONS *(Continued)*

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

(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) 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 2007 was RMB 657 million (2006: RMB 689 million).

(x) Interest paid represents interest charges on the loans and advances obtained from Sinopec Group Company and Sinopec Finance Company Limited.

(xi) Deposits withdrawn from related parties represent net deposits withdrawn from Sinopec Finance Company Limited.

(xii) The Group obtained loans from/repaid loans 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 3,234 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, however such amount cannot 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.

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

31 RELATED PARTY TRANSACTIONS *(Continued)*

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

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

	At 30 June 2007 RMB millions	At 31 December 2006 RMB millions
Trade accounts receivable	7,221	4,786
Prepaid expenses and other current assets	3,055	2,343
Total amounts due from Sinopec Group Company and fellow subsidiaries, associates and jointly controlled entities	**10,276**	**7,129**
Trade accounts payable	7,416	3,463
Accrued expenses and other payables	9,681	12,561
Short-term loans and current portion of long-term loans from Sinopec Group Company and fellow subsidiaries	6,818	6,128
Long-term loans excluding current portion from Sinopec Group Company and fellow subsidiaries	37,290	39,020
Total amounts due to Sinopec Group Company and fellow subsidiaries, associates and jointly controlled entities	**61,205**	**61,172**

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 25.

As at and for the six-month period ended 30 June 2007, and as at and for the year ended 31 December 2006, no significant impairment losses for bad and doubtful debts were recorded in respect of amounts due from Sinopec Group Company and fellow subsidiaries, associates and jointly controlled entities.

(b) Key management personnel emoluments

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including directors and supervisors of the Group. The key management personnel compensations are as follows:

	Six-month periods ended 30 June	
	2007 RMB'000	2006 RMB'000
Short-term employee benefits	2,469	1,977
Retirement scheme contributions	91	68
	2,560	**2,045**

Total emoluments are included in "personnel expenses" as disclosed in Note 6.

(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 32. As at 30 June 2007 and 31 December 2006, there was no material outstanding contribution to post-employment benefit plans.

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

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

Apart from transactions with Sinopec Group Company and fellow subsidiaries, the Group has transactions with other state-controlled entities include but not limited to the following:

- sales and purchase of goods and ancillary materials;
- rendering and receiving services;
- lease of assets;
- depositing and borrowing money; and
- use of public utilities.

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

31 RELATED PARTY TRANSACTIONS *(Continued)*

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

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

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

The Group's major domestic suppliers of crude oil and refined petroleum products are China National Petroleum Corporation and its subsidiaries ("CNPC Group") and China National Offshore Oil Corporation and its subsidiaries ("CNOOC Group"), which are state-controlled entities.

During the six-month period ended 30 June 2007, the aggregate amount of crude oil purchased by refining segment from CNPC Group and CNOOC Group and refined petroleum purchased by marketing and distribution segment from CNPC Group was RMB 31,773 million (2006: RMB 31,112 million).

The aggregate amounts due from/to CNPC Group and CNOOC Group are summarised as follows:

	At 30 June 2007 RMB millions	At 31December 2006 RMB millions
Trade accounts receivable	298	111
Prepaid expenses and other current assets	319	115
Total amounts due from CNPC Group and CNOOC Group	**617**	**226**
Trade accounts payable	2,162	1,231
Accrued expenses and other payables	67	7
Total amounts due to CNPC Group and CNOOC Group	**2,229**	**1,238**

(ii) Transactions with state-controlled banks

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

	Six-month periods ended 30 June	
	2007 RMB millions	2006 RMB millions
Interest income	318	198
Interest expense	3,091	2,511

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

	At 30 June 2007 RMB millions	At 31December 2006 RMB millions
Cash and cash equivalents	8,751	5,957
Time deposits with financial institutions	3,033	615
Total deposits at state-controlled banks in the PRC	**11,784**	**6,572**
Short-term loans and current portion of long-term loans	38,238	34,294
Long-term loans excluding current portion of long-term loans	46,607	54,648
Total loans from state-controlled banks in the PRC	**84,845**	**88,942**

32 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 2007 were RMB 1,185 million (2006: RMB 953 million).

33 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, that 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.

33 SEGMENTAL REPORTING *(Continued)*

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

	Six-month periods ended 30 June 2007 RMB millions	2006 RMB millions
Turnover		
Exploration and production		
External sales	10,394	12,185
Inter-segment sales	46,624	53,362
	57,018	**65,547**
Refining		
External sales	50,132	52,821
Inter-segment sales	245,230	216,161
	295,362	**268,982**
Marketing and distribution		
External sales	307,083	273,153
Inter-segment sales	1,240	1,962
	308,323	**275,115**
Chemicals		
External sales	104,598	86,155
Inter-segment sales	7,330	5,225
	111,928	**91,380**
Corporate and others		
External sales	82,135	55,799
Inter-segment sales	120,003	38,335
	202,138	**94,134**
Elimination of inter-segment sales	(420,427)	(315,045)
Turnover	**554,342**	**480,113**
Other operating revenues		
Exploration and production	5,706	4,720
Refining	2,556	2,331
Marketing and distribution	224	282
Chemicals	3,792	3,543
Corporate and others	210	232
Other operating revenues	**12,488**	**11,108**
Turnover and other operating revenues	**566,830**	**491,221**

	Six-month periods ended 30 June 2007 RMB millions	2006 RMB millions
Result		
Operating profit		
By segment		
– Exploration and production	22,750	34,533
– Refining	5,492	(16,626)
– Marketing and distribution	16,795	10,761
– Chemicals	8,542	6,176
– Corporate and others	(233)	(455)
Total operating profit	**53,346**	**34,389**
Share of profits less losses from associates and jointly controlled entities		
– Exploration and production	87	122
– Refining	24	40
– Marketing and distribution	179	158
– Chemicals	1,635	800
– Corporate and others	242	125
Aggregate share of profits less losses from associates and jointly controlled entities	**2,167**	**1,245**
Finance costs		
Interest expense	(3,804)	(3,282)
Interest income	368	243
Fair value loss on embedded derivative component of convertible bonds	(897)	—
Foreign exchange loss	(60)	(47)
Foreign exchange gain	800	157
Net finance costs	**(3,593)**	**(2,929)**
Investment income	650	140
Profit before taxation	**52,570**	**32,845**
Taxation	(14,945)	(10,500)
Profit for the period	**37,625**	**22,345**

33 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, deferred tax assets and other non-current assets. "Unallocated liabilities" consists primarily of short-term and long-term debts, loans from Sinopec Group Company and fellow subsidiaries, income tax payable and deferred tax liabilities.

Interests in and share of profits from associates and jointly controlled entities are included in the segments in which the associates and jointly controlled entities operate. Information on associates and jointly controlled entities is included in Notes 18 and 19. Additions to long-lived assets by operating segment are included in Notes 14 and 15.

	At 30 June 2007 RMB millions	At 31December 2006 RMB millions
Assets		
Segment assets		
– Exploration and production	172,197	155,043
– Refining	170,836	163,898
– Marketing and distribution	117,247	108,053
– Chemicals	111,494	108,597
– Corporate and others	38,737	22,641
Total segment assets	**610,511**	**558,232**
Interest in associates and jointly controlled entities		
– Exploration and production	1,059	1,063
– Refining	1,101	1,117
– Marketing and distribution	5,105	4,692
– Chemicals	11,076	10,481
– Corporate and others	4,064	3,500
Aggregate interest in associates and jointly controlled entities	**22,405**	**20,853**
Unallocated assets	**29,351**	**23,992**
Total assets	**662,267**	**603,077**
Liabilities		
Segment liabilities		
– Exploration and production	36,835	30,082
– Refining	38,425	30,162
– Marketing and distribution	29,442	27,090
– Chemicals	19,316	19,142
– Corporate and others	46,794	35,913
Total segment liabilities	**170,812**	**142,389**
Unallocated liabilities	**178,343**	**175,899**
Total liabilities	**349,155**	**318,288**

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	
	2007 RMB millions	2006 RMB millions
Capital expenditure		
Exploration and production	18,277	12,263
Refining	6,180	6,476
Marketing and distribution	4,922	6,685
Chemicals	3,296	5,930
Corporate and others	1,071	1,040
	33,746	**32,394**
Depreciation, depletion and amortisation		
Exploration and production	8,148	6,353
Refining	4,079	3,490
Marketing and distribution	2,074	1,655
Chemicals	4,594	4,345
Corporate and others	358	205
	19,253	**16,048**
Impairment losses on long-lived assets		
Exploration and production	25	—
Refining	923	—
Marketing and distribution	571	5
Chemicals	123	29
	1,642	**34**

34 PRINCIPAL SUBSIDIARIES

At 30 June 2007, 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 the Company's subsidiary %	Principal activities
China Petrochemical International Company Limited	RMB 1,663	Limited company	100.00	—	Trading of petrochemical products
Sinopec Sales Company Limited	RMB 1,700	Limited company	100.00	—	Marketing and distribution of refined petroleum products
Sinopec Qilu Petrochemical Company Limited	RMB 1,950	Limited company	99.76	—	Manufacturing of intermediate petrochemical products and petroleum products
Sinopec Yangzi Petrochemical Company Limited	RMB 2,330	Limited company	99.81	—	Manufacturing of intermediate petrochemical products and petroleum products
Sinopec Zhongyuan Petroleum Company Limited	RMB 875	Limited company	99.35	—	Exploration and production of crude oil and natural gas
Sinopec Shengli Oil Field Dynamic Company Limited	RMB 364	Limited company	97.71	—	Exploration and production of crude oil and distribution of petrochemical products
Sinopec Fujian Petrochemical Company Limited (i)	RMB 2,253	Limited company	50.00	—	Manufacturing of plastics, 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	HKD 104	Limited company	—	72.40	Trading of crude oil and petroleum products
Sinopec Wuhan Petroleum Group Company Limited (i)	RMB 147	Limited company	46.25	—	Marketing and distribution of refined petroleum products
Sinopec Yizheng Chemical Fibre Company Limited (i)	RMB 4,000	Limited company	42.00	—	Production and sale of polyester chips and polyester fibres
Sinopec Zhongyuan Petrochemical Company Limited	RMB 2,400	Limited company	93.51	—	Manufacturing of chemical products
Sinopec Shell (Jiangsu) Petroleum Marketing Company Limited	RMB 830	Limited company	60.00	—	Marketing and distribution of refined petroleum products
BP Sinopec (Zhejiang) Petroleum Company Limited	RMB 800	Limited company	60.00	—	Marketing and distribution of refined petroleum products
Sinopec Qingdao Refining and Chemical Company Limited	RMB 800	Limited company	85.00	—	Manufacturing of intermediate petrochemical products and petroleum products
China International United Petroleum and Chemical Company Limited	RMB 223	Limited company	100.00	—	Trading of crude oil and petrochemical products
Sinopec Hainan Refining and Chemical Company Limited	RMB 3,986	Limited company	75.00	—	Manufacturing of intermediate petrochemical products and petroleum products
Sinopec (Hong Kong) Limited	HKD 5,477	Limited company	100.00	—	Trading of crude oil and petrochemical products

Except for Sinopec Kantons Holdings Limited, which is incorporated in Bermuda, all of the above principal subsidiaries are incorporated in the PRC.

(i) The Group consolidated the results of the entity because the Group controlled the board of this entity and had the power to govern its financial and operating policies.

35 FINANCIAL RISK MANAGEMENT

Overview

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 jointly controlled entities, 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 2007 and 31 December 2006.

The Group has exposure to the following risks from its use of financial instruments:

- credit risk;
- liquidity risk; and
- market risk.

The Board of Directors has overall responsibility for the establishment, oversight of the Group's risk management framework, and developing and monitoring the Group's risk management policies.

The Group's risk management policies are established to identify and analyse the risks faced by the Group, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Group's activities. The Group, through its training and management standards and procedures, aims to develop a disciplined and constructive control environment in which all employees understand their roles and obligations. Internal audit department undertakes both regular and ad hoc reviews of risk management controls and procedures, the results of which are reported to the Group's audit committee.

Credit risk

Credit risk is the risk of financial loss to the Group if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Group's receivables from customers. The carrying amounts of cash and cash equivalents, time deposits with financial institutions, trade accounts and bills receivables, and other current assets, except for prepayments and deposits, represent the Group's maximum exposure to credit risk in relation to financial assets.

The majority of the Group's trade accounts receivable relate to sales of petroleum and chemical products to related parties and third parties operating in the petroleum and chemical industries. The Group performs ongoing credit evaluations of its customers' financial condition and generally does not require collateral on trade accounts receivable. The Group maintains an impairment loss for 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.

Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation. The Group prepares monthly cash flow budget to ensure that they will always have sufficient liquidity to meet its financial obligation as they fall due. The Group arranges and negotiates financing with financial institutions and maintains a certain level of standby credit facilities to reduce the liquidity risk.

At 30 June 2007, the Group had standby credit facilities with several PRC financial institutions which allowed the Group to borrow up to RMB 164,500 million (2006: RMB 130,000 million) on an unsecured basis, at 5.427% (2006: 5.020%). At 30 June 2007, the Group's outstanding borrowings under these facilities were RMB 15,301 million (2006: RMB 4,420 million) and were included in short-term bank loans.

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates and interest rates. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimising the return on risk.

(a) 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 PBOC. 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 PBOC or other banks authorised to buy and sell foreign currencies at the exchange rates quoted by the PBOC. Approval of foreign currency payments by the PBOC or other institutions requires submitting a payment application form together with suppliers' invoices, shipping documents and signed contracts.

With the authorisation from the PRC government, the PBOC 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 Group has no hedging policy on foreign currency balances, and principally reduces the currency risk by monitoring the level of foreign currency. Other than the amounts as disclosed in Note 25, the amounts of other financial assets and liabilities of the Group are substantially denominated in the functional currency of respective entity of the Group.

35 FINANCIAL RISK MANAGEMENT *(Continued)*

(b) Interest rate risk

The interest rates and terms of repayment of short-term and long-term debts of the Group are disclosed in Note 25.

Capital management

The Group also optimises the structure of its capital, comprising equity and loans. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, issue new shares, adjust the capital expenditure plan, sell assets to reduce debt, or adjust the proportion of short-term and long-term loans. The Group monitors capital on the basis of debt-to-equity ratio, which is calculated by dividing long-term loans, including long-term debts and loans from Sinopec Group Company and fellow subsidiaries, by the total of equity attributable to equity shareholders of the Company and long-term loans, and liability-to-asset ratio, which is calculated by dividing total liabilities by total assets. The Group's strategy is to make appropriate adjustments according to the operating and investment needs and the changes of market conditions, and has maintained the debt-to-equity ratio and the liability-to-asset ratio at a range considered as reasonable by management. As at 30 June 2007, the debt-to-equity ratio and the liability-to-asset ratio of the Group were 27.1% (2006: 27.7%) and 52.7% (2006: 52.8%), respectively.

The schedule of the contractual maturities of loans and commitments are disclosed in Notes 25 and 30, respectively.

There were no changes in the Group's approach to capital management during the period. Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

Fair values

The disclosures of the fair value estimates, methods and assumptions, set forth below for the Group's financial instruments, are made to comply with the requirements of IFRS 7 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 its affiliates 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 2007 and 31 December 2006:

	At 30 June 2007 RMB millions	At 31December 2006 RMB millions
Carrying amount	91,006	76,935
Fair value	90,686	76,585

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.

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

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

36 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 industry. 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.

Future dismantlement costs for oil and gas properties are estimated with reference to engineering estimates after taking into consideration the anticipated method of dismantlement required in accordance with industry practices in similar geographic area, including estimation of economic life of oil and gas properties, technology and price level. The present values of these estimated future dismantlement costs are capitalised as oil and gas properties with equivalent amounts recognised as provisions for dismantlement costs.

Despite the inherent imprecision in these engineering estimates, these estimates are used in determining depreciation expense, impairment expense and future dismantlement costs. Depreciation rates are determined based on estimated proved developed reserve quantities (the denominator) and capitalised costs of producing properties (the numerator). Producing properties' capitalised costs are amortised based on the units of oil or gas produced.

Impairment for long-lived assets

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

Depreciation

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

Impairment for bad and doubtful debts

The Group estimates impairment losses for bad and doubtful debts resulting from the inability of the customers to make the required payments. The Group bases the estimates on the ageing 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.

37 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE ANNUAL ACCOUNTING PERIOD ENDING 31 DECEMBER 2007

Up to the date of issue of these interim financial statements, the IASB has issued the following amendments, new standards and interpretations which are not yet effective for the annual accounting period ending 31 December 2007 and which have not been adopted in these interim financial statements:

	Effective for accounting period beginning on or after
IFRS 8, Operating Segments	1 January 2009
IAS 23 (March 2007), Borrowing costs	1 January 2009
IFRIC 11, IFRS 2 – Group and treasury share transaction	1 March 2007
IFRIC 12, Service concession arrangements	1 January 2008
IFRIC 13, Customer loyalty programmes	1 July 2008
IFRIC 14, IAS 19 – The limit on a defined benefit asset, minimum funding requirements and their interactions	1 January 2008

The Group is in the process of making an assessment of what the impact of these amendments, new standards and new interpretations is expected to be in the period of initial application. Up to the date of issuance of these interim financial statements, the Group believes that the adoption of IFRIC 11, IFRIC 12, IFRIC 13 and IFRIC 14 are not applicable to any of the Group's operations and that the adoption of IFRS 8 and IAS 23 (March 2007) are unlikely to have a significant impact on the Group's results of operations and financial position.

38 PARENT AND ULTIMATE HOLDING COMPANY

The directors consider the parent and ultimate holding company of the Group as at 30 June 2007 is Sinopec Group Company, a state-owned enterprise established in the PRC. This entity does not produce financial statements available for public use.

(C) DIFFERENCES BETWEEN FINANCIAL STATEMENTS PREPARED UNDER THE PRC ACCOUNTING STANDARDS FOR BUSINESS ENTERPRISES 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 Standards for Business Enterprises 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) Oil and gas properties

The difference is primarily due to that oil and gas properties are depreciated on a straight-line basis under the PRC Accounting Standards for Business Enterprises. Under IFRS, oil and gas properties are depreciated on the unit of production method.

(ii) Revaluation of land use rights

Under the PRC Accounting Standards for Business Enterprises, 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.

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

	Note	Six-month periods ended 30 June **2007** **RMB millions**	 2006 RMB millions
Net profit under the PRC Accounting Standards for Business Enterprises		36,357	21,290
Adjustments:			
Oil and gas properties	(i)	91	1,259
Reduced amortisation on revaluation of land use rights	(ii)	15	15
Effects of the above adjustments on taxation and change in tax rate on deferred tax		1,162	(219)
Profit for the period under IFRS*		**37,625**	**22,345**

Effects of major differences between the shareholders' funds under the PRC Accounting Standards for Business Enterprises and the total equity under IFRS are analysed as follows:

	Note	**At 30 June** **2007** **RMB millions**	At 31 December 2006 RMB millions
Shareholders' funds under the PRC Accounting Standards for Business Enterprises		307,023	279,931
Adjustments:			
Oil and gas properties	(i)	10,907	10,816
Revaluation of land use rights	(ii)	(1,057)	(1,072)
Effects of the above adjustments on taxation and change in tax rate on deferred tax		(3,761)	(4,886)
Total equity under IFRS*		**313,112**	**284,789**

* 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 unaudited, 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 debt are included in current earnings. For the periods presented herein, the US GAAP adjustments represent the amortisation effect of such originating adjustments described above. Accordingly, the carrying amount of property, plant and equipment under IFRS was higher than the amount under US GAAP by RMB 172 million (2006: RMB 195 million) as of 30 June 2007.

(b) Revaluation of property, plant and equipment

In connection with the acquisitions of certain entities and related operations from Sinopec Group Company in prior years, the related property, plant and equipment were revalued by independent valuers in accordance with relevant PRC rules and regulations. Under IFRS, such revaluations result in an increase in equity with respect to the increase in carrying amount of certain property, plant and equipment above their historical cost bases and a charge to income with respect to the reduction in carrying amount of certain property, plant and equipment below their historical cost bases.

Under US GAAP, property, plant and equipment are stated at their historical cost less accumulated depreciation. However, as a result of the tax deductibility of the net revaluation surplus, a deferred tax asset related to the reversal of the revaluation surplus is created under US GAAP with a corresponding increase in equity.

In addition, under IFRS, on disposal of a revalued asset, the related revaluation surplus is transferred from the revaluation reserve to retained earnings. Under US GAAP, the gain and loss on disposal of an asset is determined with reference to the asset's historical carrying amount and included in current earnings.

Accordingly, the carrying amount of property, plant and equipment under IFRS was higher than the amount under US GAAP by RMB 406 million (2006: RMB 441 million) as of 30 June 2007.

(c) Exchange of assets

During 2002, the Company and Sinopec Group Company entered into an asset swap transaction. Under IFRS, the cost of property, plant and equipment acquired in an exchange for a dissimilar item of property, plant and equipment is measured at fair value. Under US GAAP, as the exchange of assets was between entities under common control, the assets received from Sinopec Group Company are measured at historical cost. The difference between the historical cost of the net assets transferred and the net assets received is accounted for as an equity transaction. For the periods presented herein, the US GAAP adjustments represent the amortisation effect of such originating adjustments described above. Accordingly, the carrying amount of property, plant and equipment under IFRS was higher than the amount under US GAAP by RMB 474 million (2006: RMB 486 million) as of 30 June 2007.

(d) Reversal of impairment of long-lived assets

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

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

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

For the periods presented herein, the US GAAP adjustment represents the effect of reversing the recovery of previous impairment charges recorded under IFRS. Accordingly, the carrying amount of property, plant and equipment under IFRS was higher than the amount under US GAAP by RMB 398 million (2006: RMB 418 million) as of 30 June 2007.

(e) Capitalised interest on investment in associates

Under IFRS, an investment accounted for by the equity method is not considered a qualifying asset for which interest is capitalised. Under US GAAP, an investment accounted for by the equity method while the investee has activities in progress necessary to commence its planned principal operations, provided that the investee's activities include the use of funds to acquire qualifying assets for its operations, is a qualifying asset for which interest is initially capitalised and subsequently amortised when the operation of the qualifying assets begin. Accordingly, the carrying amount of the interest in associates under IFRS was lower than the amount under US GAAP by RMB 426 million (2006: RMB 446 million) as of 30 June 2007.

(f) Goodwill

Under IFRS, with reference to IFRS 3, "Business Combination", goodwill arising from a business combination for which the purchase agreement date is on or after 31 March 2004 is not amortised, or goodwill arising from a business combination for which the purchase agreement date was before 31 March 2004 is no longer amortised from the first annual reporting period beginning on or after 31 March 2004. Instead, goodwill is tested for impairment annually.

Under US GAAP, with reference to Statement of Financial Accounting Standards No.142, "Goodwill and Other Intangible Assets" ("SFAS No.142"), goodwill is no longer amortised beginning 1 January 2002. Instead, goodwill is reviewed for impairment at least annually.

As a result, there is no difference in respect of goodwill amortisation effective 1 January 2005. Accordingly, the carrying amount of the goodwill under IFRS was lower than the amount under US GAAP by RMB 43 million (2006: RMB 43 million) as of 30 June 2007 due to the continued amortisation of goodwill under IFRS until the end of 2004.

(g) Presentation of minority interests

Under IFRS, minority interests at the balance sheet date are presented in the consolidated balance sheet within equity, separately from the equity attributable to the equity shareholders of the Company, and minority interests in the results of the Group for the period are presented on the face of the consolidated income statement as an allocation of the profit for the period between the minority interests and the equity shareholders of the Company. Under US GAAP, minority interests at the balance sheet date are presented in the consolidated balance sheet either as liabilities or separately from liabilities and equity. Minority interests in the results of the Group for the period are also separately presented in the consolidated income statement as a component of net income.

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

	Reference in note above	Six-month periods ended 30 June 2007 US$ millions	2007 RMB millions	2006 RMB millions
Profit attributable to equity shareholders of the Company under IFRS		4,754	36,190	21,870
US GAAP adjustments:				
Foreign exchange gains and losses	(a)	3	23	23
Depreciation on revalued property, plant and equipment	(b)	5	35	1,633
Disposal of property, plant and equipment	(b)	—	—	57
Exchange of assets	(c)	2	12	12
Depreciation effect of reversal of impairment of long-lived assets	(d)	3	20	27
Capitalised interest on investments in associates, net of amortisation effect	(e)	(3)	(20)	(20)
Deferred tax effect of US GAAP adjustments		(18)	(133)	(536)
Minority interests	(g)	(2)	(12)	(184)
Profit attributable to equity shareholders of the Company under US GAAP		**4,744**	**36,115**	**22,882**
Basic and diluted earnings per share under US GAAP		**USD0.05**	**RMB0.42**	**RMB0.26**
Basic and diluted earnings per ADS under US GAAP*		**USD5.47**	**RMB41.65**	**RMB26.39**

* Basic and diluted earnings per ADS is calculated on the basis that one ADS is equivalent to 100 H shares.

The effect on the total equity attributable to equity shareholders of the Company of significant differences between IFRS and US GAAP is as follows:

	Reference in note above	At 30 June 2007 US$ millions	2007 RMB millions	At 31 December 2006 RMB millions
Total equity attributable to equity shareholders of the Company under IFRS		38,047	289,614	262,845
US GAAP adjustments:				
Foreign exchange gains and losses	(a)	(23)	(172)	(195)
Revaluation of property, plant and equipment	(b)	(53)	(406)	(441)
Exchange of assets	(c)	(62)	(474)	(486)
Reversal of impairment of long-lived assets	(d)	(52)	(398)	(418)
Capitalised interest on investments in associates	(e)	56	426	446
Goodwill	(f)	5	43	43
Effect of US GAAP adjustments on deferred tax assets		45	342	487
Effect of US GAAP adjustments on deferred tax liabilities		(14)	(109)	(121)
Minority interests	(g)	16	125	137
Total equity attributable to equity shareholders of the Company under US GAAP		**37,965**	**288,991**	**262,297**

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 7.6120 being the noon buying rate in New York City on 29 June 2007 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, 24 August 2007 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 2007 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 ASBE for the six-month period ended 30 June 2007 signed by Mr. Su Shulin, Chairman of Sinopec Corp., Mr. Wang Tianpu, Director, President of Sinopec Corp., Mr. Dai Houliang, 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
Su Shulin
Chairman

Beijing, PRC, 24 August 2007

CONFIRMATION FROM THE DIRECTORS AND SENIOR MANAGEMENT

In accordance with the relevant provisions and requirements of the Securities Law of the People's Republic of China, as the directors of the Board and senior management of Sinopec Corp., we have carefully reviewed the 2007 interim report and accounts of Sinopec Corp. and concluded that this interim report truly and objectively represents the business performance of Sinopec Corp. in the first half of 2007, contains no false representations, misleading statements or material omissions and complies with the requirements of the China Securities Regulatory Commission and other relevant regulatory bodies.

Signatures of the Directors and Senior Management

Su Shulin

Zhou Yuan

Wang Tianpu

Zhang Jianhua

Wang Zhigang

Dai Houliang

Liu Zhongli

Shi Wanpeng

Li Deshui

Yao Zhongmin

Fan Yifei

Cai Xiyou

Zhang Kehua

Zhang Haichao

Jiao Fangzheng

Chen Ge

24 August 2007

This interim report is published in both English and Chinese. Should any conflict regarding meaning arises, the Chinese version shall prevail.